

TETRA TECH INC
Form 10-Q
January 29, 2010
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended December 27, 2009

OR

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

For the transition period from _____ to _____

Commission File Number 0-19655

TETRA TECH, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of

95-4148514
(I.R.S. Employer

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incorporation or organization)

Identification Number)

3475 East Foothill Boulevard, Pasadena, California 91107

(Address of principal executive offices) (Zip Code)

(626) 351-4664

(Registrant's telephone number, including area code)

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

Yes No

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

Yes No

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

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

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

Yes No

As of January 25, 2010, 61,680,396 shares of the registrant's common stock were outstanding.

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

ASSETS	December 27, 2009	September 27, 2009
CURRENT ASSETS:		
Cash and cash equivalents	\$ 81,112	\$ 89,185
Accounts receivable net	490,212	506,316
Prepaid expenses and other current assets	53,452	55,167
Income taxes receivable	15,017	5,222
Total current assets	639,793	655,890
PROPERTY AND EQUIPMENT:		
Land and buildings	11,201	10,555
Equipment, furniture and fixtures	129,179	126,249
Leasehold improvements	13,798	13,740
Total	154,178	150,544
Accumulated depreciation and amortization	(84,087)	(79,616)
PROPERTY AND EQUIPMENT NET	70,091	70,928
GOODWILL	326,998	319,685
INTANGIBLE ASSETS NET	31,334	33,769
OTHER ASSETS	17,998	17,633
TOTAL ASSETS	\$ 1,086,214	\$ 1,097,905
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 140,371	\$ 149,352
Accrued compensation	57,339	88,793
Billings in excess of costs on uncompleted contracts	92,350	105,162
Deferred income taxes	14,795	9,645
Current portion of long-term obligations	4,326	4,320
Other current liabilities	78,866	74,964
Total current liabilities	388,047	432,236
DEFERRED INCOME TAXES	7,303	4,615
LONG-TERM OBLIGATIONS	6,300	6,530
OTHER LONG-TERM LIABILITIES	11,345	8,046
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS EQUITY:		

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Preferred stock Authorized, 2,000 shares of \$0.01 par value; no shares issued and outstanding as of December 27, 2009 and September 27, 2009

Common stock Authorized, 150,000 shares of \$0.01 par value; issued and outstanding, 61,436 and 61,257 shares as of December 27, 2009 and September 27, 2009, respectively	614	613
Additional paid-in capital	354,670	350,571
Accumulated other comprehensive income	16,158	12,226
Retained earnings	301,777	283,068
TOTAL STOCKHOLDERS EQUITY	673,219	646,478
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	\$ 1,086,214	\$ 1,097,905

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended	
	December 27, 2009	December 28, 2008
Revenue	\$ 541,957	\$ 638,683
Subcontractor costs	(198,464)	(308,657)
Revenue, net of subcontractor costs	343,493	330,026
Other contract costs	(273,710)	(265,685)
Gross profit	69,783	64,341
Selling, general and administrative expenses	(38,666)	(35,725)
Income from operations	31,117	28,616
Interest expense net	(256)	(916)
Income before income tax expense	30,861	27,700
Income tax expense	(12,152)	(11,392)
Net income	\$ 18,709	\$ 16,308
Earnings per share:		
Basic	\$ 0.31	\$ 0.27
Diluted	\$ 0.30	\$ 0.27
Weighted-average common shares outstanding:		
Basic	61,161	59,736
Diluted	62,089	60,275

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended	
	December 27, 2009	December 28, 2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 18,709	\$ 16,308
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	7,897	5,581
Stock-based compensation	2,700	2,036
Excess tax benefits from stock-based compensation	(701)	(20)
Deferred income taxes	7,934	3,201
Provision for losses on contracts and related receivables	(326)	6,301
Exchange (gain) loss	(106)	4
Loss (gain) on disposal of property and equipment	53	(1)
Changes in operating assets and liabilities, net of effects of acquisitions:		
Accounts receivable	14,892	(20,048)
Prepaid expenses and other assets	717	4,238
Accounts payable	(9,350)	(13,506)
Accrued compensation	(30,822)	(42,462)
Billings in excess of costs on uncompleted contracts	(12,812)	17,641
Other liabilities	4,570	(8,895)
Income taxes receivable/payable	(8,513)	1,945
Net cash used in operating activities	(5,158)	(27,677)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(3,920)	(3,235)
Payments for business acquisitions, net of cash acquired	(1,415)	(7,352)
Proceeds from sale of property and equipment	139	75
Net cash used in investing activities	(5,196)	(10,512)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on long-term obligations	(251)	(20,180)
Proceeds from borrowings under long-term obligations		36,000
Excess tax benefits from stock-based compensation	701	20
Net proceeds from issuance of common stock	1,433	571
Net cash provided by financing activities	1,883	16,411
EFFECT OF EXCHANGE RATE CHANGES ON CASH	398	
NET DECREASE IN CASH AND CASH EQUIVALENTS	(8,073)	(21,778)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	89,185	50,902
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 81,112	\$ 29,124
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	\$ 353	\$ 637
Income taxes, net of refunds received	\$ 13,022	\$ 6,253

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 December 27, 2009, the condensed consolidated statements of income for the three months ended December 27, 2009 and December 28, 2008, and the condensed consolidated statements of cash flows for the three months ended December 27, 2009 and December 28, 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 condensed consolidated balance sheet as of September 27, 2009 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 27, 2009. The results of operations for the three months ended December 27, 2009 are not necessarily indicative of the results to be expected for the fiscal year ending October 3, 2010. Certain prior year amounts have been reclassified to conform to the current year presentation.

Subsequent Events. We evaluated subsequent events through January 29, 2010, the date our financial statements were issued.

2. Accounts Receivable Net

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

	December 27, 2009	September 27, 2009
	(in thousands)	
Billed	\$ 286,435	\$ 299,935
Unbilled	222,747	222,322
Contract retentions	12,585	14,952
Total accounts receivable gross	521,767	537,209
Allowance for doubtful accounts	(31,555)	(30,893)
Total accounts receivable net	\$ 490,212	\$ 506,316
Billings in excess of costs on uncompleted contracts	\$ 92,350	\$ 105,162

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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 December 27, 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 client-specific accounts, bankruptcy filings by clients, and contract issues resulting from current events and economic circumstances. Billings in excess of costs on uncompleted contracts represent the amount of cash collected from clients and billings to clients on contracts in advance of revenue recognized. The majority of billings in excess of costs on uncompleted contracts will be earned within 12 months.

Billed accounts receivable related to U.S. federal government contracts were \$113.4 million and \$97.3 million as of December 27, 2009 and September 27, 2009, respectively. Federal government unbilled receivables, net of progress payments, were \$86.9 million and \$68.1 million as of December 27, 2009 and September 27, 2009, respectively. Other than the U.S. federal government, no single client accounted for more than 10% of our accounts receivable as of December 27, 2009 and September 27, 2009.

Table of Contents**3. Goodwill and Intangibles**

The changes in the carrying value of goodwill by segment for the three months ended December 27, 2009 were as follows:

	September 27, 2009	Goodwill Adjustments (in thousands)	December 27, 2009
Environmental consulting services	\$ 189,416	\$ 6,146	\$ 195,562
Technical support services	57,256	1,167	58,423
Engineering and architecture services	15,970		15,970
Remediation and construction management	57,043		57,043
Total	\$ 319,685	\$ 7,313	\$ 326,998

The increase in goodwill is primarily attributable to earn-out accruals and payments and foreign currency translation adjustments associated with prior acquisitions.

The gross amount and accumulated amortization of our acquired identifiable intangible assets with finite useful lives as of December 27, 2009 and September 27, 2009, included in Intangible assets - net on the condensed consolidated balance sheets, were as follows:

	December 27, 2009		September 27, 2009	
	Gross Amount	Accumulated Amortization	Gross Amount	Accumulated Amortization
	(in thousands)			
Non-compete agreements	\$ 3,898	\$ (1,379)	\$ 3,825	\$ (1,118)
Client relations	25,223	(4,667)	24,791	(3,632)
Backlog	27,213	(18,954)	27,057	(17,154)
Total	\$ 56,334	\$ (25,000)	\$ 55,673	\$ (21,904)

For the first quarter of fiscal 2010, the gross amounts in the table above increased due to foreign currency translation adjustments. For the first quarters of fiscal 2010 and 2009, amortization expense for these intangible assets was \$3.0 million and \$1.7 million, respectively. Estimated amortization expense for the remainder of fiscal 2010 and the succeeding years is as follows:

	Amount (in thousands)
2010	\$ 7,858
2011	8,222
2012	5,141
2013	3,290
2014	2,790
Beyond	4,033

4. Stockholders' Equity and Stock Compensation Plans

We recognize the fair value of our stock-based compensation awards as compensation expense on a straight-line basis over the requisite service period in which the award vests (or to the employee's eligible retirement date, if earlier). Stock-based compensation expense for the first quarters of fiscal 2010 and 2009 was \$2.7 million and \$2.0 million, respectively. These amounts were primarily included in Selling, general and administrative (SG&A) expenses in our condensed consolidated statements of income. In the first quarter of fiscal 2010, we granted 1,034,974 stock options with exercise prices ranging from \$25.55 - \$26.77 per share and an estimated weighted-average fair value of \$10.77 per share. In addition, we granted 88,258 shares of restricted stock to certain directors and executive officers at a grant price of \$25.55 per share.

Table of Contents**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.

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

	Three Months Ended	
	December 27, 2009	December 28, 2008
	(in thousands, except per share data)	
Numerator:		
Net income	\$ 18,709	\$ 16,308
Denominator for basic earnings per share	61,161	59,736
Denominator for diluted earnings per share:		
Denominator for basic earnings per share	61,161	59,736
Potential common shares — stock options and unvested restricted stock	928	539
Denominator for diluted earnings per share	62,089	60,275
Earnings per share:		
Basic	\$ 0.31	\$ 0.27
Diluted	\$ 0.30	\$ 0.27

For the first quarters of fiscal 2010 and 2009, 1.2 million and 2.9 million options were excluded from the calculation of dilutive potential common shares, respectively. 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

We remain in the appeals process with the Internal Revenue Service (IRS) for fiscal years 2002 through 2004 related to research and experimentation credits (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 12 months. We have completed R&E Credit 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 claimed R&E Credits will be examined by the 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 could be a material increase in our income tax expense in the period in which the determination is made. With few exceptions, we are no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations for fiscal years before 2001.

On December 31, 2009 the federal R&E Credits provision expired. As such, we have only estimated a benefit from federal R&E Credits through the expiration date. Should the R&E Credits provision be retroactively extended during fiscal 2010, additional benefits will be reflected in our effective tax rate during the quarter of enactment.

7. Reportable Segments

Our reportable segments are as follows:

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Environmental Consulting Services (ECS). ECS provides front-end science and consulting services and project management 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 through the study, design and implementation of projects. TSS conducts research in the areas of remedial planning, disaster management, sustainable solutions including climate change and carbon management, technical government staffing services, and program management for complex U.S. federal government and international development projects.

Engineering and Architecture Services (EAS). EAS provides engineering and architecture design services, including Leadership in Energy and Environmental Design (LEED) services, together with technical and program administration services for projects related to water infrastructure, buildings and land development, and transportation.

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. RCM is focused on federal construction, environmental remediation including unexploded ordinance (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 intercompany balances and transactions are eliminated in consolidation.

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

Reportable Segments

	ECS	TSS	EAS (in thousands)	RCM	Total
Three months ended December 27, 2009:					
Revenue	\$ 164,555	\$ 130,085	\$ 65,998	\$ 200,393	\$ 561,031
Revenue, net of subcontractor costs	123,734	82,363	51,219	86,177	343,493
Gross profit	21,973	16,624	9,787	21,399	69,783
Segment income from operations	13,196	10,410	2,291	9,466	35,363
Depreciation expense	1,407	159	553	2,057	4,176
Three months ended December 28, 2008:					
Revenue	\$ 129,256	\$ 125,877	\$ 84,656	\$ 317,215	\$ 657,004
Revenue, net of subcontractor costs	87,750	76,490	64,295	101,491	330,026

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Gross profit	15,619	14,930	12,866	20,926	64,341
Segment income from operations	8,727	8,706	4,301	9,514	31,248
Depreciation expense	660	175	550	1,847	3,232

Total assets by segment were as follows:

	December 27, 2009	September 27, 2009
	(in thousands)	
ECS	\$ 493,458	\$ 486,002
TSS	230,052	223,177
EAS	87,311	91,646
RCM	312,571	351,247
Total assets	\$ 1,123,392	\$ 1,152,072

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	Three Months Ended	
	December 27, 2009	December 28, 2008
	(in thousands)	
Revenue		
Revenue from reportable segments	\$ 561,031	\$ 657,004
Elimination of inter-segment revenue	(19,074)	(18,321)
Total consolidated revenue	\$ 541,957	\$ 638,683
Income from operations		
Segment income from operations	\$ 35,363	\$ 31,248
Amortization of intangibles	(2,980)	(1,719)
Other expense (1)	(1,266)	(913)
Total consolidated income from operations	\$ 31,117	\$ 28,616
Depreciation Expense		
Depreciation expense from reportable segments	\$ 4,176	\$ 3,232
Other (2)	639	532
Total consolidated depreciation expense	\$ 4,815	\$ 3,764

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

(2) Other includes depreciation expense from corporate headquarters.

	December 27, 2009	September 27, 2009
	(in thousands)	
Assets		
Total assets of reportable segments	\$ 1,123,392	\$ 1,152,072
Assets not allocated to segments and intercompany eliminations	(37,178)	(54,167)
Total consolidated assets	\$ 1,086,214	\$ 1,097,905

Major Clients

Other than the U.S. 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 represents our revenue, net of subcontractor costs, by client sector:

Client Sector	Three Months Ended	
	December 27, 2009	December 28, 2008
	(in thousands)	
Federal government	\$ 151,861	\$ 141,684

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State and local government	60,220	50,567
Commercial	88,631	132,020
International (1)	42,781	5,755
Total	\$ 343,493	\$ 330,026

- (1) Includes all revenue generated from our foreign operations, primarily in Canada, and revenue generated from our international clients that is performed by our domestic operations. Revenue related to projects performed by our domestic operations in foreign countries for U.S. federal government and domestic commercial clients was reported as part of our U.S. federal government and commercial client sectors, respectively.

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In connection with the acquisition of Wardrop Engineering Inc. (Wardrop), 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 as soon as practical. 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. In 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 the funds in the escrow account. The remaining net liability for active employees was estimated to be approximately \$2.0 million (net of remaining plan assets of approximately \$3.8 million), which is reported as part of Other current liabilities on our condensed consolidated balance sheet as of December 27, 2009. There is a corresponding asset related to the escrow account that is reported as part of Prepaid expenses and other current assets on our condensed consolidated balance sheet as of December 27, 2009. Approval from the appropriate government agencies was obtained in December 2009 to terminate the plan and distribute all plan assets. We expect to complete this process in fiscal 2010. The net periodic benefit expense for the first quarter of fiscal 2010 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, and unrealized gains and losses on hedging activities. The following summarizes our comprehensive income:

	December 27, 2009	Three Months Ended December 28, 2008
	(in thousands)	
Net income	\$ 18,709	\$ 16,308
Other comprehensive income:		
Unrealized loss on hedging activities	(170)	
Foreign currency translation gain (loss)	4,102	(50)
Total comprehensive income	\$ 22,641	\$ 16,258

10. Fair Value of Derivative Instruments

In January 2009, we entered into an intercompany promissory note with a wholly-owned Canadian subsidiary in connection with the acquisition of Wardrop. The intercompany note receivable is denominated in Canadian dollars and has a fixed rate of interest payable in Canadian dollars.

In November 2009, we entered into three foreign currency forward contracts to fix the U.S. dollar amount of interest income to be received over the next three annual periods. Each contract is for Canadian \$4.2 million (equivalent to U.S. \$4.0 million at date of inception) and one contract matures on each of January 27, 2010, January 27, 2011 and January 27, 2012. Our objective was to eliminate variability of our cash flows on the amount of interest income we receive on the promissory note from changes in foreign currency exchange rates for a three-year period. These contracts were designated as cash flow hedges. Accordingly, changes in the fair value of the contracts are recorded in Other comprehensive income, and the fair value and the change in the fair value were not material for the first quarter of fiscal 2010. No gains or losses were

recognized in earnings as these contracts were deemed to be effective as a hedge.

11. 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

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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. 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. In December 2009, the trial court awarded ITC \$2.9 million in attorneys fees and costs, and denied ITC's motion for prejudgment interest. AMT appealed the trial court's decision awarding compensatory and punitive damages, and attorneys fees and costs. ITC cross-appealed the trial court's decision to remit the jury verdict and the trial court's denial of prejudgment interest. AMT has posted a bond, as required by the trial court, of \$13.4 million. We believe that a reasonably possible range of exposure, including attorneys fees, is from \$0 to approximately \$14.5 million. As of December 27, 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.

12. Recent Accounting Pronouncements

Recently Adopted Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued authoritative guidance on fair value measurements that defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. This guidance was effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years except for all non-recurring fair value measurements of non-financial assets and liabilities, which is effective for financial statements issued for fiscal years beginning after November 15, 2008. In October 2008, the FASB clarified the application of its authoritative guidance related to a market that is not active and provided an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. 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 this guidance on September 29, 2008 was limited to financial assets and liabilities, and it had no impact on our consolidated financial statements in fiscal 2009. We adopted the remaining aspects of the fair value measurement standard on our non-financial assets and non-financial liabilities on September 28, 2009, and the adoption of the guidance did not have an effect on our consolidated financial statements.

In December 2007, the FASB issued authoritative guidance that 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. This guidance makes significant changes to existing accounting practices for acquisitions, including the requirement to expense transaction costs and to reflect the fair value of contingent considerations at the date of acquisition. In April 2009, the FASB issued an amendment to revise and clarify the guidance on business combinations, which requires 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 the guidance on business combinations to determine whether the contingency should be

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recognized at the acquisition date or after it. The guidance is 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 adopted the guidance on September 28, 2009. For any acquisitions completed after fiscal 2009, we expect the adoption of the guidance will have an impact on our

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

In December 2007, the FASB issued authoritative guidance that 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. We adopted the guidance on September 28, 2009 and the adoption of the guidance did not have an effect on our consolidated financial statements as we do not currently have any noncontrolling interests.

In April 2008, the FASB issued authoritative guidance that revises the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under the guidance. We adopted the guidance on September 28, 2009 and the adoption of the guidance did not have a material effect on our consolidated financial statements.

Recent Accounting Guidance Not Yet Adopted

In June 2009, the FASB issued an amendment that requires us to perform an analysis to determine whether our variable interests give us a controlling financial interest in a variable interest entity. Such analysis requires us to assess whether we have the power to direct the activities of the variable interest entity and if we have the obligation to absorb losses or the right to receive benefits that could potentially be significant to the variable interest entity. This guidance eliminates the quantitative approach previously required for determining the primary beneficiary of a variable interest entity and significantly enhances disclosures. The guidance is effective for fiscal years beginning after November 15, 2009. We are currently evaluating the impact of this guidance, if any, on our consolidated financial statements.

In October 2009, the FASB issued an Accounting Standards Update that provides amendments to the criteria of Accounting Standards Codification Topic 605, Revenue Recognition, for separating consideration in multiple-deliverable arrangements. The amendments establish a selling price hierarchy for determining the selling price of a deliverable. This guidance is effective for financial statements issued for fiscal years beginning on or after June 15, 2010. We are currently evaluating the effect the adoption will have on our results of operations, financial position and cash flows, but do not expect the adoption will have a material impact 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. All statements other than statements of historical facts are statements that could be deemed forward-looking statements. These statements are based on current expectations, estimates, forecasts and projections about the industries in which we operate and the beliefs and assumptions of our management. Words such as expects, anticipates, targets, goals, projects, intends, plans, believes, seeks, estimates, continues, may, variations of such words, and similar expressions are intended to identify such forward-looking statements. In addition, any statements that refer to projections of our future financial performance, our anticipated growth and trends in our businesses, and other characterizations of future events or circumstances are forward-looking statements. Readers are cautioned that these forward-looking statements are only predictions and are subject to risks, uncertainties and assumptions that are difficult to predict, including those identified below, under Part II, Item 1A. Risk Factors and elsewhere herein. Therefore, actual results may differ materially and adversely from those expressed in any forward-looking statements. We undertake no obligation to revise or update 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, alternative 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 December 27, 2009, we had approximately 9,900 employees worldwide, located primarily in North America.

We derive our 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 our services to a diverse base of federal and state and local government agencies, as well as commercial and international clients. The following table represents the percentage of our revenue, net of subcontractor costs, by client sector:

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Client Sector	Three Months Ended	
	December 27, 2009	December 28, 2008
Federal government	44.2%	42.9%
State and local government	17.5	15.3
Commercial	25.8	40.0
International (1)	12.5	1.8
	100.0%	100.0%

- (1) Includes all revenue generated from our foreign operations, primarily in Canada, and revenue generated from our international clients that is performed by our domestic operations. Revenue related to projects performed by our domestic operations in foreign countries for U.S. federal government and domestic commercial clients was reported as part of our U.S. federal government and commercial client sectors, respectively.

Our reportable segments are as follows:

Environmental Consulting Services. ECS provides front-end science and consulting services and project management 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 through the study, design and implementation of projects. TSS conducts research in the areas of remedial planning, disaster management, sustainable solutions including climate change and carbon management, technical government staffing services, and program management for complex U.S. federal government and international development projects.

Engineering and Architecture Services. EAS provides engineering and architecture design services, including LEED services, together with technical and program administration services for projects related to water infrastructure, buildings and land development, and transportation.

Remediation and Construction Management. RCM provides a wide array of services, including program management, engineering, procurement and construction, construction management, and operations and maintenance. RCM is 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 percentage of our revenue, net of subcontractor costs, by reportable segment:

Reportable Segment	Three Months Ended	
	December 27, 2009	December 28, 2008
ECS	36.0%	26.6%
TSS	24.0	23.1
EAS	14.9	19.5

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RCM	25.1	30.8
	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 represents the percentage of our revenue, net of subcontractor costs, by contract type:

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Contract Type	Three Months Ended	
	December 27, 2009	December 28, 2008
Fixed-price	36.8%	38.4%
Time-and-materials	41.3	41.4
Cost-plus	21.9	20.2
	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 of contract costs incurred compared to total estimated contract costs. Revenue and profit on these contracts are subject to revision throughout the duration of the contracts and any required adjustments are made in the period in which the revisions become known. Losses on contracts are recorded in full as they are identified.

In the course of providing our services, we routinely subcontract services and, under certain U.S. Agency for International Development (USAID) programs, issue grants. Generally, these subcontractor costs and grants are passed through to our clients and, in accordance with industry practice and GAAP, are included in our revenue when it is our responsibility to procure or 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 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 a non-contract related portion of stock-based compensation and depreciation of property and equipment, as well as the amortization of identifiable intangible assets, in SG&A expenses. Most of these costs are unrelated to specific clients or projects and can vary as expenses are incurred to support corporate activities and initiatives.

Our annual revenue, expenses and operating results may fluctuate significantly because of numerous factors, some of which may contribute to more pronounced fluctuations in an uncertain global economic environment. These factors include:

- 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;

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- Seasonality of the spending cycle of our public sector clients, notably the U.S. federal government, the spending patterns of our commercial sector clients, and weather conditions;
- Budget constraints experienced by our federal, state and local government clients;
- Integration of acquired companies;
- Changes in contingent consideration related to acquisition earn-outs;
- 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;

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- 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;

- Legislative and regulatory enforcement policy changes that may affect demand for our services;

- The impairment of goodwill or identifiable intangible assets;

- Share-based compensation expense;

- Actual events, circumstances, outcomes and amounts differing from judgments, assumptions and estimates used in determining the value of certain assets (including the amounts of related valuation allowances), liabilities and other items reflected in our consolidated financial statements;

- How well we execute our strategy and operating plans; and
- Changes in tax laws or regulations or accounting rules.

We experience seasonal trends in our business. Our revenue is typically lower in the first half of our fiscal year, primarily due to the Thanksgiving, Christmas and New Year's holidays. Many of our clients' employees, as well as our own employees, take vacations during these holiday periods. Further, seasonal inclement weather conditions occasionally cause some of our offices to close temporarily or may hamper our project field work. 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 U.S. federal government's fiscal year-end spending.

BUSINESS TREND ANALYSIS

General. In the first quarter of fiscal 2010, we continued to deliver solid financial results that reflected improvement in net income 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 we recognized increased revenue from our recent acquisitions. In addition, we continued to implement and enforce project management policies and programs that focused on contract execution and risk management controls. We also focused on cost control and the strategic management of our portfolio of businesses.

We foresee a continued period of considerable weakness in the economy and a slow and gradual economic recovery, and expect that our revenue will be flat in fiscal 2010. Our forecasted revenue is lower than originally anticipated due to the lack of new opportunities in our construction management-related businesses. The U.S. federal government's stimulus plan contained in the American Recovery and Reinvestment Act of 2009 (ARRA) should provide us with additional business opportunities. However, to date, we have had less ARRA opportunities than anticipated. Because the timing and magnitude of any potential benefit to our business from the ARRA are uncertain, we cannot predict how meaningful such contributions may be in fiscal 2010. We also recognize that the economic conditions that have severely impacted both the domestic and international economies could adversely affect our future work for the U.S. federal government, state and local governments, and commercial and international clients, which constituted approximately 55%, 14%, 24% and 7% of our revenue in the first quarter of fiscal 2010, respectively.

Federal Government. Our federal government business grew 5.3% in the first quarter of fiscal 2010 compared to the same quarter last year. The revenue growth resulted from our recent acquisitions and increased

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activity on projects for USAID, the Department of Energy (DOE), the Federal Aviation Administration (FAA), the National Aeronautics and Space Administration (NASA) and the Environmental Protection Agency (EPA), and domestic projects for the Department of Defense (DoD). However, the completion of our Iraq-related projects for the DoD partially offset this growth. During periods of economic volatility, our federal government business has historically been the most stable and predictable. 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 entities. As a result, revenue from our federal government projects is expected to increase only slightly in fiscal 2010.

State and Local Government. Our state and local government business grew 6.0% in the first quarter of fiscal 2010 compared to the same quarter last year. The revenue growth was driven primarily by a strong contribution from a large transportation infrastructure project. Apart from this project, we continue to experience difficult economic conditions across our state and local government markets. Many state and local government agencies continue to face economic challenges, including budget deficits, weak tax revenues and difficult cost-cutting decisions. Simultaneously, states are facing major long-term infrastructure needs, including the need for maintenance, repair and upgrading of existing critical infrastructure and the need to build new facilities. The funding risks associated with our 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. We expect ongoing economic weakness across most states and remain uncertain regarding the timing and magnitude of ARRA funds that may eventually benefit our state and local government business. However, due to the large transportation infrastructure project that recently commenced, we expect that our state and local government revenue will increase slightly in fiscal 2010.

Commercial. Our commercial business declined 53.8% in the first quarter of fiscal 2010 compared to the same quarter last year. This decline was primarily attributable to the completion of several large wind energy projects in the prior year. Additionally, we continued to experience some project delays, cancellations and reduced workload in our real estate development and industrial sectors resulting from the current weak economic conditions. Overall, we expect our commercial business will decline in fiscal 2010 compared to fiscal 2009 primarily due to the reduced backlog of wind energy projects.

International. Our international business grew \$32.6 million, or 450.4%, in the first quarter of fiscal 2010 compared to the same quarter last year, primarily due to our Wardrop acquisition last year. To a lesser extent, this growth was driven by demand for our engineering design services overseas. We expect that our international business will continue to grow in fiscal 2010 compared to fiscal 2009. 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 AND DIVESTITURES

Acquisitions. We continuously evaluate the marketplace for strategic acquisition opportunities. Due to our reputation, size, financial resources, geographic presence and range of services, we have numerous opportunities to acquire 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 cash and may use 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 the recognition of goodwill and other identifiable intangible assets. In the first quarter of fiscal 2009, we made one acquisition that offers complementary technical

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expertise to enhance our USAID service offerings in the TSS segment. In the first quarter of fiscal 2010, we made no acquisitions.

Divestitures. To complement our acquisition strategy and our focus on internal growth, we regularly review and evaluate our existing operations to determine whether our business model should change through the

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divestiture of certain businesses. Accordingly, from time to time, we may divest certain non-core businesses and reallocate our resources to businesses that better align with our long-term strategic direction. We had no divestitures in the first quarters of fiscal 2009 and 2010.

RESULTS OF OPERATIONS

Overall, our results for the first quarter of fiscal 2010 improved compared to the same quarter last year due to our focus on organic growth and the strategic acquisition of firms that enhanced our service offerings and expanded our geographic presence. Although our revenue declined primarily due to the completion of large wind energy and Iraq-related contracts, our revenue, net of subcontractor costs, grew 4.1% compared to the same quarter last year. The growth was primarily driven by increased project execution on USAID, Base Realignment and Closure Act (BRAC) and other domestic programs with the U.S. federal government. In addition, the growth was attributable to a large transportation infrastructure contract with a state and local government client, engineering design services in our international business, and our recent acquisitions.

Consolidated Results

	December 27, 2009	Three Months Ended		Change	
		December 28, 2008			
		(\$ in thousands)			
Revenue	\$ 541,957	\$ 638,683	\$ (96,726)	(15.1)%	
Subcontractor costs	(198,464)	(308,657)	110,193	35.7	
Revenue, net of subcontractor costs	343,493	330,026	13,467	4.1	
Other contract costs	(273,710)	(265,685)	(8,025)	(3.0)	
Gross profit	69,783	64,341	5,442	8.5	
Selling, general and administrative expenses	(38,666)	(35,725)	(2,941)	(8.2)	
Income from operations	31,117	28,616	2,501	8.7	
Interest expense net	(256)	(916)	660	72.1	
Income before income tax expense	30,861	27,700	3,161	11.4	
Income tax expense	(12,152)	(11,392)	(760)	(6.7)	
Net income	\$ 18,709	\$ 16,308	\$ 2,401	14.7%	

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

	Three Months Ended	
	December 27, 2009	December 28, 2008
Revenue, net of subcontractor costs	100.0%	100.0%
Other contract costs	(79.7)	(80.5)
Gross profit	20.3	19.5

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Selling, general and administrative expenses	(11.2)	(10.8)
Income from operations	9.1	8.7
Interest expense net	(0.1)	(0.3)
Income before income tax expense	9.0	8.4
Income tax expense	(3.6)	(3.5)
Net income	5.4%	4.9%

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Revenue declined primarily due to the completion of large wind energy and Iraq-related contracts, and reduced activity on remediation projects for commercial and federal government clients. The decline was also caused by funding and contract delays, cancellations and reduced workload on expected projects resulting from the continuing difficult economic conditions. The overall revenue decline was partially offset by increased activity on our USAID, BRAC and other domestic programs with the federal government and revenue generated by our recent acquisitions. In addition, we experienced revenue growth from a large transportation infrastructure contract in our state and local government business, and, to a lesser extent, our engineering design services in our international business.

Revenue, net of subcontractor costs, grew primarily due to our recent acquisitions and increased project execution on USAID, BRAC and other domestic federal government programs, and a large transportation infrastructure contract. This growth was largely offset by the completion of large wind energy and Iraq-related contracts, reduced activity on remediation contracts and reduced workload due to funding and contract delays, and contract cancellations on expected projects. Revenue, net of subcontractor costs, grew despite our revenue decline because of contract mix and the fact that subcontractor services can vary significantly among contracts and different phases of a c