

TETRA TECH INC  
Form 10-Q  
August 09, 2013  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

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**FORM 10-Q**

(Mark One)

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

For the quarterly period ended June 30, 2013

OR

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

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

Commission File Number 0-19655

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**TETRA TECH, INC.**

(Exact name of registrant as specified in its charter)

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

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

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

(Address of principal executive offices) (Zip Code)

**(626) 351-4664**

(Registrant's telephone number, including area code)

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

Yes  No

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

Yes  No

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

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

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

Yes  No

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As of August 5, 2013, 64,496,480 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	June 30, 2013	September 30, 2012
Current assets:		
Cash and cash equivalents	\$ 146,335	\$ 104,848
Accounts receivable net	632,220	700,480
Prepaid expenses and other current assets	46,433	48,168
Income taxes receivable	25,635	5,817
Total current assets	850,623	859,313
Property and equipment net	87,376	74,309
Investments in and advances to unconsolidated joint ventures	2,733	3,279
Goodwill	710,321	635,958
Intangible assets net	94,754	74,231
Other long-term assets	25,705	23,940
Total assets	\$ 1,771,512	\$ 1,671,030
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 133,092	\$ 154,003
Accrued compensation	118,737	128,086
Billings in excess of costs on uncompleted contracts	85,352	90,909
Deferred income taxes	9,642	20,809
Current portion of long-term debt	4,043	2,031
Estimated contingent earn-out liabilities	24,178	35,407
Other current liabilities	87,177	72,549
Total current liabilities	462,221	503,794
Deferred income taxes	26,738	24,268
Long-term debt	208,396	81,047
Long-term estimated contingent earn-out liabilities	68,140	16,132
Other long-term liabilities	29,061	25,922
Commitments and contingencies		
Equity:		

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

Common stock Authorized, 150,000 shares of \$0.01 par value; issued and outstanding, 64,799 and 63,837 shares at June 30, 2013, and September 30, 2012, respectively

	648	638
Additional paid-in capital	457,480	433,009
Accumulated other comprehensive (loss) income	(9,021)	31,017
Retained earnings	526,964	554,306
Tetra Tech stockholders' equity	976,071	1,018,970
Noncontrolling interests	885	897
Total equity	976,956	1,019,867
Total liabilities and equity	\$ 1,771,512	\$ 1,671,030

See accompanying Notes to Condensed Consolidated Financial Statements.

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

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

See accompanying Notes to Condensed Consolidated Financial Statements.

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

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

See accompanying Notes to Condensed Consolidated Financial Statements.



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## Tetra Tech, Inc.

## Condensed Consolidated Statements of Cash Flows

(unaudited in thousands)

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

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

See accompanying Notes to Condensed Consolidated Financial Statements.

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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 September 30, 2012.

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

These financial statements include the accounts of our wholly-owned subsidiaries and those joint ventures of which we are the primary beneficiary. For the joint ventures in which we do not have a controlling interest, but exert a significant influence, we apply the equity method of accounting (see Note 12, Joint Ventures for further discussion). In the first quarter of fiscal 2013, we implemented a reorganization of our operations to improve future growth and profitability. These activities included the consolidation and realignment of certain operating activities to improve organizational effectiveness and achieve efficiencies in our segment management. This reorganization included the elimination of the Engineering and Architecture Services ( EAS ) segment, and the re-assignment of its operations to the Engineering and Consulting Services ( ECS ) and Technical Support Services ( TSS ) segments (see Note 10, Reportable Segments for further discussion). Prior-year amounts for reportable segments have been reclassified to conform to the current-year presentation. For the three and nine months ended June 30, 2013, Interest expense net on the condensed consolidated statements of operations includes \$0.4 million and \$0.8 million in interest income compared to \$0.2 million and \$0.6 million for the same periods last year, respectively.

**2. Stock Repurchase Program**

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

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

	June 30, 2013	September 30, 2012
	(in thousands)	
Billed	\$ 353,299	\$ 362,331
Unbilled	295,411	355,793
Contract retentions	27,892	17,908
Total accounts receivable gross	676,602	736,032
Allowance for doubtful accounts	(44,382)	(35,552)
Total accounts receivable net	\$ 632,220	\$ 700,480
Current billings in excess of costs on uncompleted contracts	\$ 85,352	\$ 90,909
Non-current billings in excess of costs on uncompleted contracts		4,410
Total billings in excess of costs on uncompleted contracts	\$ 85,352	\$ 95,319

Billed accounts receivable represent amounts billed to clients that have not been collected. Unbilled accounts receivable represent revenue recognized but not yet billed pursuant to contract terms or billed after the period end date. Most of our unbilled receivables at June 30, 2013 are expected to be billed and collected within 12 months. Contract retentions represent amounts withheld by clients until certain conditions are met or the project is completed, which may be several months or years. The allowance for doubtful accounts is determined based on a review of client-specific accounts, and contract issues resulting from current events and economic circumstances. Billings in excess of costs on uncompleted contracts represent the amount of cash collected from clients and billings to clients on contracts in advance of revenue recognized. The majority of billings in excess of costs on uncompleted contracts will be earned within 12 months. Non-current billings in excess of costs on uncompleted contracts are reported as part of our Other long-term liabilities on our condensed consolidated balance sheets.

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

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

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Billed accounts receivable related to U.S. federal government contracts were \$71.8 million and \$65.9 million at June 30, 2013 and September 30, 2012, respectively. U.S. federal government unbilled receivables, net of progress payments, were \$67.2 million and \$100.4 million at June 30, 2013 and September 30, 2012, respectively. Other than the U.S. federal government, no single client accounted for more than 10% of our accounts receivable at June 30, 2013 and September 30, 2012.

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**4. Mergers and Acquisitions**

On December 31, 2012, we acquired American Environmental Group, Ltd. ( AEG ), a solid waste management specialist headquartered in Richfield, Ohio. AEG provides environmental, design, construction and maintenance services primarily to solid and hazardous waste, environmental, energy and utility clients. On January 28, 2013, we acquired Parkland Pipeline Contractors Ltd., Parkland Pipeline Equipment Ltd., Park L Projects Ltd. and Parkland Projects Ltd. (collectively, Parkland ), headquartered in Alberta, Canada. Parkland serves the oil and gas industry in Western Canada, and specializes in the technical support, engineering support and construction of pipelines and oilfield facilities. AEG and Parkland are both included in our RCM segment. We also made other acquisitions that enhanced our service offerings and expanded our geographic presence in our ECS segment during the first half of fiscal 2013. The aggregate fair value of the purchase prices for fiscal 2013 acquisitions was \$244.4 million. Of this amount, \$170.3 million was paid to the sellers, \$1.1 million was recorded as a receivable in accordance with the purchase agreements, and \$75.3 million was the estimated fair value of contingent earn-out obligations, with an aggregate maximum of \$86.7 million, based upon the achievement of specified financial objectives as described below.

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

The results of our acquisitions were included in the condensed consolidated financial statements from their respective closing dates. The purchase price allocations related to the fiscal 2013 acquisitions are preliminary, and subject to adjustment based on the valuation and final determination of net assets acquired. We do not believe that any adjustment will have a material effect on our consolidated results of operations. No acquisitions in the first nine months of fiscal 2013 and in fiscal 2012 were considered material, individually or in the aggregate, to our condensed consolidated financial statements. As a result, no pro forma information has been provided for the respective periods.

Most of our acquisition agreements include contingent earn-out agreements, which are generally based on the achievement of future operating income thresholds. The contingent earn-out arrangements are based upon our valuations of the acquired companies and reduce the risk of overpaying for acquisitions if the projected financial results are not achieved. For acquisitions completed prior to fiscal 2010, contingent earn-out payments are accrued as Contingent earn-out liabilities when the related operating thresholds have been achieved, and a corresponding increase in goodwill is recorded. These contingent earn-out payments are reflected as cash flows used in investing activities on our condensed consolidated statements of cash flows in the period paid. At June 30, 2013, there was a maximum of \$3.0 million of contingent consideration remaining for an acquisition completed prior to fiscal 2010 that will be recorded as an addition to goodwill, if earned.

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



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We measure our contingent earn-out liabilities at fair value on a recurring basis using significant unobservable inputs classified within Level 3 of the fair value hierarchy (as described in *Critical Accounting Policies and Estimates* in our Annual Report on Form 10-K for the fiscal year ended September 30, 2012). We use a probability-weighted discounted income approach as a valuation technique to convert future estimated cash flows to a single present value amount. The significant unobservable inputs used in the fair value measurements are operating income projections over the earn-out period (generally two or three years), and the probability outcome percentages we assign to each scenario.

Significant increases or decreases to either of these inputs in isolation would result in a significantly higher or lower liability with a higher liability capped by the contractual maximum of the contingent earn-out obligation. Ultimately, the liability will be equivalent to the amount paid, and the difference between the fair value estimate and amount paid will be recorded in earnings. The amount paid that is less than or equal to the contingent earn-out liability on the acquisition date is reflected as cash used in financing activities in our condensed consolidated statements of cash flows. Any amount paid in excess of the contingent earn-out liability on the acquisition date is reflected as cash used in operating activities.

We review and re-assess the estimated fair value of contingent consideration on a quarterly basis, and the updated fair value could differ materially from the initial estimates. Changes in the estimated fair value of our contingent earn-out liabilities related to the time component of the present value calculation are reported in interest expense. Adjustments to the estimated fair value related to changes in all other unobservable inputs are reported in operating income. During the third quarter and first nine months of fiscal 2013, we recorded net decreases in our contingent earn-out liabilities and reported related net gains in operating income of \$7.7 million and \$8.7 million, respectively, compared with gains of \$1.7 million and \$2.0 million, respectively, in the same periods last year. In each case, subsequent to the acquisition date, we determined that the related acquired companies would achieve operating income at a lower level than what was assumed at the acquisition date.

At June 30, 2013, there was a total maximum of \$115.5 million of outstanding contingent consideration related to acquisitions completed during or subsequent to fiscal 2010. Of this amount, \$91.0 million was estimated as the fair value and accrued on our condensed consolidated balance sheet. The aggregate current estimated earn-out liabilities of \$24.2 million and \$35.4 million are reported in *Estimated contingent earn-out liabilities*, and the aggregate non-current estimated earn-out liabilities of \$68.1 million and \$16.1 million are reported in *Long-term estimated contingent earn-out liabilities* on our condensed consolidated balance sheets at June 30, 2013 and September 30, 2012, respectively. In the first nine months of fiscal 2013, \$24.4 million of earn-outs were paid to former owners. Of this amount, we reported \$24.0 million as cash used in financing activities and \$0.4 million as cash used in operating activities. In the first nine months of fiscal 2012, \$30.4 million of earn-outs were paid to former owners. Of this amount, we reported \$18.1 million as cash used in financing activities, \$0.6 million as cash used in operating activities and \$11.7 million as cash used in investing activities.

**5. Goodwill and Intangibles**

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

We perform our annual goodwill impairment review at the beginning of our fiscal fourth quarter. Our last annual review at July 2, 2012 (i.e., the first day of our fiscal fourth quarter), indicated that we had no impairment of goodwill, and all of our reporting units had estimated fair values that were in excess of their carrying values, including goodwill. In addition, we regularly evaluate whether events and circumstances have



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occurred that may indicate a potential change in recoverability of goodwill. We perform interim goodwill impairment reviews between our annual reviews if certain events and circumstances have occurred, including a deterioration in general economic conditions, an increased competitive environment, a change in management, key personnel, strategy or customers, negative or declining cash flows, or a decline in actual or planned revenue or earnings compared with actual and projected results of relevant prior periods. We assess goodwill for impairment at the reporting unit level, which is defined as an operating segment or one level below an operating segment, referred to as a component. Our operating segments are the same as our reportable segments and our reporting units for goodwill impairment testing are the components one level below our reportable segments. These components constitute a business for which discrete financial information is available and where segment management regularly reviews the operating results of that component. We aggregate components within an operating segment that have similar economic characteristics.

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

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

- Tetra Tech Canada ( TTC ), with operations primarily in Eastern Canada, particularly Quebec;
- Global Mining Practice ( GMP ), with operations primarily in the U.S., Canada, Australia and South America; and
- Advanced Management Technology, Inc. ( AMT ), a U.S. federal government contractor primarily doing business with the Federal Aviation Administration.

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

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

	June 30, 2013	
TTC	GMP	AMT

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(in thousands)

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

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

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

	ECS		TSS		RCM		Total	
	(in thousands)							
Balance at September 30, 2012(1) (2)	\$	412,308	\$	173,867	\$	49,783	\$	635,958
Goodwill acquired		12,306				143,304		155,610
Foreign exchange impact(3)		(21,748)				(5,307)		(27,055)
Post-acquisition adjustments		2,058		350				2,408
Goodwill impairment		(56,600)						(56,600)
Balance at June 30, 2013	\$	348,324	\$	174,217	\$	187,780	\$	710,321

(1) Prior-year amounts for ECS and TSS have been reclassified to conform to the current-year presentation (see Note 10, Reportable Segments for more information). As a result, the ECS revised amount reflects \$9.2 million transferred in from EAS and \$7.6 million transferred out to TSS. The TSS revised amount reflects \$7.5 million and \$7.6 million transferred in from EAS and ECS, respectively.

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

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

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

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

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

	Amount (in thousands)
2013	\$ 8,742

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

Table of Contents**6. Property and Equipment**

Property and equipment consisted of the following:

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

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

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

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

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

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

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

We recognize the fair value of our stock-based compensation awards as compensation expense on a straight-line basis over the requisite service period in which the award vests. Stock-based compensation expense for the three and nine months ended June 30, 2013 was \$2.8 million and \$7.6 million, respectively, compared to \$2.5 million and \$8.2 million for the same periods last year. The majority of these amounts was included in Selling, general and administrative ( SG&A ) expenses in our condensed consolidated statements of operations. In the three months ended June 30, 2013, no stock options were granted. For the nine months ended June 30, 2013, we granted 279,075 stock options with an exercise price of \$24.26 per share and an estimated weighted-average fair value of \$8.74 per share. In addition, we awarded 108,350 shares of restricted stock to our non-employee directors and executive officers at the fair value of \$24.26 per share on the award date. All of these shares are performance-based and vest over a three-year period. The number of shares that will ultimately vest is based on the growth in our diluted earnings per share. In the three months ended June 30, 2013, no restricted stock units ( RSUs ) to our non-employee directors, executive officers and employees were awarded. For the nine months ended June 30, 2013, 226,655 RSUs were awarded at the fair value of \$24.26 - \$29.28 per share. All of the RSUs have time-based vesting over a four-year period.

Table of Contents**8. Earnings Per Share ( EPS )**

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

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

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

The computation of diluted loss per share for the three and nine months ended June 30, 2013 excludes 0.7 million and 0.8 million of potential common shares due to their anti-dilutive effect. For the three and nine months ended July 1, 2012, 2.1 million and 2.9 million options were excluded from the calculation of dilutive potential common shares. These options were not included in the computation of dilutive potential common shares because the assumed proceeds per share exceeded the average market price per share during the period. Therefore, their inclusion would have been anti-dilutive.

**9. Income Taxes**

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

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



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

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

At June 30, 2013, undistributed earnings of our foreign subsidiaries, primarily in Canada, aggregating approximately \$22.0 million, are expected to be permanently reinvested. Accordingly, no provision for U.S. income taxes or foreign withholding taxes has been made. Upon distribution of those earnings, we would be subject to U.S. income taxes and foreign withholding taxes.

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

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

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

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

**10. Reportable Segments**

In the first quarter of fiscal 2013, we implemented a reorganization of our operations to improve future growth and profitability. These activities included the consolidation and realignment of certain operating activities to improve organizational effectiveness and achieve efficiencies in our segment management. This reorganization included the elimination of the EAS segment. Operating activities previously reported in this segment were realigned to operations with similar client types, project types and financial metrics in the ECS and TSS segments. Segment results for the prior year have been revised to conform to the current-year presentation. Our reportable segments and their primary business activities are as follows:

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

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

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

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

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

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

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

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

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

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

The following table presents our revenue by client sector:

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

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

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

## 11. Fair Value Measurements

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

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

*Debt.* The fair value of long-term debt was determined using the present value of future cash flows based on the borrowing rates currently available for debt with similar terms and maturities (Level 2 measurement, as described in Critical Accounting Policies and Estimates in our Annual Report on Form 10-K for the fiscal year ended September 30, 2012). The carrying value of our long-term debt approximated fair value at June 30, 2013 and September 30, 2012. For the first nine months of fiscal 2013, we had a net borrowing of \$130.8 million under our amended credit agreement to fund our business acquisitions, working capital needs and contingent earn-outs (see Note 13, Credit Facility for more

information).

**12. Joint Ventures**

*Consolidated Joint Ventures*

The aggregate revenue of our consolidated joint ventures for the three and nine months ended June 30, 2013 was \$2.8 million and \$9.8 million, respectively, compared to \$3.1 million and \$12.1 million for the same periods last year. The assets and liabilities of these consolidated joint ventures were immaterial at June 30, 2013 and September 30, 2012. These assets are restricted for use only by those joint ventures and are not available for our general operations. Cash and cash equivalents maintained by our consolidated joint ventures at June 30, 2013 and September 30, 2012 were \$0.6 million and \$1.6 million, respectively.

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*Unconsolidated Joint Ventures*

We account for our unconsolidated joint ventures using the equity method of accounting. Under this method, we recognize our proportionate share of the net earnings of these joint ventures within Other costs of revenue in our condensed consolidated statements of operations. For the three and nine months ended June 30, 2013, we reported \$0.6 million and \$2.5 million of equity in earnings of unconsolidated joint ventures, respectively, compared to \$0.8 million and \$2.4 million for the same periods last year. Our maximum exposure to loss as a result of our investments in unconsolidated joint ventures is typically limited to the aggregate of the carrying value of the investment. Future funding commitments for our unconsolidated joint ventures are immaterial. The unconsolidated joint ventures are, individually and in the aggregate, immaterial to our condensed consolidated financial statements.

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

**13. Credit Facility**

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

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

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

was outstanding under the Term Loan Facility, and \$4.8 million was outstanding under the Revolving Credit Facility. In addition, there was \$13.6 outstanding in standby letters of credit under the Amended Credit Agreement.

**14. Commitments and Contingencies**

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



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

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

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

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

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

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

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

**15. Recent Accounting Pronouncements**

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

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

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

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

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

In July 2013, the FASB issued an update on the financial statement presentation of unrecognized tax benefits. We are required to present a liability related to an unrecognized tax benefit as a reduction of a deferred tax asset for a net operating loss carryforward, a similar tax loss or a tax credit carryforward if such settlement is required or expected in the event the uncertain tax position is disallowed. This guidance will be effective for us in the first quarter of fiscal 2014. We do not expect the adoption of this guidance to have an impact on our condensed consolidated financial statements.

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

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

**GENERAL OVERVIEW**

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

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

	Three Months Ended		Nine Months Ended	
	June 30, 2013	July 1, 2012	June 30, 2013	July 1, 2012
<b>Client Sector</b>				
International (1)	25.8%	24.8%	27.3%	24.3%

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U.S. commercial	27.2	26.8	25.5	25.3
U.S. federal government (2)	30.6	35.8	32.5	38.6
U.S. state and local government	16.4	12.6	14.7	11.8
Total	100.0%	100.0%	100.0%	100.0%

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

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

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

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

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

Reportable Segment	Three Months Ended		Nine Months Ended	
	June 30, 2013	July 1, 2012	June 30, 2013	July 1, 2012
ECS	40.9%	43.4%	41.1%	43.0%
TSS	36.0	37.7	35.9	38.3
RCM	26.4	22.5	26.1	21.7
Inter-segment elimination	(3.3)	(3.6)	(3.1)	(3.0)
	100.0%	100.0%	100.0%	100.0%

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

Contract Type	Three Months Ended		Nine Months Ended	
	June 30, 2013	July 1, 2012	June 30, 2013	July 1, 2012
Fixed-price	42.1%	38.8%	41.1%	39.2%
Time-and-materials	39.1	42.9	40.4	41.3
Cost-plus	18.8	18.3	18.5	19.5

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100.0%

100.0%

100.0%

100.0%

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

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

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

## ACQUISITIONS AND DIVESTITURES

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

On December 31, 2012, the first day of our fiscal 2013 second quarter, we acquired AEG, a solid waste management specialist headquartered in Richfield, Ohio. AEG provides environmental, design, construction and maintenance services primarily to solid and hazardous waste, environmental, energy and utility clients. On January 28, 2013, we acquired Parkland, headquartered in Alberta, Canada. Parkland serves the oil and gas industry in Western Canada, and specializes in the technical support, engineering support and construction of pipelines and oilfield facilities. AEG and Parkland are both included in our RCM segment. We also made other acquisitions that enhanced our service offerings and expanded our geographic presence in our ECS segment in the first half of fiscal 2013, and in our ECS and TSS segments in fiscal 2012 (see Note 4, Mergers and Acquisitions for further discussion).

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



**OVERVIEW OF RESULTS AND BUSINESS TRENDS**

*General.* In the third quarter of fiscal 2013, our revenue declined compared to the same period last year and we reported a net loss for the quarter. Our financial results were adversely impacted by weakness in our Eastern Canada and global mining operations, and we incurred significant costs to right-size these businesses. We also incurred significant charges on certain projects this quarter that further reduced revenue and earnings. To a lesser extent, we experienced an expected decline in revenue from U.S. federal government programs as uncertainty regarding the U.S. federal budget continued to delay project funding in the current fiscal year. Our earnings were also negatively affected by a non-cash goodwill impairment charge.

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*Impact of Recent Business Environment.* Current economic conditions have been somewhat volatile, and there is increased ambiguity as to whether the U.S. or the global economy will grow modestly or remain stagnant. The uncertainty regarding the U.S. federal budget and the impact of tax increases has added to the doubt regarding economic conditions generally. These conditions have been, and could continue to be, negatively impacted by mandatory federal budget reductions, or sequestrations, that became effective in our fiscal second quarter. In addition, concerns over these conditions appear to be restraining business owners from making the significant investment commitments needed to fund future growth.

In Eastern Canada, poor economic conditions, including budget deficits, reduced customer spending and an ongoing government investigation into political corruption in Quebec, have slowed procurements and business activity in that region. As a result, we experienced weaker than expected financial performance in our Eastern Canadian operations during the third quarter of fiscal 2013 and we took actions to right-size the business that resulted in significant severance and office closure charges.

Our work for mining customers also slowed more than expected during the third quarter of fiscal 2013 as these customers responded to lower global growth expectations. This was driven in large part by China's report in April 2013 of slower economic growth in the first quarter of 2013. As a result, our mining customers experienced a significant reduction in the global demand for commodities that caused a drop in mineral prices. Due to the subsequent slowdown in mining activities, we right-sized our global mining business by reducing staff and closing offices in the third quarter of fiscal 2013.

These events exacerbated negative business trends and adversely impacted our related operations. Consequently, we recorded a non-cash goodwill impairment charge this quarter. Persistent negative market conditions and financial results could result in additional goodwill impairment.

With these trends and overall uncertainty, it is difficult to confidently predict the future direction in which the U.S. and global economies are headed. Strong economic expansion generally benefits our business while a tepid financial recovery could adversely impact demand for our services. It is not possible to predict with certainty whether or when a recovery may occur, or what impact this would have on our business, results of operations, cash flows or financial condition.

*International.* For the first nine months of fiscal 2013, our international business grew 7.9% compared to the year-ago period. The growth was driven by the continued expansion of our services to the oil and gas industry, primarily as a result of acquisitions. We expect that our international business will continue its growth during fiscal 2013 as a result of our continued expansion in Canada and South America, and demand for our services from our largest industrial clients worldwide. However, this growth is expected to be tempered by anticipated reductions in our Eastern Canada and global mining operations.

*U.S. Commercial.* Our U.S. commercial business declined 2.9% in the first nine months of fiscal 2013 compared to the year-ago period. This decline resulted from a project charge to revenue during the third quarter of fiscal 2013. Excluding this charge, our U.S. commercial business was flat compared to last year. We experienced growth in many of our service offerings, including increased activity for oil and gas clients that generates relatively high profit margins. In addition, our solid waste management operations increased, primarily due to an acquisition in fiscal 2013. The increased activity was offset by delays in infrastructure capital spending by several U.S. commercial clients in reaction to economic uncertainty. Although we expect some economic weakness may continue in certain sectors of our U.S. commercial business, we are cautiously optimistic regarding increased spending by our energy-focused clients, particularly in oil and gas. As such, we expect that our U.S. commercial business will grow in fiscal 2013. Our U.S. commercial clients typically react rapidly to economic change. Accordingly, if the U.S. economy

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experiences a slowdown or pickup in the remainder of fiscal 2013, we would expect our U.S. commercial outlook to change accordingly.

*U.S. Federal Government.* For the first nine months of fiscal 2013, our U.S. federal business declined 19.2% compared to the year-ago period. This decline resulted from a broad-based slowdown of U.S. federal government programs due in part to the impact of the sequestration, and reduced activities on certain construction and discretionary programs. Significant project-related charges to revenue in the third quarter of fiscal 2013 further reduced revenue this quarter. During periods of economic volatility, our U.S. federal government clients have historically been the most stable and predictable. However, due to the U.S. federal budget uncertainties and the effect of sequestration, we remain cautious.

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*U.S. State and Local Government.* For the first nine months of fiscal 2013, our U.S. state and local government business increased 20.4%. This growth was driven by increased revenue from essential programs. Many state and local government agencies are now experiencing improved financial conditions compared to recent years. Simultaneously, states are facing major long-term infrastructure needs, including the need for maintenance, repair and upgrading of existing critical infrastructure and the need to build new facilities. The funding risks associated with our U.S. state and local government programs are partially mitigated by legal requirements that drive some of these programs, such as regulatory-mandated consent decrees. As a result, some programs will progress despite budget pressures as demonstrated by the growth in fiscal 2012 and the first nine months of fiscal 2013. Although we anticipate that many state and local government agencies will continue to face economic challenges, we expect our U.S. state and local government business to continue its growth in fiscal 2013 compared to fiscal 2012 because of our focus on essential programs.

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

	June 30, 2013	Three Months Ended July 1, 2012	Change \$	%	June 30, 2013	Nine Months Ended July 1, 2012	Change \$	%
	(\$ in thousands)							
Revenue	\$ 614,835	\$ 684,698	\$ (69,863)	(10.2)%	\$ 1,915,379	\$ 1,991,670	\$ (76,291)	(3.8)%
Subcontractor costs	(139,693)	(167,832)	28,139	16.8	(422,092)	(505,855)	83,763	16.6
Revenue, net of subcontractor costs(1)	475,142	516,866	(41,724)	(8.1)	1,493,287	1,485,815	7,472	0.5
Other costs of revenue	(469,398)	(419,140)	(50,258)	(12.0)	(1,314,219)	(1,215,391)	(98,828)	(8.1)
Selling, general and administrative expenses	(56,744)	(53,210)	(3,534)	(6.6)	(151,539)	(154,487)	2,948	1.9
Contingent consideration fair value adjustments	7,716	1,745	5,971	342.2	8,662	1,959	6,703	342.2
Impairment of goodwill (2)	(56,600)		(56,600)	NM	(56,600)		(56,600)	NM
Operating (loss) income	(99,884)	46,261	(146,145)	(315.9)	(20,409)	117,896	(138,305)	(117.3)
Interest expense - net	(2,010)	(1,419)	(591)	(41.6)	(5,330)	(4,182)	(1,148)	(27.5)
(Loss) income before income tax expense	(101,894)	44,842	(146,736)	(327.2)	(25,739)	113,714	(139,453)	(122.6)
Income tax (benefit) expense	23,779	(15,674)	39,453	251.7	(1,108)	(39,522)	38,414	97.2
Net (loss) income including noncontrolling interests	(78,115)	29,168	(107,283)	(367.8)	(26,847)	74,192	(101,039)	(136.2)
Net income attributable to noncontrolling interests	(270)	(114)	(156)	(136.8)	(495)	(244)	(251)	(102.9)
	\$ (78,385)	\$ 29,054	\$ (107,439)	(369.8)	\$ (27,342)	\$ 73,948	\$ (101,290)	(137.0)

Net (loss) income  
attributable to  
Tetra Tech

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

In the third quarter of fiscal 2013, our revenue and operating income were adversely impacted by weakness in certain areas of our business that resulted in reduced revenue, significant costs to right-size the related operations, and a non-cash goodwill impairment charge. In addition, we recorded project-related charges and adjustments to estimated costs at completion during the quarter that reduced revenue and increased project costs. As a result of these factors, in the third quarter of fiscal 2013, revenue and revenue, net of subcontractor costs, decreased \$69.9 million, or 10.2%, and \$41.7 million, or 8.1%, compared to the third quarter of last year. In the first nine months of fiscal 2013, revenue decreased \$76.3 million, or 3.8%, and revenue, net of subcontractor costs, increased \$7.5 million, or less than 1%, compared to the same period last year.

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The project charges that reduced revenue in the third quarter of fiscal 2013 primarily related to adverse developments on certain projects during the third quarter, and our subsequent evaluations and conclusions concerning the collectability of the related unbilled accounts receivable. These charges included amounts related to claims, including requests for equitable adjustment, on three programs in the RCM segment with U.S. federal and state and local government clients. In addition, we recorded a project-related charge on a commercial development contract in the TSS segment due to a change in client ownership and the related modification of plans for completion of the project. These events adversely affected the collectability of certain related receivables and the profitability expectations for the project. Collectively, the project charges on these four programs reduced revenue and revenue, net of subcontractor costs, by \$29.6 million in the third quarter of fiscal 2013.

Our results this quarter also reflected the declines in our Eastern Canada and global mining activities as previously discussed. Revenue and revenue, net of subcontractor costs, on a combined basis for these operations decreased \$37.5 million and \$31.6 million, respectively, in third quarter of fiscal 2013 compared to last year's third quarter. On a year-to-date basis, these declines were \$59.2 million and \$44.8 million, respectively, compared to the same period last year. We also experienced a broad-based slowdown in our U.S. federal government programs due to budgetary constraints, including the impact of sequestration.

The weakness in our Eastern Canada, global mining and U.S. federal government operations was partially offset by increased activity on certain U.S. state and local government projects that were considered essential programs. Our revenue and revenue, net of subcontractor costs, from these activities increased \$15.0 million and \$8.8 million, respectively, in the third quarter of fiscal 2013, and increased \$47.8 million and \$36.5 million, respectively, in the first nine months of fiscal 2013, compared to the same periods last year. Acquisitions completed in fiscal 2012 and 2013 contributed additional revenue of \$47.6 million and \$131.6 million to the third quarter and first nine months of fiscal 2013, respectively.

We reported operating losses of \$99.9 million and \$20.4 million, respectively, in the third quarter and first nine months of fiscal 2013, respectively. These losses included a non-cash goodwill impairment charge of \$56.6 million in the third quarter of fiscal 2013. Excluding this charge, our operating loss was \$43.3 million in the third quarter and our operating income was \$36.2 million in the first nine months of fiscal 2013. These results compare to operating income of \$46.3 million in the third quarter and \$117.9 million in the first nine months of last year. The \$89.5 million decline in quarterly operating income, excluding goodwill impairment, from last year's third quarter was primarily due to project-related charges and adjustments to estimated costs at completion, as well as the slowdown in our Eastern Canada and global mining operations. The project-related charges and adjustments to estimated costs at completion on the four programs described above collectively reduced operating income by \$35.5 million in the third quarter of fiscal 2013. In addition, the weaker results in our Eastern Canada and global mining operations and the resulting charges to right-size these businesses, as described above, caused a reduction of \$28.2 million in operating income in the third quarter of fiscal 2013. These right-sizing costs are not expected to recur at this level. However, the lower level of revenue, which had a lesser impact on operating income, is expected to continue in the near term.

The decline in operating income also reflected the higher amortization of intangibles of \$2.7 million in the third quarter of fiscal 2013 compared to the year-ago quarter. The decline was partially offset by \$7.7 million of gains related to changes in the estimated fair value of our contingent earn-out liabilities in the third quarter of fiscal 2013 compared to \$1.7 million of such gains in the same period last year.

In the third quarter of fiscal 2013, we recorded \$23.8 million of income tax benefit compared to \$15.7 million of income tax expense for the same period last year. For the nine-month period, our income tax expense was \$1.1 million compared to \$39.5 million for the same period last year. Our income tax expense decreased primarily due to operating losses for both periods. Additionally, we recorded an approximately \$35 million goodwill impairment charge during the third quarter of fiscal 2013 that was not deductible for tax purposes. To a lesser extent, the decreases resulted from increased estimates of R&E credits for fiscal 2013. For the first nine months of fiscal 2013, our effective tax rate was (4.3%) compared to 34.8% for the same period last year.



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

	June 30, 2013	Three Months Ended July 1, 2012	Change \$	% (\$ in thousands)	June 30, 2013	Nine Months Ended July 1, 2012	Change \$	%
Revenue	\$ 251,239	\$ 296,995	\$ (45,756)	(15.4)%	\$ 788,600	\$ 856,050	\$ (67,450)	(7.9)%
Subcontractor costs	(28,696)	(42,527)	13,831	32.5	(99,289)	(125,676)	26,387	21.0
Revenue, net of subcontractor costs(1)	\$ 222,543	\$ 254,468	\$ (31,925)	(12.5)	\$ 689,311	\$ 730,374	\$ (41,063)	(5.6)
Operating (loss) income	\$ (7,700)	\$ 27,124	\$ (34,824)	(128.4)	\$ 22,793	\$ 70,075	\$ (47,282)	(67.5)

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

Revenue declined \$45.8 million and \$67.5 million, respectively, in the third quarter and first nine months of fiscal 2013 compared with the same periods of fiscal 2012. We experienced corresponding declines in revenue, net of subcontractor costs, of \$31.9 million and \$41.1 million, respectively, in the third quarter and first nine months of fiscal 2013. These results reflected the decline in our Canadian operations that are focused on municipal government and mining activities, as well as in our U.S. operations that are focused on federal government and mining-related business. The aggregate revenue and revenue, net of subcontractor costs, from these operations was \$37.5 million and \$31.6 million lower, respectively, in the third quarter of fiscal 2013 than in the same period last year. On a year-to-date basis, the declines were \$59.2 million and \$44.8 million, respectively.

Our operating income decreased \$34.8 million and \$47.3 million, respectively, in the third quarter and first nine months of fiscal 2013 compared with the same periods of fiscal 2012, resulting in an operating loss for the quarter. The loss was primarily attributable to the causes described above, and also resulted from lower staff utilization, as well as severance and office-related closure costs of \$10.3 million in the third quarter of fiscal 2013. Including these right-sizing costs, the combined reduction in operating income from our Eastern Canada and mining operations was \$28.2 million for the quarter and \$43.8 million year-to-date compared to the same periods last year.

*Technical Support Services*

	June 30, 2013	Three Months Ended July 1, 2012	Change \$	% (\$ in thousands)	June 30, 2013	Nine Months Ended July 1, 2012	Change \$	%
Revenue	\$ 221,198	\$ 258,435	\$ (37,237)	(14.4)%	\$ 687,230	\$ 762,897	\$ (75,667)	(9.9)%
Subcontractor costs	(68,301)	(83,682)	15,381	18.4	(200,470)	(248,743)	48,273	19.4
Revenue, net of subcontractor costs(1)	\$ 152,897	\$ 174,753	\$ (21,856)	(12.5)	\$ 486,760	\$ 514,154	\$ (27,394)	(5.3)



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Operating income	\$	5,118	\$	20,658	\$	(15,540)	(75.2)	\$	49,723	\$	57,602	\$	(7,879)	(13.7)
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(1) Represents a non-GAAP financial measure. For more information, see the Consolidated Results of Operations discussion above.

Revenue and revenue, net of subcontractor costs, declined \$37.2 million and \$21.9 million, respectively, in the third quarter of fiscal 2013 compared with the third quarter of last year. For the first nine months of fiscal 2013, revenue and revenue, net of subcontractor costs, declined \$75.7 million and \$27.4 million, respectively, compared with the same period of fiscal 2012. These declines were driven by a \$12.4 million negative revenue adjustment related to a project charge on a U.S. commercial development project. This charge was due to a change in client ownership and the related modification in completion plans for the project. These events adversely affected the collectability of certain related receivables and profitability expectations for the project. The remaining revenue declines were primarily attributable to lower revenue from U.S. federal government programs across several agencies. Revenue and revenue, net of subcontractor costs, from these programs decreased by \$40.8 million and \$15.0 million, respectively, for the third quarter of fiscal 2013, and by \$100.6 million and \$36.0 million, respectively, on a year-to-date basis compared to the same periods last year. The decline in U.S. federal government activity was partially offset by the growth in our work for oil and gas clients. We generated \$11.2 million and \$27.8 million of revenue in the third quarter and first nine months of fiscal 2013, respectively, compared to \$2.4 million in both comparable periods last year, from a company acquired in the third quarter of fiscal 2012 that performs oil and gas services.

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Our operating income decreased \$15.5 million and \$7.9 million in the third quarter and first nine months of fiscal 2013, respectively, compared with the same periods of fiscal 2012. The project charge and reduction in U.S. federal government revenue as described above were the primary drivers for the reduced operating income in the third quarter and year-to-date.

**Remediation and Construction Management**

	June 30,		Three Months Ended		June 30,		Nine Months Ended		Change	
	2013	2012	July 1,	Change	2013	July 1,	Change			
			2012	\$		2012	\$		%	
	(\$ in thousands)									
Revenue	\$ 162,560	\$ 153,826	\$ 8,734	5.7%	\$ 499,491	\$ 432,043	\$ 67,448	15.6%		
Subcontractor costs	(62,858)	(66,181)	3,323	5.0	(182,275)	(190,756)	8,481	4.4		
Revenue, net of subcontractor costs(1)	\$ 99,702	\$ 87,645	\$ 12,057	13.8	\$ 317,216	\$ 241,287	\$ 75,929	31.5		
Operating (loss) income	\$ (35,285)	\$ 6,184	\$ (41,469)	(670.6)	\$ (14,109)	\$ 16,073	\$ (30,182)	(187.8)		

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

Revenue and revenue, net of subcontractor costs, increased \$8.7 million and \$12.1 million, respectively, in the third quarter, and \$67.4 million and \$75.9 million, respectively, in the first nine months of fiscal 2013 compared with the same periods last year. The increases in revenue and revenue, net of subcontractor costs, are attributable to additional work in our U.S. commercial and international oil and gas businesses that resulted from the acquisitions we completed in the second quarter of fiscal 2013. On a combined basis, these acquisitions contributed revenue of \$40.3 million in the third quarter of fiscal 2013 and \$107.8 million year-to-date. In addition, we recorded increased revenue on commercial remediation and state transportation projects.

However, project-related charges on certain programs reduced third quarter and year-to-date fiscal 2013 revenue and revenue, net of subcontractor costs, by \$17.3 million. These project charges in the third quarter of fiscal 2013 related to adverse changes in the estimated collectability of unbilled accounts receivable and estimated costs at completion. These included claims, including requests for equitable adjustment on three programs in the RCM segment with U.S. federal and state and local government clients. Our operating losses were \$35.3 million and \$14.1 million, respectively, for the third quarter and first nine months of fiscal 2013. The project-related charges to revenue described above contributed \$23.1 million to the operating loss. The remaining loss in the third quarter was due to decreased utilization of labor and equipment resources related to decreased revenue.

**Non-GAAP Financial Measures**

We are providing certain non-GAAP financial measures that we believe are appropriate for evaluating the operating performance of our business. These non-GAAP measures should not be considered in isolation from, and are not intended to represent an alternative measure of, operating results or cash flows from operating activities, as determined in accordance with U.S. GAAP.

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EBITDA represents net income (loss) attributable to Tetra Tech plus net interest expense, income taxes, depreciation and amortization. We believe EBITDA is a useful representation of our operating performance because of significant amounts of acquisition-related non-cash amortization expense, which can fluctuate significantly depending on the timing, nature and size of our business acquisitions. Revenue, net of subcontractor costs, is defined as revenue less subcontractor costs. For more information, see the Consolidated Results of Operations discussion above. EBITDA and revenue, net of subcontractor costs, as we calculate them, may not be comparable to similarly titled measures employed by other companies.

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The following is a reconciliation of EBITDA to net income attributable to Tetra Tech as well as revenue, net of subcontractor costs:

	Three Months Ended		Nine Months Ended	
	June 30, 2013	July 1, 2012	June 30, 2013	July 1, 2012
	(in thousands)			
Net (loss) income attributable to Tetra Tech	\$ (78,385)	\$ 29,054	\$ (27,342)	\$ 73,948
Interest expense, net	2,010	1,419	5,330	4,182
Depreciation (1)	8,090	6,077	22,420	19,657
Amortization (1)	9,555	6,901	24,239	22,083
Income tax expense	(23,779)	15,674	1,108	39,522
EBITDA	\$ (82,509)	\$ 59,125	\$ 25,755	\$ 159,392
Revenue	\$ 614,835	\$ 684,698	\$ 1,915,379	\$ 1,991,670
Subcontractor costs	(139,693)	(167,832)	(422,092)	(505,855)
Revenue, net of subcontractors costs	\$ 475,142	\$ 516,866	\$ 1,493,287	\$ 1,485,815

- (1) The total of depreciation and amortization expenses is different from the amounts on the condensed consolidated statements of cash flows, which include amortization of deferred debt costs.

**Financial Condition, Liquidity and Capital Resources**

*Capital Requirements.* Our capital requirements are to fund working capital needs, capital expenditures, repurchases of stock under our Stock Repurchase Program and debt service requirements, as well as to fund acquisitions and earn-out obligations from prior acquisitions. We believe that our cash balances, operating cash flow and available borrowing under our Amended Credit Agreement will be sufficient to meet our capital requirements for at least the next 12 months.

We utilize a variety of tax planning and financing strategies to manage our worldwide cash and deploy funds to locations where they are needed. We also indefinitely reinvest a significant portion of our foreign earnings, and our current plans do not demonstrate a need to repatriate these earnings. Should we require additional capital in the U.S., we may elect to repatriate indefinitely reinvested foreign funds or raise capital in the U.S. through debt. If we were to repatriate indefinitely reinvested foreign funds, we would be required to accrue and pay additional U.S. taxes less applicable foreign tax credits.

*Operating Activities.* For the nine-month period ended June 30, 2013, net cash provided by operating activities was \$115.3 million, a decrease of \$12.9 million compared to the prior-year period. The decrease was due to lower EBITDA as a result of operating losses in the third quarter of fiscal 2013. Additionally, the decrease resulted from changes in accounts payable, accrued compensation, prepaid expenses and other assets, income tax payables, and billings in excess of costs on uncompleted contracts caused by the timing of payments to vendors, subcontractors and employees. The overall decrease was partially mitigated by a favorable change in accounts receivable due to the timing of cash collections.

*Investing Activities.* For the nine-month period ended June 30, 2013, net cash used in investing activities was \$187.2 million, an increase of \$119.9 million compared to the prior-year period. The increase resulted from net cash payments related to business acquisitions completed

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during the first nine months of fiscal 2013. Additionally, our capital expenditures were \$20.5 million, an increase of \$5.6 million compared to the prior-year period. New equipment was purchased to replace obsolete equipment and satisfy requirements for project execution.

*Financing Activities.* For the nine-month period ended June 30, 2013, net cash provided by financing activities was \$115.7 million, compared to net cash used in financing activities of \$12.3 million in the prior-year period. Our borrowings under our Amended Credit Agreement increased \$243.5 million due to the funding of our business acquisitions, working capital needs and contingent earn-outs. The net cash provided by financing activities was partially offset by increases of \$107.0 million in repayments of long-term debt and \$6.0 million in contingent earn-out payments compared to the prior-year period.

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*Debt Financing.* At March 31, 2013, we had a credit agreement that provided for a \$460 million five-year revolving credit facility that matured in March 2016. On May 7, 2013, we entered into the Amended Credit Agreement and refinanced the indebtedness under the prior credit agreement. The Amended Credit Agreement is a \$665 million senior secured, five-year facility that provides for a \$205 million Term Loan Facility and a \$460 million Revolving Credit Facility. The Amended Credit Agreement allows us to, among other things, finance certain permitted open market repurchases of our common stock, permitted acquisitions, and cash dividends and distributions. The Revolving Credit Facility includes a \$200 million sublimit for the issuance of standby letters of credit, a \$20 million sublimit for swingline loans, and a \$150 million sublimit for multicurrency borrowings and letters of credit.

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

As of June 30, 2013, we had \$209.8 million in borrowings outstanding under the Amended Credit Agreement for both the Term Loan Facility and Revolving Credit Facility at a weighted-average interest rate of 1.93% per annum and \$13.6 million in standby letters of credit. The borrowings outstanding at June 30, 2013 consisted of \$205 million under the Term Loan Facility and \$4.8 million under the Revolving Credit Facility. The borrowings under the Revolving Credit Facility were multicurrency borrowings. At June 30, 2013, we had \$441.6 million of available credit under the Revolving Credit Facility, of which \$97.5 million could be borrowed without a violation of our debt covenants. We are in the process of amending certain covenants to enable access to the entire Revolving Credit Facility. In addition, we entered into agreements with three banks to issue up to \$40 million in standby letters of credit. The aggregate amount of standby letters of credit outstanding under these additional facilities was \$5.5 million, of which \$5.4 million was issued in currencies other than the U.S. dollar.

The Amended Credit Agreement contains certain affirmative and restrictive covenants, and customary events of default. The financial covenants provide for a maximum Consolidated Leverage Ratio of 2.50 to 1.00 (total funded debt/EBITDA, as defined in the Amended Credit Agreement) and a minimum Consolidated Fixed Charge Coverage Ratio of 1.25 to 1.00 (EBITDA, as defined in the Amended Credit Agreement minus capital expenditures/cash interest plus taxes plus principal payments of indebtedness including capital leases, notes and post-acquisition payments). At June 30, 2013, we were in compliance with these covenants with a consolidated leverage ratio of 1.91x and a consolidated fixed charge coverage ratio of 1.41x. Our obligations under the Amended Credit Agreement are guaranteed by certain of our subsidiaries and are secured by first priority liens on (i) the equity interests of certain of our subsidiaries, including those subsidiaries that are guarantors or borrowers under the Amended Credit Agreement, and (ii) our accounts receivable, general intangibles and intercompany loans, and those of our subsidiaries that are guarantors or borrowers.

*Inflation.* We believe our operations have not been, and, in the foreseeable future, are not expected to be, materially adversely affected by inflation or changing prices due to the average duration of our projects and our ability to negotiate prices as contracts end and new contracts begin.

**Income Taxes**

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

- taxable income in prior carryback years as permitted under the tax law;
- future reversals of existing taxable temporary differences;

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- consideration of available tax planning strategies and actions that could be implemented, if necessary; and
- estimates of future taxable income from our operations.

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

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

**Off-Balance Sheet Arrangements**

In the ordinary course of business, we may use off-balance sheet arrangements if we believe that such an arrangement would be an efficient way to lower our cost of capital or help us manage the overall risks of our business operations. We do not believe that such arrangements have had a material adverse effect on our financial position or our results of operations.

The following is a summary of our off-balance sheet arrangements as of June 30, 2013:

- Letters of credit and bank guarantees are used primarily to support project performance and insurance programs. We are required to reimburse the issuers of letters of credit and bank guarantees for any payments they make under the outstanding letters of credit or bank guarantees. Our Amended Credit Agreement and additional letter of credit facilities cover the issuance of our standby letters of credit and bank guarantees and are critical for our normal operations. If we default on the Amended Credit Agreement or additional credit facilities, our inability to issue or renew standby letters of credit and bank guarantees would impair our ability to maintain normal operations. We had \$13.6 million in standby letters of credit outstanding under our Amended Credit Agreement and \$5.2 million in standby letters of credit outstanding under our additional letter of credit facilities.
- We have guaranteed a bank overdraft facility at one of our foreign affiliates in the amount of \$0.6 million.



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- From time to time, we provide guarantees and indemnifications related to our services. If our services under a guaranteed or indemnified project are later determined to have resulted in a material defect or other material deficiency, then we may be responsible for monetary damages or other legal remedies. When sufficient information about claims on guaranteed or indemnified projects is available and monetary damages or other costs or losses are determined to be probable, we recognize such guaranteed losses.
  
- In the ordinary course of business, we enter into various agreements as part of certain unconsolidated subsidiaries, joint ventures, and other jointly executed contracts where we are jointly and severally liable. We enter into these agreements primarily to support the project execution commitments of these entities. The potential payment amount of an outstanding performance guarantee is typically the remaining cost of work to be performed by or on behalf of third parties under engineering and construction contracts. However, we are not able to estimate other amounts that may be required to be paid in excess of estimated costs to complete contracts and, accordingly, the total potential payment amount under our outstanding performance guarantees cannot be estimated. For cost-plus contracts, amounts that may become payable

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pursuant to guarantee provisions are normally recoverable from the client for work performed under the contract. For lump sum or fixed-price contracts, this amount is the cost to complete the contracted work less amounts remaining to be billed to the client under the contract. Remaining billable amounts could be greater or less than the cost to complete. In those cases where costs exceed the remaining amounts payable under the contract, we may have recourse to third parties, such as owners, co-venturers, subcontractors or vendors, for claims.

- In the ordinary course of business, our clients may request that we obtain surety bonds in connection with contract performance obligations that are not required to be recorded in our condensed consolidated balance sheets. We are obligated to reimburse the issuer of our surety bonds for any payments made thereunder. Each of our commitments under performance bonds generally ends concurrently with the expiration of our related contractual obligation.

**Critical Accounting Policies**

Our critical accounting policies are disclosed in our Annual Report on Form 10-K for the fiscal year ended September 30, 2012. To date, there have been no material changes in our critical accounting policies as reported in our 2012 Annual Report on Form 10-K.

**New Accounting Pronouncements**

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

**Financial Market Risks**

We do not enter into derivative financial instruments for trading or speculation purposes. In the normal course of business, we have exposure to both interest rate risk and foreign currency transaction and translation risk, primarily related to the CAD.

We are exposed to interest rate risk under our Amended Credit Agreement. We can borrow, at our option, for both the Term Loan Facility and Revolving Credit Facility. We may borrow on the Revolving Credit Facility, at our option, at either (a) a Eurocurrency rate plus a margin that ranges from 1.15% to 2.00% per annum, or (b) a base rate for loans in U.S. dollars (the highest of the U.S. federal funds rate plus 0.50% per annum, the bank's prime rate or the Eurocurrency rate plus 1.00%) plus a margin that ranges from 0.15% to 1.00% per annum. Borrowings at the base rate have no designated term and may be repaid without penalty any time prior to the Facility's maturity date. Borrowings at a Eurodollar rate have a term no less than 30 days and no greater than 90 days. Typically, at the end of such term, such borrowings may be rolled over at our discretion into either a borrowing at the base rate or a borrowing at a Eurodollar rate with similar terms, not to exceed the maturity date of the Facility. The Facility matures on May 7, 2018. At June 30, 2013 we had borrowings outstanding under the Amended Credit Agreement of \$209.8 million at a weighted average interest rate of 1.93%, of which \$205 million was outstanding under the Term Loan Facility, and \$4.8 million was outstanding under the Revolving Credit Facility.

Most of our transactions are in U.S. dollars; however, some of our subsidiaries conduct business in foreign currencies, primarily the CAD. Therefore, we are subject to currency exposure and volatility because of currency fluctuations. We attempt to minimize our exposure to these fluctuations by matching revenue and expenses in the same currency for our contracts. For the three and nine months ended June 30, 2013, we recognized foreign currency losses of \$0.5 million and \$0.6 million, respectively, compared to a loss of \$0.1 million and a gain of \$0.1 million for the prior-year periods. Foreign currency gains and losses were recognized as part of SG&A expenses in our condensed consolidated statements of operations.

We have foreign currency exchange rate exposure in our results of operations and equity primarily as a result of the currency translation related to our Canadian subsidiaries where the local currency is the functional currency. To the extent the U.S. dollar strengthens against the CAD, the translation of these foreign currency denominated transactions will result in reduced revenue, operating expenses, assets and liabilities. Similarly, our revenue, operating expenses, assets and liabilities will increase if the U.S. dollar weakens against the CAD. For the first nine months of fiscal 2013 and 2012, 27.3% and 24.3% of our consolidated revenue, respectively, was generated by our international business, and such revenue was primarily denominated in CAD. For the first nine months of fiscal 2013, the effect of foreign exchange rate translation on the condensed consolidated balance sheets was a reduction in equity of \$40.2 million compared to an increase in equity of \$13.0 million in the first nine months of fiscal 2012. These amounts were recognized as an adjustment to equity through other comprehensive income.

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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 CAD and has a fixed rate of interest payable in CAD. In the second quarter of fiscal 2010, we entered into a forward contract for CAD \$4.2 million (equivalent to U.S. \$3.9 million at the date of inception) that matured on January 28, 2013. In the third quarter of fiscal 2011, we entered into a forward contract for CAD \$4.2 million (equivalent to U.S. \$4.2 million at the date of inception) with a maturity date of January 27, 2014. Our objective was to eliminate variability of our cash flows on the amount of interest income we receive on the promissory note from changes in foreign currency exchange rates. In the second quarter of fiscal 2013, we settled one of the foreign currency forward contracts for U.S. \$3.9 million and terminated the remaining forward contract. As a result, we recognized an immaterial gain in our condensed consolidated statements of operations for the period. For more information, see Note 11, Fair Value Measurements of the Notes to Condensed Consolidated Financial Statements .

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

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

**Item 4. Controls and Procedures**

**Evaluation of disclosure controls and procedures and changes in internal control over financial reporting.** As of June 30, 2013, we carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures. Based on our management's evaluation (with the participation of our principal executive officer and principal financial officer), our principal executive officer and principal financial officer have concluded that, as of the end of the period covered by this report, our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act), were effective.

**Changes in internal control over financial reporting.** There was no change in our internal control over financial reporting during our third quarter of fiscal 2013 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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**PART II. OTHER INFORMATION**

**Item 1. Legal Proceedings**

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

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

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

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

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

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

On June 28, 2013, a purported class action lawsuit was filed against Tetra Tech and two of our officers in United States District Court for the Central District of California. The action was purportedly brought on behalf of purchasers of our publicly traded securities between May 3,

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2012 and June 18, 2013. The complaint alleges generally that we and those officers violated Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and related rules because we allegedly failed to take unspecified, necessary charges to our accounts receivables and earnings during the class period. In addition, the complaint alleges that the financial guidance we offered during the class period was intentionally or recklessly false and misleading. The complaint alleges unspecified damages based on the decline in the market price of our shares following the issuance of revised guidance on June 18, 2013. We believe the complaint is without merit and intend to defend the case vigorously.

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

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**Item 1A. Risk Factors**

*We operate in a changing environment that involves numerous known and unknown risks and uncertainties that could materially adversely affect our operations. Set forth below and elsewhere in this report and in other documents we file with the SEC are descriptions of the risks and uncertainties that could cause our actual results to differ materially from the results contemplated by the forward-looking statements contained in this report. The descriptions below include any material changes to and supersede the description of the risk factors affecting our business previously disclosed in Part I, Item 1A. Risk Factors of our Annual Report on Form 10-K for the fiscal year ended September 30, 2012. Additional risks we do not yet know of or that we currently think are immaterial may also affect our business operations. If any of the events or circumstances described in the following risks actually occurs, our business, financial condition or results of operations could be materially adversely affected.*

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

General worldwide economic conditions have experienced a downturn due to the reduction of available credit, slower economic activity, concerns about inflation and deflation, increased energy and commodity costs, decreased consumer confidence and capital spending, adverse business conditions, and, in the United States, the negative impact on economic growth resulting from the combination of federal income tax increases and potential government spending restrictions. These conditions make it extremely difficult for our clients and our vendors to accurately forecast and plan future business activities and could cause businesses to slow spending on services, and they have also made it very difficult for us to predict the short-term and long-term impacts on our business. We cannot predict the timing, strength or duration of any economic slowdown or subsequent economic recovery worldwide or in our industry. If the economy or markets in which we operate deteriorate from the level experienced in fiscal 2012, our business, financial condition and results of operations may be materially and adversely affected.

**The implementation of the March 1, 2013 budget sequester under the Budget Control Act of 2011 has produced significant uncertainty with respect to future government programs and funding, and could significantly reduce government spending for the services we provide.**

Pursuant to the Budget Control Act of 2011, the U.S. federal government implemented automatic across-the-board spending cuts, known as the sequester, that commenced on March 1, 2013. The sequester will require the elimination of approximately \$85 billion in federal spending during 2013. Our work with agencies and departments of the U.S. federal government, as well as any state government agencies and departments that are funded directly or indirectly by the U.S. federal government, may be impacted by sequestration or as a result of any legislation implemented to end the sequester. Uncertainty among our government customer organizations over the timing and implementation of the sequester is likely to produce delays in the awards of future contracts. There are many variables in how the sequester will be implemented that make it difficult to determine any specific consequences on our business, but the sequester could have a material adverse effect on our business, results of operations and financial condition.

**Our annual revenue, expenses and operating results may fluctuate significantly, which may adversely affect our stock price.**



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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;
- contract negotiations on change orders, requests for equitable adjustment, and collections of related billed and unbilled accounts receivable;
- 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 U.S. federal, state and local government clients;

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- 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;
- loss of key employees;
- the number and significance of client contracts commenced and completed during a quarter;
- creditworthiness and solvency of clients;
- the ability of our clients to terminate contracts without penalties;
- delays incurred in connection with a contract;
- the size, scope and payment terms of contracts;
- the timing of expenses incurred for corporate initiatives;
- reductions in the prices of services offered by our competitors;

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- 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;
- the fluctuation of a foreign currency exchange rate;
- stock-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 condensed consolidated financial statements;
- how well we execute our strategy and operating plans;
- changes in tax laws or regulations or accounting rules;
- results of income tax examinations;
- the timing of announcements in the public markets regarding new services or potential problems with the performance of services by us or our competitors, or any other material announcements;
- speculation in the media and analyst community, changes in recommendations or earnings estimates by financial analysts, changes in investors or analysts valuation measures for our stock and market trends unrelated to our stock; and
- continued volatility in the financial markets.

As a consequence, operating results for a particular future period are difficult to predict and, therefore, prior results are not necessarily indicative of results to be expected in future periods. Any of the foregoing factors, or any other factors discussed elsewhere herein, could have a material

adverse effect on our business, results of operations and financial condition that could adversely affect our stock price.

**Demand from our U.S. state and local government clients and U.S. commercial clients is cyclical and vulnerable to economic downturns. If economic growth slows, government fiscal conditions worsen, or client spending declines further, then our revenue, profits and our financial condition may deteriorate.**

Demand for services from our U.S. state and local government clients and U.S. commercial clients is cyclical and vulnerable to economic downturns, which may result in clients delaying, curtailing or canceling proposed and existing projects. Our business traditionally lags the overall recovery in the economy; therefore, our business may not recover immediately when the economy improves. If economic growth slows, U.S. state or local government fiscal conditions worsen, or client spending declines further, then our revenue, profits and overall

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financial condition may deteriorate. Our U.S. state and local government clients may face budget deficits that prohibit them from funding new or existing projects. In addition, our existing and potential clients may either postpone entering into new contracts or request price concessions. Difficult financing and economic conditions may cause some of our clients to demand better pricing terms or delay payments for services we perform, thereby increasing the average number of days our receivables are outstanding and the potential of increased credit losses of uncollectible invoices. Further, these conditions may result in the inability of some of our clients to pay us for services that we have already performed. If we are not able to reduce our costs quickly enough to respond to the revenue decline from these clients, our operating results may be adversely affected. Accordingly, these factors affect our ability to forecast our future revenue and earnings from business areas that may be adversely impacted by market conditions.

**We derive revenue from companies in the mining industry, which is an historically cyclical industry with levels of activity that are significantly affected by the levels and volatility of prices for commodities. If economic growth slows or global demand for commodities declines further, then our revenue, profits and our financial condition may deteriorate.**

In the third quarter of 2013, we generated approximately 8.1% of our revenue from services performed for mining clients. The businesses of our global mining clients are, to varying degrees, cyclical and have experienced declines over the last year due to lower global growth expectations and the associated decline in market prices. For example, depending on the market prices of uranium, precious metals, aluminum, copper, iron ore and potash, our mining company clients may cancel or curtail their mining projects, which could result in a corresponding decline in the demand for our services among these clients. Accordingly, the cyclicity of the mining market could have a material adverse effect on our business, operating results or financial condition.

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

In the third quarter of 2013, we generated 27.2% of our revenue from U.S. commercial clients. Due to continuing weakness in general economic conditions, our U.S. commercial business may be at risk as we rely upon the financial stability and creditworthiness of our clients. To the extent the credit quality of these clients deteriorates or these clients seek bankruptcy protection, our ability to collect our receivables, and ultimately our operating results, may be adversely affected.

**We derive a substantial amount of our revenue from U.S. federal, state and local government agencies, and any disruption in government funding or in our relationship with those agencies could adversely affect our business.**

In the third quarter of 2013, we generated 47.0% of our revenue from contracts with U.S. federal, state and local government agencies. U.S. federal government agencies are among our most significant clients. We generated 30.6% of our revenue for the third quarter of 2013 from the following agencies: 11.0% from U.S. Department of Defense ( DoD ) agencies, 10.0% from USAID and 9.6% from other U.S. federal government agencies. A significant amount of this revenue is derived under multi-year contracts, many of which are appropriated on an annual basis. As a result, at the beginning of a project, the related contract may be only partially funded, and additional funding is normally committed only as appropriations are made in each subsequent year. These appropriations, and the timing of payment of appropriated amounts, may be influenced by numerous factors as noted below. Our backlog includes only the projects that have funding appropriated.

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

- the failure of the U.S. government to complete its budget process before its fiscal year-end, which results in the funding of government operations by means of a continuing resolution that authorizes agencies to continue to operate but does not authorize new spending initiatives. As a result, U.S. government agencies may delay the procurement of services;

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- changes in and delays or cancellations of government programs, requirements or appropriations;
- budget constraints or policy changes resulting in delay or curtailment of expenditures related to the services we provide;
- re-competes of government contracts;
- the timing and amount of tax revenue received by federal, state and local governments, and the overall level of government expenditures;
- curtailment in the use of government contracting firms;
- delays associated with insufficient numbers of government staff to oversee contracts;
- the increasing preference by government agencies for contracting with small and disadvantaged businesses;
- competing political priorities and changes in the political climate with regard to the funding or operation of the services we provide;
- the adoption of new laws or regulations affecting our contracting relationships with the federal, state or local governments;
- unsatisfactory performance on government contracts by us or one of our subcontractors, negative government audits, or other events that may impair our relationship with the federal, state or local governments;
- a dispute with or improper activity by any of our subcontractors; and
- general economic or political conditions.

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

**As a U.S. government contractor, we must comply with various procurement laws and regulations and are subject to regular government audits; a violation of any of these laws and regulations or the failure to pass a government audit could result in sanctions, contract termination, forfeiture of profit, harm to our reputation or loss of our status as an eligible government contractor and could reduce our profits and revenue.**

We must comply with and are affected by U.S. federal, state, local and foreign laws and regulations relating to the formation, administration and performance of government contracts. For example, we must comply with Federal Acquisition Regulation ( FAR ), the Truth in Negotiations Act, Cost Accounting Standards ( CAS ), the American Recovery and Reinvestment Act of 2009, the Services Contract Act and DoD security regulations, as well as many other rules and regulations. In addition, we must also comply with other government regulations related to employment practices, environmental protection, health and safety, tax, accounting and anti-fraud measures, as well as many others regulations in order to maintain our government contractor status. These laws and regulations affect how we do business with our clients and, in some instances, impose additional costs on our business operations. Although we take precautions to prevent and deter fraud, misconduct and non-compliance, we face the risk that our employees or outside partners may engage in misconduct, fraud or other improper activities. U.S. government agencies, such as the Defense Contract Audit Agency ( DCAA ), routinely audit and investigate government contractors. These government agencies review and audit a government contractor's performance under its contracts and cost structure, and evaluate compliance with applicable laws, regulations and standards. In addition, during the course of its audits, the DCAA may question our incurred project costs. If the DCAA believes we have accounted for such costs in a manner inconsistent with the requirements for FAR or CAS, the DCAA auditor may recommend to our U.S. government corporate administrative contracting officer to disallow such costs. Historically, we have not experienced significant disallowed costs as a result of government audits. However, we can provide no assurance that the DCAA or other government audits will not result in material disallowances for incurred costs in the future. In addition, U.S. government contracts are subject to a variety of other requirements relating to the formation, administration, performance and accounting for these contracts. We may also be subject to *qui tam* litigation brought by private individuals on behalf of the U.S. government under the Federal Civil False Claims Act, which could include claims for treble damages. U.S. government contract violations could result in the imposition of civil and criminal penalties or sanctions, contract termination, forfeiture of profit and/or suspension of payment, any of which could make us lose our status as an eligible government contractor. We could also suffer serious harm to our reputation. Any interruption or termination of our U.S. government contractor status could reduce our profits and revenue significantly.



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**Our inability to win or renew U.S. government contracts during regulated procurement processes could harm our operations and significantly reduce or eliminate our profits.**

U.S. government contracts are awarded through a regulated procurement process. The U.S. federal government has increasingly relied upon multi-year contracts with pre-established terms and conditions, such as indefinite delivery/indefinite quantity ( IDIQ ) contracts, which generally require those contractors who have previously been awarded the IDIQ to engage in an additional competitive bidding process before a task order is issued. As a result, new work awards tend to be smaller and of shorter duration, since the orders represent individual tasks rather than large, programmatic assignments. The increased competition, in turn, may require us to make sustained efforts to reduce costs in order to realize revenue and profits under government contracts. If we are not successful in reducing the amount of costs we incur, our profitability on government contracts will be negatively impacted. In addition, the U.S. federal government has announced its intention to scale back outsourcing of services in favor of insourcing jobs to its employees, which could reduce our revenue. Moreover, even if we are qualified to work on a government contract, we may not be awarded the contract because of existing government policies designed to protect small businesses and underrepresented minority contractors. Our inability to win or renew government contracts during regulated procurement processes could harm our operations and significantly reduce or eliminate our profits.

**Each year, client funding for some of our U.S. government contracts may rely on government appropriations or public-supported financing. If adequate public funding is delayed or is not available, then our profits and revenue could decline.**

Each year, client funding for some of our U.S. government contracts may directly or indirectly rely on government appropriations or public-supported financing. Legislatures may appropriate funds for a given project on a year-by-year basis, even though the project may take more than one year to perform. In addition, public-supported financing such as U.S. state and local municipal bonds may be only partially raised to support existing projects. The outcome of ongoing political debates in Congress regarding cuts to federal government spending could result in reductions in the funding proposed by the Administration for certain projects. The Budget Control Act includes significant reductions in U.S. federal government spending over a 10-year period. Similarly, the impact of the economic downturn on U.S. state and local governments may make it more difficult for them to fund projects. In addition to the state of the economy and competing political priorities, public funds and the timing of payment of these funds may be influenced by, among other things, curtailments in the use of government contracting firms, increases in raw material costs, delays associated with insufficient numbers of government staff to oversee contracts, budget constraints, the timing and amount of tax receipts and the overall level of government expenditures. If adequate public funding is not available or is delayed, then our profits and revenue could decline.

**Our U.S. federal government contracts may give government agencies the right to modify, delay, curtail, renegotiate or terminate existing contracts at their convenience at any time prior to their completion, which may result in a decline in our profits and revenue.**

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

**Our international operations expose us to legal, political and economic risks that could harm our business and financial results. For example, we could be adversely affected by violations of the U.S. Foreign Corrupt Practices Act and similar worldwide anti-bribery laws.**

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In the third quarter of 2013, we generated 25.8% of our revenue from our international operations, primarily in Canada, and from international clients for work that is performed by our domestic operations. International business is subject to a variety of risks, including:

- potential non-compliance with a wide variety of laws and regulations, including anti-corruption and anti-boycott rules, trade and export control regulations, and other international regulations;
- lack of developed legal systems to enforce contractual rights;
- greater risk of uncollectible accounts and longer collection cycles;

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- currency exchange rate fluctuations, devaluations and other conversion restrictions;
- the potential for civil unrest, acts of terrorism and greater physical security risks, which may cause us to leave a country quickly;
- logistical and communication challenges;
- imposition of governmental controls and potentially adverse changes in laws and regulatory practices, including tariffs and taxes;
- changes in labor conditions; and
- general economic, political and financial conditions in foreign markets.

For example, an on-going government investigation into political corruption in Quebec has contributed to the slow-down in procurements and business activity in that province, which has adversely affected our business.

International risks and violations of international regulations may significantly reduce our revenue and profits, and subject us to criminal or civil enforcement actions, including fines, suspensions or disqualification from future U.S. federal procurement contracting.

The U.S. Foreign Corrupt Practices Act ( FCPA ) and similar anti-bribery laws generally prohibit companies and their intermediaries from making improper payments to foreign government officials for the purpose of obtaining or retaining business. The U.K. Bribery Act of 2010 prohibits both domestic and international bribery, as well as bribery across both private and public sectors. In addition, an organization that fails to prevent bribery by anyone associated with the organization can be charged under the U.K. Bribery Act unless the organization can establish the defense of having implemented adequate procedures to prevent bribery. Practices in the local business community of many countries outside the U.S. have a level of government corruption that is greater than that found in the developed world. Our policies mandate compliance with these anti-bribery laws and we have established policies and procedures designed to monitor compliance with these anti-bribery law requirements; however, we cannot ensure that our policies and procedures will protect us from potential reckless or criminal acts committed by individual employees or agents. If we are found to be liable for anti-bribery law violations, we could suffer from criminal or civil penalties or other sanctions that could have a material adverse effect on our business.

**If we fail to complete a project in a timely manner, miss a required performance standard or otherwise fail to adequately perform on a project, then we may incur a loss on that project, which may reduce or eliminate our overall profitability.**

Our engagements often involve large-scale, complex projects. The quality of our performance on such projects depends in large part upon our ability to manage the relationship with our clients and our ability to effectively manage the project and deploy appropriate resources, including third-party contractors and our own personnel, in a timely manner. We may commit to a client that we will complete a project by a scheduled date. We may also commit that a project, when completed, will achieve specified performance standards. If the project is not completed by the scheduled date or fails to meet required performance standards, we may either incur significant additional costs or be held responsible for the costs incurred by the client to rectify damages due to late completion or failure to achieve the required performance standards. The uncertainty of the timing of a project can present difficulties in planning the amount of personnel needed for the project. If the project is delayed or canceled, we may bear the cost of an underutilized workforce that was dedicated to fulfilling the project. In addition, performance of projects can be affected by a number of factors beyond our control, including unavoidable delays from government inaction, public opposition, inability to obtain financing, weather conditions, unavailability of vendor materials, changes in the project scope of services requested by our clients, industrial accidents, environmental hazards, labor disruptions and other factors. To the extent these events occur, the total costs of the project could exceed our estimates, and we could experience reduced profits or, in some cases, incur a loss on a project, which may reduce or eliminate our overall profitability. Further, any defects or errors, or failures to meet our clients' expectations, could result in claims for damages against us. Our contracts generally limit our liability for damages that arise from negligent acts, errors, mistakes or omissions in rendering services to our clients. However, we cannot be sure that these contractual provisions will protect us from liability for damages in the event we are sued.

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

As primarily a professional and technical services company, we are labor-intensive and, therefore, our ability to attract, retain and expand our senior management and our professional and technical staff is an important factor in determining our future success. The market for qualified scientists and engineers is competitive and, from time to time, it may be difficult to attract and retain qualified individuals with the required expertise within the timeframe demanded by our clients. For example, some of our U.S. government contracts may require us to employ only individuals who have particular government security clearance levels. In addition, we rely heavily upon the expertise and leadership of our senior management. If we are unable to retain executives and other key personnel, the roles and responsibilities of those employees will need to be filled, which may require that we devote time and resources to identify, hire and integrate new employees. With limited exceptions, we do not have employment agreements with any of our key personnel. The loss of the services of any of these key personnel could adversely affect our business. Although we have obtained non-compete agreements from certain principals and stockholders of companies we have acquired, we generally do not have non-compete or employment agreements with key employees who were once equity holders of these companies. Further, many of our non-compete agreements have expired. We do not maintain key-man life insurance policies on any of our executive officers or senior managers. Our failure to attract and retain key individuals could impair our ability to provide services to our clients and conduct our business effectively.

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

To prepare financial statements in conformity with GAAP, management is required to make estimates and assumptions as of the date of the financial statements. These estimates and assumptions affect the reported values of assets, liabilities, revenue and expenses, as well as disclosures of contingent assets and liabilities. For example, we typically recognize revenue over the life of a contract based on the proportion of costs incurred to date compared to the total costs estimated to be incurred for the entire project. Areas requiring significant estimates by our management include:

- the application of the percentage-of-completion method of accounting and revenue recognition on contracts, change orders and contract claims including related unbilled accounts receivable;
- unbilled accounts receivable including amounts related to requests for equitable adjustment to contracts that provide for price redetermination, primarily with the U.S. federal government. These amounts are recorded only when they can be reliably estimated and realization is probable;
- provisions for uncollectible receivables, client claims and recoveries of costs from subcontractors, vendors and others;
- provisions for income taxes, R&E credits, valuation allowances and unrecognized tax benefits;

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- value of goodwill and recoverability of other intangible assets;
- valuations of assets acquired and liabilities assumed in connection with business combinations;
- valuation of contingent earn-out liabilities recorded in connection with business combinations;
- valuation of employee benefit plans;
- valuation of stock-based compensation expense; and
- accruals for estimated liabilities, including litigation and insurance reserves.

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

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**Our profitability could suffer if we are not able to maintain adequate utilization of our workforce.**

The cost of providing our services, including the extent to which we utilize our workforce, affects our profitability. The rate at which we utilize our workforce is affected by a number of factors, including:

- our ability to transition employees from completed projects to new assignments and to hire and assimilate new employees;
- our ability to forecast demand for our services and thereby maintain an appropriate headcount in each of our geographies and workforces;
- our ability to manage attrition;
- our need to devote time and resources to training, business development, professional development and other non-chargeable activities; and
- our ability to match the skill sets of our employees to the needs of the marketplace.

If we over-utilize our workforce, our employees may become disengaged, which will impact employee attrition. If we under-utilize our workforce, our profit margin and profitability could suffer.

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

We account for most of our contracts on the percentage-of-completion method of revenue recognition. Generally, our use of this method results in recognition of revenue and profit ratably over the life of the contract, based on the proportion of costs incurred to date to total costs expected to be incurred for the entire project. The effects of revisions to revenue and estimated costs, including the achievement of award fees as well as the impact of change orders and claims, are recorded when the amounts are known and can be reasonably estimated. Such revisions could occur in any period and their effects could be material. Although we have historically made reasonably reliable estimates of the progress towards completion of long-term contracts, the uncertainties inherent in the estimating process make it possible for actual costs to vary materially from estimates, including reductions or reversals of previously recorded revenue and profit.

**If we are unable to accurately estimate and control our contract costs, then we may incur losses on our contracts, which could decrease our operating margins and reduce our profits. In particular, our fixed-price contracts could increase the unpredictability of our earnings.**

It is important for us to accurately estimate and control our contract costs so that we can maintain positive operating margins and profitability. We generally enter into three principal types of contracts with our clients: fixed-price, time-and-materials and cost-plus.

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The U.S. federal government and some clients have increased the use of fixed-priced contracts. Under fixed-price contracts, we receive a fixed price irrespective of the actual costs we incur and, consequently, we are exposed to a number of risks. We realize a profit on fixed-price contracts only if we can control our costs and prevent cost over-runs on our contracts. Fixed-price contracts require cost and scheduling estimates that are based on a number of assumptions, including those about future economic conditions, costs and availability of labor, equipment and materials, and other exigencies. We could experience cost overruns if these estimates are originally inaccurate as a result of errors or ambiguities in the contract specifications, or become inaccurate as a result of a change in circumstances following the submission of the estimate due to, among other things, unanticipated technical problems, difficulties in obtaining permits or approvals, changes in local laws or labor conditions, weather delays, changes in the costs of raw materials, or inability of our vendors or subcontractors to perform. If cost overruns occur, we could experience reduced profits or, in some cases, a loss for that project. If a project is significant, or if there are one or more common issues that impact multiple projects, costs overruns could increase the unpredictability of our earnings as well as have a material adverse impact on our business and earnings.



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Under our time-and-materials contracts, we are paid for labor at negotiated hourly billing rates and also paid for other expenses. Profitability on these contracts is driven by billable headcount and cost control. Many of our time-and-materials contracts are subject to maximum contract values and, accordingly, revenue relating to these contracts is recognized as if these contracts were fixed-price contracts. Under our cost-plus contracts, some of which are subject to contract ceiling amounts, we are reimbursed for allowable costs and fees, which may be fixed or performance-based. If our costs exceed the contract ceiling or are not allowable under the provisions of the contract or any applicable regulations, we may not be able to obtain reimbursement for all of the costs we incur.

Profitability on our contracts is driven by billable headcount and our ability to manage our subcontractors, vendors and material suppliers. If we are unable to accurately estimate and manage our costs, we may incur losses on our contracts, which could decrease our operating margins and significantly reduce or eliminate our profits. Certain of our contracts require us to satisfy specific design, engineering, procurement or construction milestones in order to receive payment for the work completed or equipment or supplies procured prior to achievement of the applicable milestone. As a result, under these types of arrangements, we may incur significant costs or perform significant amounts of services prior to receipt of payment. If a client determines not to proceed with the completion of the project or if the client defaults on its payment obligations, we may face difficulties in collecting payment of amounts due to us for the costs previously incurred or for the amounts previously expended to purchase equipment or supplies.

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

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

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

**We have made and expect to continue to make acquisitions that could disrupt our operations and adversely impact our business and operating results. Our failure to conduct due diligence effectively or our inability to successfully integrate acquisitions could impede us from realizing all of the benefits of the acquisitions, which could weaken our results of operations.**

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

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

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- we may ultimately fail to consummate an acquisition even if we announce that we plan to acquire a company; and
- acquired companies may not perform as we expect, and we may fail to realize anticipated revenue and profits.

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

If we fail to conduct due diligence on our potential targets effectively, we may, for example, not identify problems at target companies or fail to recognize incompatibilities or other obstacles to successful integration. Our inability to successfully integrate future acquisitions could impede us from realizing all of the benefits of those acquisitions and could severely weaken our business operations. The integration process may disrupt our business and, if implemented ineffectively, may preclude realization of the full benefits expected by us and could harm our results of operations. In addition, the overall integration of the combining companies may result in unanticipated problems, expenses, liabilities, and competitive responses, and may cause our stock price to decline. The difficulties of integrating an acquisition include, among others:

- issues in integrating information, communications and other systems;
- incompatibility of logistics, marketing and administration methods;
- maintaining employee morale and retaining key employees;
- integrating the business cultures of both companies;
- preserving important strategic client relationships;
- consolidating corporate and administrative infrastructures and eliminating duplicative operations; and
- coordinating geographically separate organizations.

In addition, even if the operations of an acquisition are integrated successfully, we may not realize the full benefits of the acquisition, including the synergies, cost savings or growth opportunities that we expect. These benefits may not be achieved within the anticipated time frame, or at all.

Further, acquisitions may cause us to:

- issue common stock that would dilute our current stockholders' ownership percentage;
- use a substantial portion of our cash resources;
- increase our interest expense, leverage and debt service requirements (if we incur additional debt to pay for an acquisition);
- assume liabilities, including environmental liabilities, for which we do not have indemnification from the former owners. Further, indemnification obligations may be subject to dispute or concerns regarding the creditworthiness of the former owners;

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- record goodwill and non-amortizable intangible assets that are subject to impairment testing and potential impairment charges;
- experience volatility in earnings due to changes in contingent consideration related to acquisition earn-out liability estimates;
- incur amortization expenses related to certain intangible assets;
- lose existing or potential contracts as a result of conflict of interest issues;
- incur large and immediate write-offs; or
- become subject to litigation.

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

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

Because we have historically acquired a significant number of companies, goodwill and other intangible assets represent a substantial portion of our assets. At June 30, 2013, our goodwill was \$710.3 million and other intangible assets were \$94.8 million. We are required to perform a goodwill impairment test for potential impairment at least on an annual basis. We also assess the recoverability of the unamortized balance of our intangible assets when indications of impairment are present based on expected future profitability and undiscounted expected cash flows and their contribution to our overall operations. The goodwill impairment test requires us to determine the fair value of our reporting units, which are the components one level below our reportable segments. In determining fair value, we make significant judgments and estimates, including assumptions about our strategic plans with regard to our operations. We also analyze current economic indicators and market valuations to help determine fair value. To the extent economic conditions that would impact the future operations of our reporting units change, our goodwill may be deemed to be impaired, and we would be required to record a non-cash charge that could result in a material adverse effect on our financial position or results of operations.

In the third quarter of fiscal 2013, we performed an interim goodwill impairment test and recorded a \$56.6 million, or \$48.1 million, net of tax, goodwill impairment charge in the ECS segment.

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

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

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

Our backlog at June 30, 2013, was \$1.9 billion. We include in backlog only those contracts for which funding has been provided and work authorizations have been received. We cannot guarantee that the revenue projected in our backlog will be realized or, if realized, will result in profits. In addition, project cancellations or scope adjustments may occur, from time to time, with respect to contracts reflected in our backlog. For example, certain of our contracts with the U.S. federal government and other clients are terminable at the discretion of the client, with or without cause. These types of backlog reductions could adversely affect our revenue and margins. Accordingly, our backlog as of any particular date is an uncertain indicator of our future earnings.

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

We routinely enter into subcontracts and, occasionally, joint ventures, teaming arrangements and other contractual arrangements so that we can jointly bid and perform on a particular project. Success under these arrangements depends in large part on whether our business partners fulfill their contractual obligations satisfactorily. In addition, when we operate through a joint venture in which we are a minority holder, we have limited control over many project decisions, including decisions related to the joint venture's internal controls, which may not be subject to the same internal control procedures that we employ. If these unaffiliated third parties do not fulfill their contract obligations, the partnerships or joint ventures may be unable to adequately perform and deliver their contracted services. Under these circumstances, we may be obligated to pay financial penalties, provide additional services to ensure the adequate performance and delivery of the contracted services and may be jointly and severally liable for the other's actions or contract performance. These additional obligations could result in reduced profits and revenues or, in some cases, significant losses for us with respect to the joint venture, which could also affect our reputation in the industries we serve.

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

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

We also rely on relationships with other contractors when we act as their subcontractor or joint venture partner. The absence of qualified subcontractors with which we have a satisfactory relationship could adversely affect the quality of our service and our ability to perform under some of our contracts. Our future revenue and growth prospects could be adversely affected if other contractors eliminate or reduce their subcontracts or teaming arrangement relationships with us, or if a government agency terminates or reduces these other contractors' programs, does not award them new contracts or refuses to pay under a contract.

**We may be required to pay liquidated damages if we fail to meet milestone requirements in our contracts.**

We may be required to pay liquidated damages if we fail to meet milestone requirements in our contracts. Failure to meet any of the milestone requirements could result in additional costs, and the amount of such additional costs could exceed the projected profits on the project. These additional costs include liquidated damages paid under contractual penalty provisions, which can be substantial and can accrue on a regular basis.

**Changes in resource management, environmental or infrastructure industry laws, regulations and programs could directly or indirectly reduce the demand for our services, which could in turn negatively impact our revenue.**

Some of our services are directly or indirectly impacted by changes in U.S. federal, state, local or foreign laws and regulations pertaining to resource management, the environment and infrastructure. Accordingly, a relaxation or repeal of these laws and regulations, or changes in governmental policies regarding the funding, implementation or enforcement of these programs, could result in a decline in demand for our services, which could in turn negatively impact our revenue.

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

Our results could be adversely affected by an inability to access the revolving credit facility under our Credit Agreement. Unfavorable financial or economic conditions could impact certain lenders' willingness or ability to fund our revolving credit facility. In addition, increases in interest rates or credit spreads, volatility in financial markets or the interest rate environment, significant political or economic events, defaults of significant issuers and other market and economic factors may negatively impact the general level of debt issuance, the debt issuance plans of certain categories of borrowers, the types of credit-sensitive products being offered, and/or a sustained period of market decline or weakness

could have a material adverse effect on us.

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

Our Amended Credit Agreement limits or restricts our ability to, among other things:

- incur additional indebtedness;
- create liens securing debt or other encumbrances on our assets;
- make loans or advances;
- pay dividends or make distributions to our stockholders;
- purchase or redeem our stock;



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- repay indebtedness that is junior to indebtedness under our credit agreement;
- acquire the assets of, or merge or consolidate with, other companies; and
- sell, lease or otherwise dispose of assets.

Our Amended Credit Agreement also requires that we maintain certain financial ratios, which we may not be able to achieve. The covenants may impair our ability to finance future operations or capital needs or to engage in other favorable business activities.

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

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

**Legal proceedings, investigations and disputes could result in substantial monetary penalties and damages, especially if such penalties and damages exceed or are excluded from existing insurance coverage.**

We engage in consulting, engineering, program management, construction management, construction and technical services that can result in substantial injury or damages that may expose us to legal proceedings, investigations and disputes. For example, in the ordinary course of our business, we may be involved in legal disputes regarding personal injury claims, employee or labor disputes, professional liability claims, and general commercial disputes involving project cost overruns and liquidated damages as well as other claims. In addition, in the ordinary course of our business, we frequently make professional judgments and recommendations about environmental and engineering conditions of project sites for our clients, and we may be deemed to be responsible for these judgments and recommendations if they are later determined to be inaccurate. Any unfavorable legal ruling against us could result in substantial monetary damages or even criminal violations. We maintain insurance coverage as part of our overall legal and risk management strategy to minimize our potential liabilities; however, insurance coverage contains exclusions and other limitations that may not cover our potential liabilities. Generally, our insurance program covers workers compensation and employer's liability, general liability, automobile liability, professional errors and omissions liability, property, and contractor's pollution liability (in addition to other policies for specific projects). Our insurance program includes deductibles or self-insured retentions for each covered claim that may increase over time. In addition, our insurance policies contain exclusions that insurance providers may use to deny or restrict coverage. Excess liability and professional liability insurance policies provide for coverage on a claims-made basis, covering only claims actually made and reported during the policy period currently in effect. If we sustain liabilities that exceed or that are excluded from our insurance coverage or for which we are not insured, it could have a material adverse impact on our results of operations and financial condition (see Note 14, Commitments and Contingencies for more information).

**Unavailability or cancellation of third-party insurance coverage would increase our overall risk exposure as well as disrupt the management of our business operations.**

We maintain insurance coverage from third-party insurers as part of our overall risk management strategy and because some of our contracts require us to maintain specific insurance coverage limits. If any of our third-party insurers fail, suddenly cancel our coverage or otherwise are unable to provide us with adequate insurance coverage, then our overall risk exposure and our operational expenses would increase and the management of our business operations would be disrupted. In addition, there can be no assurance that any of our existing insurance coverage will be renewable upon the expiration of the coverage period or that future coverage will be affordable at the required limits.

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

Certain clients require bid bonds and performance and payment bonds. These bonds indemnify the client should we fail to perform our obligations under a contract. If a bond is required for a particular project and we are unable to obtain an appropriate bond, we cannot pursue that project. In some instances, we are required to co-venture with a small or disadvantaged business to pursue certain U.S. federal or state government contracts. In connection with these ventures, we are sometimes required to utilize our bonding capacity to cover all of the payment and performance obligations under the contract with the client. We have a bonding facility but, as is typically the case, the issuance of bonds under that facility is at the surety's sole discretion. Moreover, due to events that can negatively affect the insurance and bonding markets, bonding may be more difficult to obtain or may only be available at significant additional cost. There can be no assurance that bonds will continue to be available to us on reasonable terms. Our inability to obtain adequate bonding and, as a result, to bid on new work could have a material adverse effect on our future revenue and business prospects.

**Employee, agent or partner misconduct or our overall failure to comply with laws or regulations could harm our reputation, reduce our revenue and profits, and subject us to criminal and civil enforcement actions.**

Misconduct, fraud, non-compliance with applicable laws and regulations, or other improper activities by one of our employees, agents or partners could have a significant negative impact on our business and reputation. Such misconduct could include the failure to comply with government procurement regulations, regulations regarding the protection of classified information, regulations prohibiting bribery and other foreign corrupt practices, regulations regarding the pricing of labor and other costs in government contracts, regulations on lobbying or similar activities, regulations pertaining to the internal controls over financial reporting, environmental laws and any other applicable laws or regulations. For example, the FCPA and similar anti-bribery laws in other jurisdictions generally prohibit companies and their intermediaries from making improper payments to non-U.S. officials for the purpose of obtaining or retaining business. Our policies mandate compliance with these regulations and laws, and we take precautions to prevent and detect misconduct. However, since our internal controls are subject to inherent limitations, including human error, it is possible that these controls could be intentionally circumvented or become inadequate because of changed conditions. As a result, we cannot assure that our controls will protect us from reckless or criminal acts committed by our employees or agents. Our failure to comply with applicable laws or regulations or acts of misconduct could subject us to fines and penalties, loss of security clearances, and suspension or debarment from contracting, any or all of which could harm our reputation, reduce our revenue and profits, and subject us to criminal and civil enforcement actions.

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

Certain of our contracts may require our employees travel to and work in high-risk countries that are undergoing political, social and economic upheavals resulting from war, civil unrest, criminal activity, acts of terrorism or public health crises. For example, we currently have employees working in high security risk countries such as Afghanistan. As a result, we risk loss of or injury to our employees and may be subject to costs related to employee death or injury, repatriation or other unforeseen circumstances. We may choose or be forced to leave a country with little or no warning due to physical security risks.

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

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Our safety program is a fundamental element of our overall approach to risk management, and the implementation of the safety program is a significant issue in our dealings with our clients. We maintain an enterprise-wide group of health and safety professionals to help ensure that the services we provide are delivered safely and in accordance with standard work processes. Unsafe job sites and office environments have the potential to increase employee turnover, increase the cost of a project to our clients, expose us to types and levels of risk that are fundamentally unacceptable, and raise our operating costs. The implementation of our safety processes and procedures are monitored by various agencies, including the U.S. Mine Safety and Health Administration, and rating bureaus and may be evaluated by certain clients in cases in which safety requirements have been established in our contracts. Our failure to meet these requirements or our failure to properly implement and comply with our safety program could result in reduced profitability or the loss of projects or clients, and could have a material adverse effect on our business, operating results or financial condition.

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