TETRA TECH INC
Form 10-Q
May 06, 2011
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

ý	**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
	For the quarterly period ended April 3, 2011
	OR
o	**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
	For the transition period from __________ to __________

Commission File Number 0-19655

TETRA TECH, INC.

(Exact name of registrant as specified in its charter)

Delaware	**95-4148514**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

3475 East Foothill Boulevard, Pasadena, California 91107

(Address of principal executive offices) (Zip Code)

(626) 351-4664

(Registrant s telephone number, including area code)

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

Yes ý No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, 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 ý No o

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

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

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

Yes o No ý

As of May 2, 2011, 62,343,081 shares of the registrant s common stock were outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Tetra Tech, Inc.

Condensed Consolidated Balance Sheets

(unaudited - in thousands, except par value)

ASSETS	April 3, 2011	October 3, 2010
CURRENT ASSETS:		
Cash and cash equivalents	$ 90,941	$ 220,933
Accounts receivable net	598,908	566,642
Prepaid expenses and other current assets	53,435	49,889
Income taxes receivable	8,033	7,249
Total current assets	751,317	844,713
PROPERTY AND EQUIPMENT:		
Land and buildings	11,729	11,707
Equipment, furniture and fixtures	157,150	145,210
Leasehold improvements	23,425	18,104
Total	192,304	175,021
Accumulated depreciation and amortization	(108,409)	(95,638)
PROPERTY AND EQUIPMENT NET	83,895	79,383
INVESTMENTS IN AND ADVANCES TO UNCONSOLIDATED JOINT VENTURES	3,273	140
GOODWILL	561,237	394,422
INTANGIBLE ASSETS NET	78,479	45,995
OTHER ASSETS	21,984	17,036
TOTAL ASSETS	$ 1,500,185	$ 1,381,689
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 136,260	$ 166,450
Accrued compensation	94,948	93,243
Billings in excess of costs on uncompleted contracts	75,601	79,401
Deferred income taxes	12,407	21,851
Current portion of long-term debt	4,383	5,002
Contingent earn-out liabilities	35,569	10,513
Other current liabilities	77,474	90,747
Total current liabilities	436,642	467,207
DEFERRED INCOME TAXES	33,955	12,506
LONG-TERM DEBT	141,653	122,510
OTHER LONG-TERM LIABILITIES	50,508	31,333
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS EQUITY:		
Preferred stock Authorized, 2,000 shares of $0.01 par value; no shares issued and outstanding as of April 3, 2011 and October 3, 2010		
Common stock Authorized, 150,000 shares of $0.01 par value; issued and outstanding, 62,330 and 61,755 shares as of April 3, 2011 and October 3, 2010, respectively	623	618

Additional paid-in capital		384,659		368,865
Accumulated other comprehensive income		38,275		18,763
Retained earnings		399,688		359,887
Total Tetra Tech stockholders equity		823,245		748,133
Noncontrolling interests		14,182		
TOTAL STOCKHOLDERS EQUITY		837,427		748,133
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$	1,500,185	$	1,381,689

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		Six Months Ended	
	April 3, 2011	**March 28, 2010**	**April 3, 2011**	**March 28, 2010**
Revenue	$ 612,566	$ 469,528	$ 1,223,690	$ 1,011,485
Subcontractor costs	(182,260)	(143,594)	(387,805)	(342,059)
Other costs of revenue	(355,445)	(262,429)	(685,372)	(536,139)
Selling, general and administrative expenses	(45,605)	(39,978)	(86,932)	(78,644)
Operating income	29,256	23,527	63,581	54,643
Interest expense - net	(1,471)	(352)	(2,776)	(607)
Income before income tax expense	27,785	23,175	60,805	54,036
Income tax expense	(9,704)	(8,846)	(19,970)	(20,998)
Net income including noncontrolling interests	18,081	14,329	40,835	33,038
Net income attributable to noncontrolling interests	(581)		(1,034)	
Net income attributable to Tetra Tech	$ 17,500	$ 14,329	$ 39,801	$ 33,038
Earnings per share attributable to Tetra Tech:				
Basic	$ 0.28	$ 0.23	$ 0.64	$ 0.54
Diluted	$ 0.28	$ 0.23	$ 0.64	$ 0.53
Weighted-average common shares outstanding:				
Basic	62,121	61,511	61,836	61,291
Diluted	62,945	62,168	62,638	62,083

See accompanying Notes to Condensed Consolidated Financial Statements.

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Tetra Tech, Inc.

Condensed Consolidated Statements of Cash Flows

(unaudited in thousands)

	Six Months Ended	
	April 3, 2011	**March 28, 2010**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income including noncontrolling interests	$ 40,835	$ 33,038
Adjustments to reconcile net income including noncontrolling interests to net cash from operating activities:		
Depreciation and amortization	27,376	15,957
Loss on settlement of foreign currency forward contract	293	28
Equity in earnings of unconsolidated joint ventures	(2,428)	(632)
Distributions of earnings from unconsolidated joint ventures	2,503	1,646
Stock-based compensation	5,314	5,353
Excess tax benefits from stock-based compensation	(90)	(743)
Deferred income taxes	(4,445)	12,158
Provision for doubtful accounts	1,354	4,754
Exchange gain	(328)	(151)
Gain on disposal of property and equipment	(148)	(767)
Changes in operating assets and liabilities, net of effects of acquisitions:		
Accounts receivable	42,848	52,350
Prepaid expenses and other assets	(10,043)	280
Accounts payable	(60,729)	(31,148)
Accrued compensation	96	(19,946)
Billings in excess of costs on uncompleted contracts	(10,931)	(18,121)
Other liabilities	2,791	(2,686)
Income taxes receivable/payable	8,372	(11,294)
Net cash provided by operating activities	42,640	40,076
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(9,476)	(9,495)
Payments for business acquisitions, net of cash acquired	(188,031)	(12,216)
Payment in settlement of foreign currency forward contract	(4,216)	(3,960)
Receipt in settlement of foreign currency forward contract	3,923	3,932
Proceeds from sale of property and equipment	340	1,640
Net cash used in investing activities	(197,460)	(20,099)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on long-term debt	(2,403)	(550)
Proceeds from borrowings	21,867	
Distributions paid to noncontrolling interests	(501)	
Excess tax benefits from stock-based compensation	90	743
Net proceeds from issuance of common stock	5,373	2,556
Net cash provided by financing activities	24,426	2,749
EFFECT OF EXCHANGE RATE CHANGES ON CASH	402	662
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(129,992)	23,388
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	220,933	89,185
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 90,941	$ 112,573
SUPPLEMENTAL CASH FLOW INFORMATION:		

Cash paid during the period for:				
Interest	$	1,998	$	648
Income taxes, net of refunds received	$	14,856	$	20,560

See accompanying Notes to Condensed Consolidated Financial Statements.

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TETRA TECH, INC.

Notes to Condensed Consolidated Financial Statements

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements and related notes of Tetra Tech, Inc. (we, us or our) have been prepared in accordance with generally accepted accounting principles in the United States of America (GAAP) for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. They do not include all of the information and footnotes required by GAAP for complete financial statements and, therefore, should be read in conjunction with the audited consolidated financial statements and related notes contained in our Annual Report on Form 10-K for the fiscal year ended October 3, 2010.

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

Our condensed consolidated financial statements include the accounts of our wholly-owned subsidiaries, and joint ventures of which we are the primary beneficiary. For the joint ventures in which we do not have a controlling interest, but exert a significant influence, we apply the equity method of accounting (see Note 12 Joint Ventures for further discussion). All significant intercompany balances and transactions have been eliminated in consolidation. Certain prior year amounts have been reclassified to conform to the current year presentation. For both fiscal 2010 and 2011, Interest expense net on the condensed consolidated statements of income reflects $0.2 million and $0.4 million in interest income for each of the three and six-month periods, respectively.

2. Accounts Receivable Net

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

	April 3, 2011	October 3, 2010
	(in thousands)	
Billed	$ 345,803	$ 314,905
Unbilled	273,732	271,643
Contract retentions	13,710	13,020
Total accounts receivable gross	633,245	599,568
Allowance for doubtful accounts	(34,337)	(32,926)

Total accounts receivable net	$	598,908	$	566,642
Current billings in excess of costs on uncompleted contracts	$	75,601	$	79,401
Non-current billings in excess of costs on uncompleted contracts		6,164		5,820
Total billings in excess of costs on uncompleted contracts	$	81,765	$	85,221

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 April 3, 2011 are expected to be billed and collected within twelve months. Contract retentions represent amounts withheld by clients until certain conditions are met or the project is completed, which may be several months or years. The allowance for doubtful accounts is determined based on a review of client-specific accounts, and contract issues resulting from current events and economic circumstances. Billings in excess of costs on uncompleted contracts represent the amount of cash collected from clients and billings to clients on contracts in advance of revenue recognized. The majority of billings in excess of costs on uncompleted contracts will be earned within twelve months.

Billed accounts receivable related to U.S. federal government contracts were $118.5 million and $86.3 million as of April 3, 2011 and October 3, 2010, respectively. U.S. federal government unbilled receivables, net of

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progress payments, were $88.7 million and $102.0 million as of April 3, 2011 and October 3, 2010, respectively. The non-current billings in excess of costs on uncompleted contracts are reported as part of our Other long-term liabilities on our condensed consolidated balance sheets. Other than the U.S. federal government, no single client accounted for more than 10% of our accounts receivable as of April 3, 2011 and October 3, 2010.

3. Mergers and Acquisitions

On October 4, 2010, we acquired all of the outstanding capital stock of BPR, Inc. (BPR), a Canadian scientific and engineering services firm that provides multidisciplinary consulting and engineering support for water, energy, industrial plants, buildings and infrastructure projects. This acquisition further expands our geographic presence in eastern Canada, and enables us to provide clients with additional services throughout Canada. BPR is part of our Engineering and Consulting Services (ECS) segment. The estimated fair value of the purchase price was approximately $186 million, of which the initial payment of $157 million was financed with borrowings under our revolving credit facility and available cash resources. In addition, the former owner may receive over a two-year period from the acquisition date contingent earn-out payments up to an aggregate maximum of approximately $40 million upon achievement of specified financial objectives. The estimated fair value of the contingent earn-out payments resulted in a discounted liability of $30.8 million, of which $15.3 million is reflected in Contingent earn-out liabilities and $15.5 million is included in Other long-term liabilities on our condensed consolidated balance sheet as of April 3, 2011. The contingent earn-out consideration is based on future operating income, and its fair value is estimated by management assessing the probability of the results being achieved in the future. The following table summarizes the estimated fair values of the assets acquired and liabilities assumed as of the date of acquisition:

		Amount (in thousands)
Current assets	$	77,698
Property and equipment		7,178
Goodwill		128,140
Intangible and other assets		36,988
Current liabilities		(42,481)
Long-term deferred taxes		(9,622)
Noncontrolling interests		(12,222)
Net assets acquired	$	185,679

BPR was acquired at the beginning of fiscal 2011 and its results are included with our consolidated results of operations for all of fiscal 2011. No pro forma results are presented for fiscal 2010 as the effect of the BPR acquisition was not considered material to our consolidated results of operations.

In the second quarter of fiscal 2011, we acquired substantially all of the assets of a Canadian firm that enhances our service offerings in water treatment and tailings management for oil sand producers, which are included in our ECS segment. In the second quarter of fiscal 2010, we acquired a company that enhances our nuclear energy service offerings, which was included in our remediation and construction management segment. For both of these acquisitions, the purchase price consisted of initial cash payments and is subject to additional contingent earn-out payments based on achievement of specified financial objectives. As a result, we estimated the fair values of the contingent considerations and recorded a liability on our condensed consolidated balance sheet as of April 3, 2011. No pro forma results are presented for the respective interim periods as the effect of these acquisitions was not considered material, individually or in aggregate, to our consolidated financial statements.

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4. Goodwill and Intangibles

The changes in the carrying value of goodwill by segment for the six months ended April 3, 2011 were as follows:

	October 3, 2010	Goodwill Additions	Currency Translation Adjustments (in thousands)	Goodwill Adjustments	April 3, 2011
Engineering and consulting services	$ 244,616	$ 137,091	$ 15,255	$ 12,776	$ 409,738
Technical support services	68,661			1,193	69,854
Engineering and architecture services	17,210			500	17,710
Remediation and construction management	63,935				63,935
Total	$ 394,422	$ 137,091	$ 15,255	$ 14,469	$ 561,237

The goodwill additions are attributable to fiscal 2011 acquisitions described above and represent the value paid for the assembled workforce, the international geographic presence, and engineering and consulting expertise. Substantially all of the goodwill additions are not deductible for income tax purposes. The foreign currency translation adjustments relate to our Canadian operations. The goodwill adjustments reflect earn-out payments and accruals associated with acquisitions consummated prior to fiscal 2010, which are accounted for as goodwill adjustments under previous accounting rules. The purchase price allocation related to the fiscal 2011 acquisitions is preliminary, and subject to adjustment based on the valuation and final determination of net assets acquired. We do not believe that any adjustment will have a material effect on our consolidated results of operations.

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

	April 3, 2011			October 3, 2010	
	Weighted-Average Remaining Life (in Years)	Gross Amount	Accumulated Amortization ($ in thousands)	Gross Amount	Accumulated Amortization
Non-compete agreements	2.3	$ 5,391	$ (2,915)	$ 4,295	$ (2,177)
Client relations	6.0	70,112	(13,462)	41,020	(8,351)
Backlog	1.2	49,778	(32,763)	35,311	(24,329)
Technology and trade names	5.2	2,628	(290)	246	(20)
Total		$ 127,909	$ (49,430)	$ 80,872	$ (34,877)

For the six months ended April 3, 2011, the increases in gross amounts resulted from the Canadian acquisitions and, to a lesser extent, foreign currency translation adjustments. For the three and six months ended April 3, 2011, amortization expense for these intangible assets was $6.9 million and $13.7 million, respectively, compared to $3.0 million and $6.0 million for the same periods last year. Estimated amortization expense for the remainder of fiscal 2011 and the succeeding years is as follows:

		Amount (in thousands)
2011	$	13,944
2012		20,856
2013		10,570
2014		9,682
2015		9,343
Beyond		14,084
Total	$	78,479

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5. 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. For the three and six months ended April 3, 2011, stock-based compensation expense was $2.5 million and $5.3 million, respectively, compared to $2.7 million and $5.4 million for the same periods last year. The majority of these amounts was included in Selling, general and administrative (SG&A) expenses in our condensed consolidated statements of income.

For the three months ended April 3, 2011, we granted 48,000 stock options with an exercise price of $22.81 per share and an estimated weighted-average fair value of $8.94 per share. For the six months ended April 3, 2011, we granted 1,060,849 stock options with exercise prices of $22.81 - $23.48 per share and an estimated weighted-average fair value of $9.11 per share. In addition, we awarded 84,606 shares of restricted stock in the first quarter of fiscal 2011 to our directors and executive officers at the fair value of $23.48 per share on the award date. All of these shares are performance-based and vest over a three-year period. The number of shares that ultimately vest is based on the growth in our diluted earnings per share.

6. 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		Six Months Ended	
	April 3, 2011	March 28, 2010	April 3, 2011	March 28, 2010
	(in thousands, except per share data)			
Net income attributable to Tetra Tech	$ 17,500	$ 14,329	$ 39,801	$ 33,038
Weighted-average common shares outstanding basic	62,121	61,511	61,836	61,291
Effect of dilutive stock options and unvested restricted stock	824	657	802	792
Weighted-average common stock outstanding diluted	62,945	62,168	62,638	62,083
Earnings per share attributable to Tetra Tech:				
Basic	$ 0.28	$ 0.23	$ 0.64	$ 0.54
Diluted	$ 0.28	$ 0.23	$ 0.64	$ 0.53

For the three and six months ended April 3, 2011, 2.3 million and 2.8 million options were excluded from the calculation of dilutive potential common shares, respectively, compared to 2.3 million and 2.0 million options for the same periods last year. These options were not included in the computation of dilutive potential common shares because the assumed proceeds per share exceeded the average market price per share for that period. Therefore, their inclusion would have been anti-dilutive.

7. Income Taxes

For the first half of fiscal 2011, our effective tax rate was 32.8% compared to 38.9% for the same period last year. The lower effective tax rate was primarily the result of the extension of the research and experimentation credits (R&E credits) and the continued expansion of our foreign operations. In the first quarter of fiscal 2011, the Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010 was signed into law. The Act included a retroactive extension of R&E credits for amounts incurred from January 1, 2010 through December 31, 2011. As a result of this extension, a $1.2 million benefit from R&E credits for the last nine months of fiscal 2010 was included in the first quarter of fiscal 2011 tax expense. We completed R&E credit studies for fiscal 2008 and

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fiscal 2009 during the second quarter of fiscal 2011. The results of these studies did not have a material impact on the benefit previously recognized for the R&E credits.

8. Reportable Segments

Our reportable segments are as follows:

Engineering and Consulting Services (ECS). ECS provides front-end science and consulting services and project management in the areas of surface water management, groundwater, waste management, mining and geotechnical sciences, and information technology and modeling.

Technical Support Services (TSS). TSS advises clients through the study, design and implementation of projects. TSS provides management consulting and strategic direction in the areas of environmental remedial planning, disaster management, climate change, international development, and technical government staffing services.

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 facilities, and transportation and land development.

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 U.S. federal construction management; environmental remediation including unexploded ordinance (UXO); wetland restoration; energy projects including wind, solar, nuclear and other alternative energies; and communications development.

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

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

Reportable Segments

	ECS	TSS	EAS (in thousands)	RCM	Total
Three months ended April 3, 2011:					
Revenue	$ 265,303	$ 136,169	$ 73,659	$ 160,049	$ 635,180
Segment operating income	20,232	9,049	5,163	3,749	38,193
Depreciation expense	2,723	281	466	2,497	5,967
Three months ended March 28, 2010:					
Revenue	$ 159,807	$ 120,309	$ 68,718	$ 142,389	$ 491,223
Segment operating income	11,737	9,976	826	5,407	27,946
Depreciation expense	1,386	153	549	2,151	4,239
Six months ended April 3, 2011:					
Revenue	$ 516,224	$ 283,999	$ 141,642	$ 334,557	$ 1,276,422
Segment operating income	41,341	20,618	9,907	8,272	80,138
Depreciation expense	5,480	540	953	4,916	11,889
Six months ended March 28, 2010:					
Revenue	$ 324,362	$ 250,394	$ 134,716	$ 342,782	$ 1,052,254
Segment operating income	24,933	20,386	3,117	14,873	63,309
Depreciation expense	2,793	312	1,102	4,208	8,415

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Total assets by segment were as follows:

	April 3, 2011	October 3, 2010
	(in thousands)	
ECS	$ 893,284	$ 618,025
TSS	301,530	281,376
EAS	98,279	93,696
RCM	295,015	327,393
Total assets	$ 1,588,108	$ 1,320,490

Reconciliations

	Three Months Ended		Six Months Ended	
	April 3, 2011	March 28, 2010	April 3, 2011	March 28, 2010
	(in thousands)			
Revenue				
Revenue from reportable segments	$ 635,180	$ 491,223	$ 1,276,422	$ 1,052,254
Elimination of inter-segment revenue	(22,614)	(21,695)	(52,732)	(40,769)
Total consolidated revenue	$ 612,566	$ 469,528	$ 1,223,690	$ 1,011,485
Operating Income				
Segment operating income	$ 38,193	$ 27,946	$ 80,138	$ 63,309
Amortization of intangibles	(6,942)	(3,020)	(13,723)	(6,000)
Other expense (1)	(1,995)	(1,399)	(2,834)	(2,666)
Total consolidated operating income	$ 29,256	$ 23,527	$ 63,581	$ 54,643
Depreciation Expense				
Depreciation expense from reportable segments	$ 5,967	$ 4,239	$ 11,889	$ 8,415
Other (2)	755	701	1,503	1,340
Total consolidated depreciation expense	$ 6,722	$ 4,940	$ 13,392	$ 9,755

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

(2) Other includes depreciation expense from corporate headquarters.

	April 3, 2011	October 3, 2010
	(in thousands)	
Assets		
Total assets of reportable segments	$ 1,588,108	$ 1,320,490
Assets not allocated to segments and intercompany eliminations	(87,923)	61,199
Total consolidated assets	$ 1,500,185	$ 1,381,689

Major Clients

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

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The following table represents our revenue by client sector:

	Three Months Ended		Six Months Ended	
	April 3, 2011	March 28, 2010	April 3, 2011	March 28, 2010
	(in thousands)			
Client Sector				
Federal government (1)	$ 284,510	$ 249,863	$ 568,030	$ 549,235
State and local government	65,960	77,391	131,872	152,705
Commercial	112,072	102,499	247,207	229,965
International (2)	150,024	39,775	276,581	79,580
Total	$ 612,566	$ 469,528	$ 1,223,690	$ 1,011,485

(1) Includes revenue generated under U.S. government contracts performed outside the U.S.

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

9. Comprehensive Income

Comprehensive income is comprised of net income, and translation gains and losses from foreign subsidiaries with functional currencies different than our reporting currency, and unrealized gains and losses on hedging activities. The components of comprehensive income, net of related tax, are as follows:

	Three Months Ended		Six Months Ended	
	(in thousands)			
Net income including noncontrolling interests	$ 18,081	$ 14,329	$ 40,835	$ 33,038
Other comprehensive income:				
Foreign currency translation adjustment	12,688	1,974	20,585	6,076
Foreign currency hedge	(134)	(184)	(325)	(354)
Comprehensive income including noncontrolling interests	30,635	16,119	61,095	38,760
Net income attributable to noncontrolling interests	(581)		(1,034)	
Foreign currency translation adjustment	(216)		(748)	
Comprehensive income attributable to noncontrolling interests	(797)		(1,782)	
Comprehensive income attributable to Tetra Tech	$ 29,838	$ 16,119	$ 59,313	$ 38,760

10. Debt

On March 28, 2011, we entered into a new credit agreement (Credit Agreement) and concurrently terminated our prior credit agreement. The Credit Agreement provides for a $460 million five-year revolving credit facility (Facility), which includes a $200 million sublimit for the issuance of standby letters of credit and a $100 million sublimit for multicurrency borrowings and letters of credit. At our election, the Facility may be increased from time to time by an amount up to $140 million in the aggregate, provided that no existing lender is required to commit to

any such increased amount. As of April 3, 2011, we had $140 million in borrowings outstanding which was carried over from the prior credit agreement to the Facility at a weighted-average interest rate of 2.01% per annum, $29 million in standby letters of credit and $291 million in availability under the Facility. Additionally, we had no multicurrency borrowings and letters of credit under the Facility as of April 3, 2011.

Interest on borrowings under the Credit Agreement is payable, at our election, at either (a) a base rate (the highest of the U.S. federal funds rate plus 0.50% per annum, the bank s prime rate and the Eurocurrency rate plus 1.00%) plus a margin that ranges from 0.50% to 1.50% per annum, or (b) a Eurocurrency rate plus a margin that ranges from 1.50% to 2.50% per annum.

The Credit Agreement contains certain financial and various other affirmative and negative covenants. They include, among others, a maximum consolidated leverage ratio of 2.5x (total funded debt/earnings before

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interest, tax, depreciation and amortization (EBITDA , as defined in the Credit Agreement)), and a minimum consolidated fixed charge coverage ratio of 1.25x (EBITDA minus capital expenditures/cash interest plus taxes plus principal payments). As of April 3, 2011, we were in compliance with these covenants with a consolidated leverage ratio of 1.33x, and a consolidated fixed charge coverage ratio of 2.65x.

The Facility is guaranteed by our material subsidiaries and certain additional designated subsidiaries. Borrowings under the Credit Agreement are collateralized by our accounts receivable, the stock of our subsidiaries and intercompany debt. As of April 3, 2011, we met all compliance requirements.

11. Fair Value Measurements

Derivative Instruments. In fiscal 2009, we entered into an intercompany promissory note with a wholly-owned Canadian subsidiary in connection with the acquisition of Wardrop Engineering, Inc. The intercompany note receivable is denominated in Canadian dollars (CAD) and has a fixed rate of interest payable in Canadian dollars. In the first quarter of fiscal 2010, 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 CAD $4.2 million (equivalent to U.S. $4.0 million at the date of inception) and one contract matures on each of January 27, 2010, January 27, 2011, and January 27, 2012. In the second quarter of fiscal 2010, we settled the first foreign currency forward contract for U.S. $3.9 million. Additionally, we entered into a new forward contract for CAD $4.2 million (equivalent to U.S. $3.9 million at the date of inception) that matures on January 28, 2013. In the second quarter of fiscal 2011, we settled the second foreign currency forward contract for U.S. $3.9 million. In the third quarter of fiscal 2011, we entered into a new forward contract for CAD $4.2 million (equivalent to U.S. $4.2 million at the date of inception) that matures on January 27, 2014. 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 . The fair value and the change in the fair value were not material for the three and six-month periods of fiscal 2011 and 2010. No gains or losses were recognized in earnings as these contracts were deemed to be effective hedges.

Debt. The fair value of long-term debt was determined using the present value of future cash flows based on the borrowing rates currently available for debt with similar terms and maturities. The carrying value of our long-term debt approximates fair value.

12. Joint Ventures

On October 4, 2010, we adopted an accounting standard that requires us to perform an analysis to determine whether our variable interests give us a controlling financial interest in a variable interest entity (VIE) and whether we should therefore consolidate the VIE. This analysis requires us to assess whether we have the power to direct the activities of the VIE and the obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIE. This guidance eliminates the quantitative approach previously required for determining the primary beneficiary of a VIE and significantly enhances disclosures.

In the normal course of business, we form joint ventures, including partnerships and partially-owned limited liability companies, with third parties primarily to bid on and execute specific projects. In accordance with the current consolidation standard, we analyzed all of our joint ventures and classified them into two groups: (1) joint ventures that must be consolidated because they are either not VIEs and we hold the

majority voting interest, or because they are VIEs and we are the primary beneficiary; and (2) joint ventures that do not need to be consolidated because they are either not VIEs and we hold a minority voting interest, or because they are VIEs and we are not the primary beneficiary.

Joint ventures are considered VIEs if (1) the total equity investment at risk is not sufficient to permit the entity to finance its activities without additional financial support; (2) as a group, the holders of the equity investment at risk lack the ability to make certain decisions, the obligation to absorb expected losses or the right to receive expected residual returns; or (3) an equity investor has voting rights that are disproportionate to its economic interest and substantially all of the entity s activities are on behalf of the investor. Many of our joint venture agreements provide for capital calls to fund operations, as necessary; however, such funding is infrequent and is not anticipated to be material. The majority of our joint ventures are pass-through entities for client invoicing purposes.

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As such, these are VIEs because the total equity investment is typically nominal and not sufficient to permit the entity to finance its activities without additional financial support.

We are considered the primary beneficiary and required to consolidate a VIE if we have the power to direct the activities that most significantly impact that VIE s economic performance, and the obligation to absorb losses or the right to receive benefits of that VIE that could potentially be significant to the VIE. In determining whether we are the primary beneficiary, our significant assumptions and judgments include the following: (1) identifying the significant activities and the parties that have the power to direct them; (2) reviewing the governing board composition and participation ratio; (3) determining the equity, profit and loss ratio; (4) determining the management-sharing ratio; (5) reviewing employment terms, including which joint venture partner provides the project manager; and (6) reviewing the funding and operating agreements. Examples of significant activities include engineering and design services; management consulting services; procurement and construction services; program management; construction management; and operations and maintenance services. If we determine that the power to direct the significant activities is shared by two or more joint venture parties, then there is no primary beneficiary and no party consolidates the VIE. In making the shared-power determination, we analyze the key contractual terms, governance, related party and de facto agency as they are defined in the accounting standard, and other arrangements.

In the first quarter of fiscal 2011, we assessed our joint ventures in accordance with the current consolidation standard and determined that a majority of our joint ventures were unconsolidated VIEs because we were not the primary beneficiary of those joint ventures. In some cases, we consolidated VIEs because we were the primary beneficiary of those joint ventures. None of our current joint ventures determined to be a VIE are individually significant to our condensed consolidated financial statements.

In the second quarter of fiscal 2011, there were no changes in the status of the VIEs and no changes to the primary beneficiary designation of each VIE. Accordingly, we determined that none of the unconsolidated joint ventures should be consolidated and none of the consolidated joint ventures should be de-consolidated.

Consolidated Joint Ventures

The following represents the unaudited financial information of consolidated joint ventures included in our condensed consolidated financial statements:

		April 3, 2011 (in thousands)
Cash	$	4,281
Other current assets		18,759
Non-current assets		16,647
Total assets	$	39,687
Accounts payable	$	3,594
Other liabilities		7,726
Total liabilities		11,320
Total Tetra Tech equity		14,185
Noncontrolling interests		14,182

Total owners equity		28,367
Total liabilities and owners equity	$	39,687

The aggregate revenue of the consolidated joint ventures was $19.3 million and $38.5 million for the three and six months ended April 3, 2011, respectively. The assets, liabilities and revenue of the consolidated joint ventures were immaterial for prior annual and interim periods as the largest consolidated joint ventures were acquired in connection with the BPR acquisition in the first quarter of fiscal 2011. The assets of our consolidated joint ventures are restricted for use only by those joint ventures and are not available for our general operations.

Unconsolidated Joint Ventures

We account for the majority of our unconsolidated joint ventures using the equity method of accounting.

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Under this method, we recognize our proportionate share of the net earnings of these joint ventures as a single line item under Other costs of revenue in our condensed consolidated statements of income. For the three and six months ended April 3, 2011, we reported $1.5 million and $2.4 million of equity in earnings of unconsolidated joint ventures, respectively, compared to $0.4 million and $0.6 million for the same periods last year. Our maximum exposure to loss as a result of our investments in unconsolidated VIEs is typically limited to the aggregate of the carrying value of the investment and future funding commitments. Future funding commitments for the unconsolidated VIEs are immaterial. The unconsolidated VIEs are, individually and in aggregate, immaterial to our consolidated financial statements.

As of April 3, 2011, the aggregate carrying values of the assets and liabilities of the unconsolidated VIEs were $33.5 million and $30.8 million, respectively. The carrying values of these assets and liabilities as of October 3, 2010 were immaterial.

13. 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 assessed $5.8 million in compensatory damages against AMT. In addition, the jury assessed $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 assessed ITC $2.9 million in attorneys fees and costs, and denied ITC s motion for prejudgment interest. AMT appealed the trial court s decision assessing 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. Final briefs were filed with the court of appeals and oral arguments were heard in December 2010. AMT has posted a bond, as required by the trial court, for $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 April 3, 2011, 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.

14. Recent Accounting Pronouncements

In October 2009, the Financial Accounting Standards Board (FASB) issued updated accounting guidance that provides amendments to the criteria of Accounting Standards Codification Topic 605, Revenue Recognition , for separately recognizing consideration in multiple-deliverable arrangements. The amendments establish a selling price hierarchy for determining the selling price of a deliverable. We adopted this guidance on October 4, 2010 and it did not have a material impact on our consolidated financial statements.

In January 2010, the FASB issued an updated accounting guidance that amends the disclosure guidance with respect to fair value measurements. Specifically, the new guidance requires disclosure of amounts transferred in and out of Levels 1 and 2 fair value measurements, a reconciliation presented on a gross basis rather than a net basis of activity in Level 3 fair value measurements, greater disaggregation of the assets and liabilities for which fair value measurements are presented, and more robust disclosure of the valuation techniques and inputs used to measure Level 2 and 3 fair value measurements. This guidance is effective for us, with the exception of the new

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guidance concerning the Level 3 activity reconciliations. The adoption of the effective portion of the guidance had no impact on our consolidated financial statements. The disclosure requirements for certain Level 3 activities will become effective for fiscal years beginning after December 15, 2010. As we do not currently have any significant Level 3 fair value measurements, we do not expect the adoption will have a material impact on our consolidated financial statements.

In December 2010, the FASB issued updated accounting guidance to clarify that pro forma disclosures should be presented as if a business combination occurred at the beginning of the prior annual period for purposes of preparing both the current reporting period and the prior reporting period pro forma financial information. These disclosures should be accompanied by a narrative description about the nature and amount of material, nonrecurring pro forma adjustments. The new accounting guidance is effective for business combinations consummated in periods beginning after December 15, 2010, and should be applied prospectively as of the date of adoption. We adopted the new disclosures in the second quarter of fiscal 2011 and it did not have an impact on our consolidated financial statements.

In December 2010, the FASB issued updated accounting guidance to amend the criteria for performing Step 2 of the goodwill impairment test for reporting units with zero or negative carrying amounts and requires performing Step 2 if qualitative factors indicate that it is more likely than not that a goodwill impairment exists. The new accounting guidance is effective for fiscal years beginning after December 15, 2010. Early adoption is not permitted. We will adopt the new disclosures in the first quarter of fiscal 2012. We are currently evaluating the impact of this guidance, and we 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 the Management s Discussion and Analysis of Financial Condition and Results of Operations, contains forward-looking statements regarding future events and our future results that are subject to the safe harbor provisions created under the Securities Act of 1933 and the Securities Exchange Act of 1934. All statements other than statements of historical facts are statements that could be deemed forward-looking statements. These statements are based on current expectations, estimates, forecasts and projections about the industries in which we operate and the beliefs and assumptions of our management. Words such as expects, anticipates, targets, goals, project intends, plans, believes, seeks, estimates, continues, may, variations of such words, and similar expressions are intended to identify su forward-looking statements. In addition, any statements that refer to projections of our future financial performance, our anticipated growth and trends in our businesses, and other characterizations of future events or circumstances are forward-looking statements. Readers are cautioned that these forward-looking statements are only predictions and are subject to risks, uncertainties and assumptions that are difficult to predict, including those identified below under Part II, Item 1A. Risk Factors and elsewhere herein. Therefore, actual results may differ materially and adversely from those expressed in any forward-looking statements. We undertake no obligation to revise or update publicly any forward-looking statements for any reason.

GENERAL OVERVIEW

We are a leading provider of consulting, engineering, program management, construction management and technical services focusing on resource management, infrastructure and the environment. 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, the environment, energy, natural resources and 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. We currently have more than 12,000 employees worldwide, located primarily in North America.

We derive income 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 U.S. federal and state and local government agencies, as well as commercial and international clients. The following table presents the percentage of our revenue by client sector:

	Three Months Ended		**Six Months Ended**	
	April 3, 2011	**March 28, 2010**	**April 3, 2011**	**March 28, 2010**

Client Sector				
Federal government (1)	46.4%	53.2%	46.4%	54.3%
State and local government	10.8	16.5	10.8	15.1
Commercial	18.3	21.8	20.2	22.7
International (2)	24.5	8.5	22.6	7.9
Total	100.0%	100.0%	100.0%	100.0%

(1) Includes revenue generated under U.S. government contracts performed outside the U.S.

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

We manage our business under the following four reportable segments:

Engineering and Consulting Services. ECS provides front-end science and consulting services and project management in the areas of surface water management, groundwater, waste management, mining and geotechnical sciences, and information technology and modeling.

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Technical Support Services. TSS advises clients through the study, design and implementation of projects. TSS provides management consulting and strategic direction in the areas of environmental remedial planning, disaster management, climate change, international development, and technical government staffing services.

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 facilities, and transportation and land development.

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 U.S. federal construction management; environmental remediation including UXO; wetland restoration; energy projects including wind, solar, nuclear and other alternative energies; and communications development.

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

	Three Months Ended		**Six Months Ended**	
	April 3, 2011	**March 28, 2010**	**April 3, 2011**	**March 28, 2010**
Reportable Segment				
ECS	43.3%	34.1%	42.2%	32.1%
TSS	22.2	25.6	23.2	24.8
EAS	12.0	14.6	11.6	13.3
RCM	26.1	30.3	27.3	33.9
Inter-segment elimination	(3.6)	(4.6)	(4.3)	(4.1)
	100.0%	100.0%	100.0%	100.0%

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

	Three Months Ended		**Six Months Ended**	
	April 3, 2011	**March 28, 2010**	**April 3, 2011**	**March 28, 2010**
Contract Type				
Fixed-price	37.2%	40.1%	37.4%	42.1%
Time-and-materials	40.8	35.9	39.1	34.6
Cost-plus	22.0	24.0	23.5	23.3
	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 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.

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. Additionally, 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.

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

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typically higher in the second half of the fiscal year due to favorable weather conditions during spring and summer months that may result in higher billable hours. In addition, our revenue is typically higher in the fourth fiscal quarter due to the U.S. federal government s fiscal year-end spending.

ACQUISITIONS AND DIVESTITURES

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

On October 4, 2010, we acquired BPR, a Canadian scientific and engineering services firm that provides multidisciplinary consulting and engineering support for water, energy, industrial plants, buildings and infrastructure projects. This acquisition further expands our geographic presence in eastern Canada, and enables us to provide clients with additional services throughout Canada. In the second quarter of fiscal 2011, we acquired substantially all of the assets of another Canadian firm that enhances our service offerings in water treatment and tailings management for oil sands producers. Both firms are part of our ECS segment. In the second quarter of fiscal 2010, we acquired a company that enhances our nuclear energy service offerings in the RCM segment. For more information, see Note 3 Mergers and Acquisitions of the Notes to Condensed Consolidated Financial Statements .

For analytical purposes only, we categorize our revenue into two types: acquisitive and organic. Acquisitive revenue consists of revenue derived from acquired companies during the first twelve months following their respective acquisition dates. Organic revenue consists of our total revenue less any acquisitive revenue.

Divestitures. To complement our acquisition strategy and our focus on internal growth, we regularly review and evaluate our existing operations to determine whether our business model should change through the divestiture of certain businesses. Accordingly, from time to time, we may divest certain non-core businesses and reallocate our resources to businesses that better align with our long-term strategic direction. We did not have any divestitures in fiscal 2011 or 2010.

OVERVIEW OF RESULTS AND BUSINESS TRENDS

General. In the second quarter of fiscal 2011, our operating results improved significantly compared to the year-ago quarter despite continuing challenges in the markets for our construction management services. We continued our focus on organic growth and the strategic acquisition of

firms that enhance our service offerings and expand our geographic presence. Our revenue grew 30.5% compared to the year-ago quarter due to contributions from recent acquisitions and strength in the areas of mining, water infrastructure and energy. This growth was partially offset by continued weakness in federal construction management and reduced revenue from state and local infrastructure projects.

We foresee the continuation of a slow and gradual economic recovery in the United States following the severe economic weakness experienced during the global financial crisis, and a faster rate of growth and stronger market demand for our services in our international markets. We expect that our revenue will grow significantly in fiscal 2011 compared to fiscal 2010 due to contributions from recent acquisitions and anticipated growth in our business. We recognize that the economic conditions that have severely impacted both the domestic and international economies over the past few years could adversely affect our future work for the U.S. federal government, state and local governments, and commercial and international clients.

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Federal Government. Our U.S. federal government business grew 13.9% in the second quarter of fiscal 2011 compared to the year-ago quarter. This growth was driven primarily by strong demand for our international development services for the U.S. Agency for International Development (USAID), as well as for our front-end water, environmental, and infrastructure engineering and design services for other federal customers. These customers included the various military branches of the U.S. Department of Defense (DoD), the International Boundary and Water Commission, the General Services Administration, the U.S. Department of Agriculture, the U.S. Environmental Protection Agency (EPA), and the Federal Aviation Administration (FAA). We also experienced increased workloads on DoD infrastructure design projects in Afghanistan. During periods of economic volatility, our U.S. federal government business has historically been the most stable and predictable. However, we continue to experience delays on new awards for certain large construction management-related projects in Afghanistan and the U.S. Gulf Coast region. Despite these delays on our back-end construction management projects, we are experiencing significant strength in our front-end water and environmental projects for U.S. federal government clients. As a result, revenue from our U.S. federal government business is expected to grow modestly in fiscal 2011 compared to fiscal 2010.

State and Local Government. Our state and local government business declined 14.8% in the second quarter of fiscal 2011 compared to the year-ago quarter. The decline resulted primarily from reduced revenue associated with a large transportation infrastructure project. We continue to experience difficult economic conditions across our state and local government markets. Many state and local government agencies continue to face serious economic challenges, including budget deficits and difficult cost-cutting decisions. Simultaneously, states are facing major long-term infrastructure needs, including the need for maintenance, repair and upgrading of existing critical infrastructure and the need to build new facilities. The funding risks associated with our state and local government programs are partially mitigated by the regulatory requirements driving some of these programs, such as regulatory-mandated consent decrees. As a result, some programs will generally progress despite budget pressures. Because we anticipate that many state and local government agencies will continue to face serious economic challenges, our state and local government business is expected to decline in fiscal 2011 compared to fiscal 2010.

Commercial. Our commercial business grew 9.3% in the second quarter of fiscal 2011 compared to the year-ago quarter. This growth was primarily attributable to increased revenue from energy and water infrastructure projects. Some of our largest commercial customers are returning to more typical environmental and infrastructure capital spending levels following a period of budgetary constraints during the global financial crisis. Therefore, although we expect that some economic weakness may continue in certain sectors of our commercial business, we are cautiously optimistic concerning the growth in commercial business due to increased spending by some of our largest commercial customers. Accordingly, we expect that our commercial business will grow modestly in fiscal 2011 compared to fiscal 2010.

International. Our international business grew 277.2% in the second quarter of fiscal 2011 compared to the year-ago quarter. This growth was driven by contributions from our recent Canadian acquisitions and strong demand for our water and environmental services in the mining and energy markets. We expect that our international business will continue to grow significantly in fiscal 2011 compared to fiscal 2010 as a result of our recent acquisitions and continued strong demand for our services in the mining and energy markets worldwide.

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RESULTS OF OPERATIONS

Consolidated Results of Operations

	Three Months Ended				Six Months Ended			
	April 3, 2011	March 28, 2010	Change $	%	April 3, 2011	March 28, 2010	Change $	%
	($ in thousands)							
Revenue	$ 612,566	$ 469,528	$ 143,038	30.5%	$ 1,223,690	$ 1,011,485	$ 212,205	21.0%
Subcontractor costs	(182,260)	(143,594)	(38,666)	(26.9)	(387,805)	(342,059)	(45,746)	(13.4)
Revenue, net of subcontractor costs (1)	430,306	325,934	104,372	32.0	835,885	669,426	166,459	24.9
Other costs of revenue	(355,445)	(262,429)	(93,016)	(35.4)	(685,372)	(536,139)	(149,233)	(27.8)
Selling, general and administrative expenses	(45,605)	(39,978)	(5,627)	(14.1)	(86,932)	(78,644)	(8,288)	(10.5)
Operating income	29,256	23,527	5,729	24.4	63,581	54,643	8,938	16.4
Interest expense - net	(1,471)	(352)	(1,119)	(317.9)	(2,776)	(607)	(2,169)	(357.3)
Income before income tax expense	27,785	23,175	4,610	19.9	60,805	54,036	6,769	12.5
Income tax expense	(9,704)	(8,846)	(858)	(9.7)	(19,970)	(20,998)	1,028	4.9
Net income including noncontrolling interests	18,081	14,329	3,752	26.2	40,835	33,038	7,797	23.6
Net income attributable to noncontrolling interests	(581)		(581)	(100.0)	(1,034)		(1,034)	(100.0)
Net income attributable to Tetra Tech	$ 17,500	$ 14,329	$ 3,171	22.1%	$ 39,801	$ 33,038	$ 6,763	20.5%

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

For the three-month period, both revenue and revenue, net of subcontractor costs, increased due to the contributions of $95.7 million and $80.3 million, respectively, from recent acquisitions. Excluding the effect of acquisitions, revenue and revenue, net of subcontractor costs, grew $47.4 million or 10.1%, and $24.1 million or 7.4%, respectively. For the six-month period, both revenue and revenue, net of subcontractor costs, increased due to the contributions of $180.3 million and $150.4 million, respectively, from recent acquisitions. Excluding the effect of acquisitions, revenue and revenue, net of subcontractor costs, grew $31.9 million, or 3.2%, and $16.0 million, or 2.4%, respectively. The growth was driven by increased activity on DoD, USAID, FAA and other U.S. federal government projects. Additionally, the growth resulted from increased demand for our mining services from domestic and international clients, as well as for our energy and telecommunications services. The overall growth was partially offset by a revenue decline in the state and local government sector due to continuing weakness in the economy and reduced activity on a large transportation infrastructure project.

For three and six-month periods, operating income increased as a result of business growth. For both periods, operating income benefitted from the recognition of government incentive award fees on a large environmental remediation program and favorable project close-outs related to energy and construction management projects compared to the year-ago periods. To a lesser extent, operating income increased due to favorable claim settlements and lower bad debt expense