

TETRA TECH INC  
Form 10-Q  
February 01, 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 December 30, 2012

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

As of January 28, 2013, 64,519,041 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)**

|   |    |         |            |
|---|----|---------|------------|
| <b>CURRENT ASSETS:</b>  |    |         |            |
| Accounts receivable net   |    | 674,894 | 700,480    |
| Income taxes receivable   |    | 18,869  | 5,817      |
| <b>INVESTMENTS IN AND ADVANCES TO UNCONSOLIDATED JOINT VENTURES</b>   |    |         |            |
|   |    | 2,959   | 3,279      |
| <b>INTANGIBLE ASSETS NET</b>  |    |         |            |
|   |    | 78,690  | 74,231     |
| <b>LIABILITIES AND EQUITY:</b>  |    |         |            |
| Accounts payable  | \$ | 131,354 | \$ 154,003 |
| Billings in excess of costs on uncompleted contracts  |    | 94,511  | 90,909     |
| Current portion of long-term debt   |    | 1,856   | 2,031      |
| Other current liabilities   |    | 66,698  | 72,549     |
| <b>LONG-TERM DEBT</b>   |    |         |            |
|   |    | 147,808 | 81,047     |
| <b>PREFERRED STOCK:</b>   |    |         |            |
| Preferred stock Authorized, 2,000 shares of \$0.01 par value; no shares issued and outstanding at December 30, 2012, and September 30, 2012 |    |         |            |
| Additional paid-in capital  |    | 443,437 | 433,009    |
| Retained earnings   |    | 580,530 | 554,306    |

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|                          |       |     |
|--------------------------|-------|-----|
| Noncontrolling interests | 1,056 | 897 |
|--------------------------|-------|-----|

See accompanying Notes to Condensed Consolidated Financial Statements.

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**Tetra Tech, Inc.**

**Condensed Consolidated Statements of Income**

**(unaudited in thousands, except per share data)**

|                        |    |           |    |           |
|------------------------|----|-----------|----|-----------|
| Revenue                | \$ | 658,545   | \$ | 682,627   |
| Other costs of revenue |    | (408,995) |    | (407,336) |
| Operating income       |    | 41,809    |    | 36,093    |
| Interest expense - net |    | (1,185)   |    | (1,311)   |
|                        |    |           |    |           |
|                        |    |           |    |           |
|                        |    |           |    |           |
|                        |    |           |    |           |
|                        |    |           |    |           |
|                        |    |           |    |           |
| Basic                  | \$ | 0.41      | \$ | 0.36      |
|                        |    |           |    |           |
|                        |    |           |    |           |
| Basic                  |    | 63,864    |    | 62,433    |

See accompanying Notes to Condensed Consolidated Financial Statements.

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**Tetra Tech, Inc.**

**Condensed Consolidated Statements of Comprehensive Income**

(unaudited in thousands)

|   |    |         |    |        |
|---|----|---------|----|--------|
| Net income including noncontrolling interests                 | \$ | 26,396  | \$ | 22,703 |
| Foreign currency translation adjustments                      |    | (5,612) |    | 10,827 |
| Other comprehensive income (loss)                             |    | (5,491) |    | 10,626 |
| Comprehensive income including noncontrolling interests       |    | 20,905  |    | 33,329 |
| Net income attributable to noncontrolling interests           |    | (172)   |    | (93)   |
| Comprehensive income attributable to noncontrolling interests |    | (159)   |    | (93)   |
| Comprehensive income attributable to Tetra Tech               | \$ | 20,746  | \$ | 33,236 |

See accompanying Notes to Condensed Consolidated Financial Statements.



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

|  |           |                |                   |
|--|-----------|----------------|-------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                               |           |                |                   |
| Net income including noncontrolling interests                              | \$        | 26,396         | \$ 22,703         |
| Adjustments to reconcile net income to net cash from operating activities: |           |                |                   |
| Equity in earnings of unconsolidated joint ventures                        |           | (649)          | (969)             |
| Stock-based compensation   |           | 2,534          | 2,916             |
| Deferred income taxes  |           | 5,624          | 494               |
| Exchange loss (gain)   |           | 189            | (14)              |
| Accounts receivable  |           | 25,513         | (10,669)          |
| Accounts payable   |           | (23,564)       | (19,241)          |
| Billings in excess of costs on uncompleted contracts                       |           | 3,544          | 8,796             |
| Income taxes receivable/payable  |           | (13,360)       | 3,434             |
| Capital expenditures   |           | (4,274)        | (4,593)           |
| Proceeds from sale of property and equipment                               |           | 292            | 377               |
| Payments on long-term debt   |           | (22,551)       | (11,012)          |
| Payments of earn-out liabilities   |           | (22,372)       | (9,368)           |
| Excess tax benefits from stock-based compensation                          |           | 390            | 35                |
| Net cash provided by (used in) financing activities                        |           | 47,912         | (17,547)          |
| EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH                            |           | (425)          | 1,250             |
| <b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>                           |           | <b>46,756</b>  | <b>15,226</b>     |
| <b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>                          | <b>\$</b> | <b>151,604</b> | <b>\$ 105,720</b> |
| <b>SUPPLEMENTAL INFORMATION:</b>   |           |                |                   |
| Interest   | \$        | 532            | \$ 1,107          |

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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 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 11, 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 9, Reportable Segments for further discussion). Prior-year amounts for reportable segments have been reclassified to conform to the current-year presentation. For the first quarters of fiscal 2013 and 2012, Interest expense net on the condensed consolidated statements of income includes \$0.2 million in interest income for each period.

**2. Accounts Receivable Net**

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

|                     |    |         |    |         |
|---------------------|----|---------|----|---------|
|                     |    |         |    |         |
| Billed              | \$ | 370,231 | \$ | 362,331 |
| Contract retentions |    | 16,047  |    | 17,908  |
|                     |    |         |    |         |

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|  |    |         |    |         |
|--|----|---------|----|---------|
| Total accounts receivable net                                | \$ | 674,894 | \$ | 700,480 |
| Current billings in excess of costs on uncompleted contracts | \$ | 94,511  | \$ | 90,909  |
| Total billings in excess of costs on uncompleted contracts   | \$ | 98,862  | \$ | 95,319  |

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Billed accounts receivable represent amounts billed to clients that have not been collected. Unbilled accounts receivable represent revenue recognized but not yet billed pursuant to contract terms or billed after the period end date. Most of our unbilled receivables at December 30, 2012 are expected to be billed and collected within 12 months. Unbilled accounts receivable at December 30, 2012 and September 30, 2012 include approximately \$17 million and \$21 million, respectively, related to claims, and requests for equitable adjustment on contracts that provide for price redetermination primarily with U.S. federal government agencies. These amounts are management's estimate of the most probable amount to be realized upon the conclusion of claims settlement process. We regularly evaluate these claim amounts and record appropriate adjustments to operating earnings when collection is deemed to have changed. No material losses were recognized related to the collectability of claims during the first quarters of fiscal 2013 and 2012. 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. The non-current billings in excess of costs on uncompleted contracts are reported as part of our Other long-term liabilities on our condensed consolidated balance sheets.

Billed accounts receivable related to U.S. federal government contracts were \$72.7 million and \$65.9 million at December 30, 2012 and September 30, 2012, respectively. U.S. federal government unbilled receivables, net of progress payments, were \$104.1 million and \$100.4 million at December 30, 2012 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 December 30, 2012 and September 30, 2012.

### **3. Mergers and Acquisitions**

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. The results of our acquisitions were included in the consolidated financial statements from their respective closing dates. No acquisitions in the first quarter of fiscal 2013 and in fiscal 2012 were considered material, individually or in the aggregate. As a result, no pro forma information has been provided.

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 the consolidated statements of cash flows in the period paid. There were no such payments in the first quarters of fiscal 2013 and 2012. At December 30, 2012, there was a maximum of \$3.0 million of contingent consideration remaining for acquisitions completed prior to fiscal 2010 that will be recorded as an addition to goodwill if earned.

For acquisitions completed in or after fiscal 2010, the fair values of these 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 Other long-term liabilities on the 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.

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 (see 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 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 liability on the acquisition date is reflected as cash used in operating activities.

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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.

At December 30, 2012, there was a maximum of \$42.8 million for contingent consideration outstanding related to acquisitions completed in or after fiscal 2010. Of this amount, a total liability of \$36.1 million has been recorded on our condensed consolidated balance sheet at December 30, 2012. The aggregate current estimated earn-out liabilities of \$20.1 million and \$35.4 million are reported in Estimated contingent earn-out liabilities, and the aggregate non-current estimated earn-out liabilities of \$16.0 million and \$16.1 million are reported in Other long-term liabilities on the condensed consolidated balance sheets at December 30, 2012 and September 30, 2012, respectively. In the first quarter of fiscal 2013, \$22.4 million of earn-outs were paid to former owners and reported as cash used in financing activities. In the first quarter of fiscal 2012, \$11.2 million of earn-outs were paid to former owners. Of this amount, we reported \$9.4 million as cash used in financing activities and \$1.8 million as cash used in investing activities.

*Subsequent Events.* On December 31, 2012, the first day of our fiscal 2013 second quarter, 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 will both be included in our Remediation and Construction Management ( RCM ) segment.

#### 4. Goodwill and Intangibles

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

|   | ECS            | TSS        | RCM       | Total      |
|---|----------------|------------|-----------|------------|
|   | (in thousands) |            |           |            |
| Balance at September 30, 2012 <sup>(1)</sup>    |                |            |           |            |
| <sup>(2)</sup>                                  | \$ 412,308     | \$ 173,867 | \$ 49,783 | \$ 635,958 |
| Goodwill additions                              | 12,132         |            |           | 12,132     |
| Currency translation adjustments <sup>(3)</sup> | (3,862)        |            |           | (3,862)    |
| Goodwill adjustments                            |                | (79)       |           | (79)       |
| Balance at December 30, 2012                    | \$ 420,578     | \$ 173,788 | \$ 49,783 | \$ 644,149 |

- (1) Prior-year amounts for ECS and TSS have been reclassified to conform to the current-year presentation (see Note 9, 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 transferred in from EAS and \$7.6 million transferred in from ECS.
- (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)

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



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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) | December 30, 2012 |  | September 30, 2012 |                          |
|----------------------------|--|-------------------|--|--------------------|--------------------------|
|                            |  | Gross Amount      | Accumulated Amortization (\$ in thousands) | Gross Amount       | Accumulated Amortization |
| Non-compete agreements     | 2.8  | \$ 6,316          | \$ (4,938)                                 | \$ 5,467           | \$ (4,685)               |
| Client relations           | 5.3  | 107,439           | (35,116)                                   | 99,096             | (31,477)                 |
| Backlog                    | 0.9  | 60,109            | (56,863)                                   | 59,931             | (55,908)                 |
| Technology and trade names | 3.6  | 3,136             | (1,393)                                    | 3,034              | (1,227)                  |
| Total                      |  | \$ 177,000        | \$ (98,310)                                | \$ 167,528         | \$ (93,297)              |

In the first quarter of fiscal 2013, gross amounts for goodwill and intangible assets increased due to foreign currency translation adjustments and two immaterial acquisitions in the ECS segment. Amortization expense for the intangible assets for the first quarters of fiscal 2013 and 2012 was \$5.6 million and \$8.3 million, respectively. Estimated amortization expense for the remainder of fiscal 2013 and succeeding years is as follows:

|        | Amount (in thousands) |
|--------|-----------------------|
| 2013   | \$ 14,717             |
| 2014   | 16,212                |
| 2015   | 15,180                |
| 2016   | 13,543                |
| 2017   | 11,134                |
| Beyond | 7,904                 |
| Total  | \$ 78,690             |

## 5. Property and Equipment

Property and equipment consisted of the following:

|                                   | December 30, 2012 | September 30, 2012 |
|-----------------------------------|-------------------|--------------------|
|                                   | (in thousands)    |                    |
| Land and buildings                | \$ 5,651          | \$ 5,537           |
| Equipment, furniture and fixtures | 179,667           | 177,710            |
| Leasehold improvements            | 26,471            | 26,180             |
| Total property and equipment      | 211,789           | 209,427            |
| Accumulated depreciation          | (140,198)         | (135,118)          |

|                             |    |        |    |        |
|-----------------------------|----|--------|----|--------|
| Property and equipment, net | \$ | 71,591 | \$ | 74,309 |
|-----------------------------|----|--------|----|--------|

The depreciation expense related to property and equipment, including assets under capital leases, was \$6.8 million for both the first quarters of fiscal 2013 and 2012.

## 6. 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 first quarters of fiscal 2013 and 2012 was \$2.5 million and \$2.9 million, respectively. The majority of these amounts was included in Selling, general and administrative ( SG&A ) expenses in our condensed consolidated statements of income. In the first quarter of fiscal 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 ultimately vest is based on the growth in our diluted earnings per share. Additionally, we awarded 224,055 restricted stock units ( RSUs ) to our non-employee directors, executive officers and employees at the fair value of \$24.26 per share on the award date. All of the RSUs have time-based vesting over a four-year period.

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

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

|  | Three Months Ended   |                    |
|--|----------------------|--------------------|
|  | December 30,<br>2012 | January 1,<br>2012 |
| (in thousands, except per share data)                          |                      |                    |
| Net income attributable to Tetra Tech                          | \$ 26,224            | \$ 22,610          |
| Weighted-average common shares outstanding - basic             | 63,864               | 62,433             |
| Effect of dilutive stock options and unvested restricted stock | 744                  | 635                |
| Weighted-average common stock outstanding - diluted            | 64,608               | 63,068             |
| Earnings per share attributable to Tetra Tech:                 |                      |                    |
| Basic  | \$ 0.41              | \$ 0.36            |
| Diluted  | \$ 0.41              | \$ 0.36            |

For the first quarters of fiscal 2013 and 2012, 1.4 million and 3.4 million options were excluded from the calculation of dilutive potential common shares, respectively. These options were not included in the computation of dilutive potential common shares because the assumed proceeds per share exceeded the average market price per share for that period. Therefore, their inclusion would have been anti-dilutive.

**8. Income Taxes**

The effective tax rates for the first quarters of fiscal 2013 and 2012 were 35.0% and 34.7%, respectively. At December 30, 2012, undistributed earnings of our foreign subsidiaries, primarily in Canada, amounting to approximately \$37.8 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. Determination of the amount of unrecognized deferred U.S. income tax liability is not practicable; however, the potential foreign tax credit associated with the deferred income would be available to partially reduce the resulting U.S. tax liabilities.

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 will include a tax benefit from R&E credits attributable to

the last nine months of fiscal 2012 and the first quarter of fiscal 2013.

**9. 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 have been 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.

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Our reportable segments are as follows:

*ECS.* 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.* 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.* 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, 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.

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

*Reportable Segments*

|                                      | Three Months Ended   |                    |
|--------------------------------------|----------------------|--------------------|
|                                      | December 30,<br>2012 | January 1,<br>2012 |
|                                      | (in thousands)       |                    |
| <b>Revenue</b>                       |                      |                    |
| ECS                                  | \$ 278,168           | \$ 279,160         |
| TSS                                  | 243,924              | 255,123            |
| RCM                                  | 158,431              | 160,806            |
| Elimination of inter-segment revenue | (21,978)             | (12,462)           |
| Total revenue                        | \$ 658,545           | \$ 682,627         |
| <b>Operating Income</b>              |                      |                    |
| ECS                                  | \$ 19,291            | \$ 21,856          |
| TSS                                  | 22,343               | 17,542             |
| RCM                                  | 7,082                | 5,890              |

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|                        |    |         |    |         |
|------------------------|----|---------|----|---------|
| Corporate (1)          |    | (6,907) |    | (9,195) |
| Total operating income | \$ | 41,809  | \$ | 36,093  |

**Depreciation**

|                    |    |       |    |       |
|--------------------|----|-------|----|-------|
| ECS                | \$ | 2,625 | \$ | 2,837 |
| TSS                |    | 782   |    | 774   |
| RCM                |    | 2,603 |    | 2,435 |
| Corporate          |    | 798   |    | 740   |
| Total depreciation | \$ | 6,808 | \$ | 6,786 |

(1) Includes amortization of intangibles, other costs and other income not allocable to segments. Amortization expense for first quarters of fiscal 2013 and 2012 was \$5.6 million and \$8.3 million, respectively.

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|   | December 30,<br>2012 |  | September 30,<br>2012 |
|---|----------------------|--|-----------------------|
|   | (in thousands)       |  |                       |
| <b>Total Assets</b>   |                      |  |                       |
| ECS   | \$ 959,657           |  | \$ 915,571            |
| TSS   | 637,347              |  | 638,405               |
| RCM   | 302,731              |  | 311,051               |
| Assets not allocated to segments and intercompany<br>eliminations (1) | (184,760)            |  | (193,997)             |
| <b>Total assets</b>   | <b>\$ 1,714,975</b>  |  | <b>\$ 1,671,030</b>   |

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

### *Major Clients*

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

The following table represents our revenue by client sector:

|                                 | Three Months Ended   |                    |
|---------------------------------|----------------------|--------------------|
|                                 | December 30,<br>2012 | January 1,<br>2012 |
|                                 | (in thousands)       |                    |
| <b>Client Sector</b>            |                      |                    |
| International (1)               | \$ 167,518           | \$ 159,931         |
| U.S. commercial                 | 173,141              | 177,430            |
| U.S. federal government (2)     | 227,390              | 271,408            |
| U.S. state and local government | 90,496               | 73,858             |
| <b>Total</b>                    | <b>\$ 658,545</b>    | <b>\$ 682,627</b>  |

(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.

## **10. 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 matures 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) that matures on January 27, 2014. Our objective

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is 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 are recorded in Other comprehensive income . The fair value and the change in the fair value were not material for the first quarters of fiscal 2013 and 2012. No gains or losses were recognized in earnings as these contracts were deemed to be effective hedges.

*Debt.* The fair value of long-term debt was determined using the present value of future cash flows based on the borrowing rates currently available for debt with similar terms and maturities (Level 2 measurement, see 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 approximates fair value at December 30, 2012 and September 30, 2012.



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**11. Joint Ventures**

*Consolidated Joint Ventures*

The aggregate revenue of our consolidated joint ventures was \$4.0 million and \$4.5 million for the first quarters of fiscal 2013 and 2012, respectively. The assets and liabilities of these consolidated joint ventures were immaterial for the first quarter of fiscal 2013 and 2012 year-end. 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 the consolidated joint ventures at December 30, 2012 and September 30, 2012 were \$4.0 million and \$1.6 million, respectively.

*Unconsolidated Joint Ventures*

We account for the majority of 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 income. For the first quarters of fiscal 2013 and 2012, we reported \$0.6 million and \$1.0 million of equity in earnings of unconsolidated joint ventures, respectively. 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 aggregate, immaterial to our consolidated financial statements.

The aggregate carrying values of the assets and liabilities of the unconsolidated joint ventures were \$16.2 million and \$13.3 million, respectively, at December 30, 2012, and \$19.0 million and \$15.7 million, respectively, at September 30, 2012.

**12. 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.

On April 17, 2012, authorities in the province of Quebec, Canada charged two employees of BPR Triax, a subsidiary of BPR Inc., and BPR Triax, under the Canadian Criminal Code with allegations of corruption. BPR Triax generates approximately \$4 million in annual revenue. BPR Inc. is one of our Canadian subsidiaries, headquartered in Quebec City, Quebec. 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 we believe the allegations are limited to activities at BPR Triax prior to our acquisition of BPR Inc. in October 2010. The financial impact to us is unknown at this time.

**13. Recent Accounting Pronouncements**

In June 2011, the Financial Accounting Standards Board ( FASB ) issued new guidance on the presentation of comprehensive income. The new guidance allows an entity to present components of net income and other comprehensive income in either a single continuous statement of comprehensive income or in two separate but consecutive statements. The new guidance eliminates the current option to report other comprehensive income and its components in the statement of changes in equity. While the new guidance changes the presentation of comprehensive income, there are no changes to the components that are recognized in net income or other comprehensive income under current accounting guidance. Additionally, in December 2011, the FASB issued new guidance to defer the effective date pertaining to present reclassification adjustments out of accumulated other comprehensive income by component in both the statement in which net income is presented and the statement in which other comprehensive income is presented. During the deferral period, the existing requirements in the original guidance for the presentation of reclassification adjustments must be followed. This new guidance was effective for us in the first quarter of fiscal 2013 on a retrospective basis. Upon the adoption of this guidance, we are presenting the components of net income and the components of other comprehensive income in two separate but consecutive statements.

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In September 2011, the FASB issued updated accounting guidance to simplify how an entity tests goodwill for impairment. The amendment permits an entity to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. An entity will not be required to calculate the fair value of a reporting unit unless the entity determines that it is more likely than not that its fair value is less than its carrying amount. The updated guidance is effective for us in July 2013 when we perform our annual goodwill impairment test. The adoption of this guidance will not have a material impact on our condensed consolidated financial statements.

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. Entities 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 updated guidance will be effective for us in the first quarter of fiscal 2014 on a retrospective basis and we are evaluating the 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 concerning 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 and construction management services. As primarily a service-based company focused on client projects, 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:

| <b>Client Sector</b> | <b>Three Months Ended</b>    |                            |
|----------------------|------------------------------|----------------------------|
|                      | <b>December 30,<br/>2012</b> | <b>January 1,<br/>2012</b> |
| International (1)    | 25.4%                        | 23.4%                      |
| U.S. commercial      | 26.3                         | 26.0                       |

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|                                 |        |        |
|---------------------------------|--------|--------|
| U.S. federal government (2)     | 34.6   | 39.8   |
| U.S. state and local government | 13.7   | 10.8   |
|                                 | 100.0% | 100.0% |

- (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.

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.

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We manage our business under the following three reportable segments:

*ECS.* 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.* 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.* 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, energy, and oil and gas.

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

| <b>Reportable Segment</b> | <b>Three Months Ended</b>    |                            |
|---------------------------|------------------------------|----------------------------|
|                           | <b>December 30,<br/>2012</b> | <b>January 1,<br/>2012</b> |
| ECS                       | 42.2%                        | 40.9%                      |
| TSS                       | 37.0                         | 37.4                       |
| RCM                       | 24.1                         | 23.6                       |
| Inter-segment elimination | (3.3)                        | (1.9)                      |
|                           | 100.0%                       | 100.0%                     |

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

| <b>Contract Type</b> | <b>Three Months Ended</b>    |                            |
|----------------------|------------------------------|----------------------------|
|                      | <b>December 30,<br/>2012</b> | <b>January 1,<br/>2012</b> |
| Fixed-price          | 39.8%                        | 42.5%                      |
| Time-and-materials   | 41.0                         | 38.5                       |
| Cost-plus            | 19.2                         | 19.0                       |
|                      | 100.0%                       | 100.0%                     |

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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.

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.

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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, particularly in the ECS and RCM segments. 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.

There were no significant acquisitions in the first quarter of fiscal 2013 or in fiscal 2012. 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 will both be included in our RCM segment.

*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 quarter of fiscal 2013 or in fiscal 2012.

## OVERVIEW OF RESULTS AND BUSINESS TRENDS

*General.* In the first quarter of fiscal 2013, our earnings improved compared to the year-ago quarter despite challenges in certain markets in which we operate. In particular, we experienced an expected decline in revenue from U.S. federal government programs as uncertainty regarding the U.S. federal budget delayed project funding in the second half of calendar 2012. Our overall revenue in the first quarter was fairly stable due to increased U.S. and international commercial revenue, including the impact of recent acquisitions and our expanded work for oil and gas clients. This change in our business mix resulted in improved operating margins and profitability.





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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, remain stagnant or enter a recession. The economic growth experienced in fiscal 2012 may or may not continue, or may continue at a slower rate for an extended period of time. In addition, some economic conditions, such as rates of spending and employment, may continue to be weak. Uncertainty regarding the U.S. federal budget and the impact of tax increases has added to the doubt regarding economic conditions generally. Those conditions could be negatively impacted by impending mandatory federal budget reductions, or sequestrations, that are currently scheduled to become effective in our fiscal 2013 second quarter. In addition, concerns over these conditions appear to be restraining business owners from making investment commitments needed to fund future growth. With this uncertainty regarding the future, it is difficult to confidently predict the 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.* Our international business grew 4.7% in the first quarter of fiscal 2013 compared to the year-ago quarter. The growth was driven by demand for our water, environmental and infrastructure design services primarily from industrial and commodity-driven clients. We expect that our international business will continue its growth during fiscal 2013 as a result of our continued expansion in Canada, Australia and South America.

*U.S. Commercial.* Our U.S. commercial business declined 2.4% in the first quarter of fiscal 2013 compared to the year-ago quarter. The decline resulted from delays in infrastructure capital spending by many of our largest U.S. commercial clients in reaction to economic uncertainty. This weakness was largely offset by increased activity for oil and gas clients, which generates relatively high profit margins. As a result, we have been able to improve operating income despite lower overall revenue. 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 experiences a slowdown in fiscal 2013, we would expect our U.S. commercial outlook to change accordingly.

*U.S. Federal Government.* Our U.S. federal government business declined 16.2% in the first quarter of fiscal 2013 compared to the year-ago quarter. This decline resulted from a broad-based slowdown of U.S. federal government programs, including reduced construction activities. 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 as described above, we remain cautious.

*U.S. State and Local Government.* Our U.S. state and local government business increased 22.5% in the first quarter of fiscal 2013 compared to the year-ago quarter. The growth was driven by increased revenue from essential programs and certain large transportation projects. Many state and local government agencies continue to face economic challenges, including budget deficits and difficult cost cutting decisions. Simultaneously, states are facing major long-term infrastructure needs, including the need for maintenance, repair and upgrading of existing critical infrastructure and the need to build new facilities. The funding risks associated with our 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 in the first quarter 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 to grow in fiscal 2013 compared to fiscal 2012 because of our focus on essential programs.

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

|   | December 30,      |           | Three Months Ended |           | Change |          |        |
|---|-------------------|-----------|--------------------|-----------|--------|----------|--------|
|   | 2012              |           | January 1,<br>2012 |           | \$     | %        |        |
|   | (\$ in thousands) |           |                    |           |        |          |        |
| Revenue   | \$                | 658,545   | \$                 | 682,627   | \$     | (24,082) | (3.5)% |
| Subcontractor costs                                 |                   | (161,347) |                    | (190,571) |        | 29,224   | 15.3   |
| Revenue, net of subcontractor costs (1)             |                   | 497,198   |                    | 492,056   |        | 5,142    | 1.0    |
| Other costs of revenue                              |                   | (408,995) |                    | (407,336) |        | (1,659)  | (0.4)  |
| Selling, general and administrative expenses        |                   | (46,394)  |                    | (48,627)  |        | 2,233    | 4.6    |
| Operating income                                    |                   | 41,809    |                    | 36,093    |        | 5,716    | 15.8   |
| Interest expense - net                              |                   | (1,185)   |                    | (1,311)   |        | 126      | 9.6    |
| Income before income tax expense                    |                   | 40,624    |                    | 34,782    |        | 5,842    | 16.8   |
| Income tax expense                                  |                   | (14,228)  |                    | (12,079)  |        | (2,149)  | (17.8) |
| Net income including noncontrolling interests       |                   | 26,396    |                    | 22,703    |        | 3,693    | 16.3   |
| Net income attributable to noncontrolling interests |                   | (172)     |                    | (93)      |        | (79)     | (84.9) |
| Net income attributable to Tetra Tech               | \$                | 26,224    | \$                 | 22,610    | \$     | 3,614    | 16.0   |

- (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.

In the first quarter of fiscal 2013, our earnings improved significantly compared to the year-ago quarter despite relatively similar revenue and revenue, net of subcontractor costs. Revenue declined \$24.1 million, or 3.5%, while revenue, net of subcontractor costs, increased \$5.1 million, or 1.0%, compared with the first quarter of last year. These results reflected \$44.0 million and \$21.6 million declines in revenue and revenue, net of subcontractor costs, respectively, from U.S. federal government programs. The decreases resulted from a broad-based slowdown of U.S. federal government programs, including reduced construction activities. Despite this trend, our overall revenue, including revenue from acquisitions completed in fiscal 2012, was fairly stable. This resulted from increased U.S. and international commercial activity, including our expansion into the higher-margin oil and gas market.

Operating income increased \$5.7 million, or 15.8%, in the first quarter of fiscal 2013 compared to the year-ago quarter. The increase resulted from the change in our revenue mix as U.S. federal government work was replaced with higher-margin commercial projects both in our U.S. and international operations. These projects included oil and gas work associated with an acquisition completed in fiscal 2012. In addition, the improvement was due to the lower amortization of intangibles of \$2.6 million related to acquisitions completed prior to fiscal 2012. Further, we achieved efficiencies and lowered overhead costs in our operations. As a result of these factors, our operating income as a percent of revenue, net of subcontractor costs, improved substantially to 8.4% from 7.3% in the first quarter of fiscal 2012. Income tax expense increased as a result of higher pre-tax income, as our effective tax rate of 35.0% is comparable with the year-ago quarter.



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

|  | December 30,<br>2012 | Three Months Ended<br>January 1,<br>2012 | Change     | %      |
|--|----------------------|--|------------|--------|
|  |                      | (\$ in thousands)                        | \$         |        |
| Revenue                                  | \$ 278,168           | \$ 279,160                               | \$ (992)   | (0.4)% |
| Subcontractor costs                      | (37,442)             | (44,611)                                 | 7,169      | 16.1   |
| Revenue, net of subcontractors costs (1) | \$ 240,726           | \$ 234,549                               | \$ 6,177   | 2.6    |
| Operating income                         | \$ 19,291            | \$ 21,856                                | \$ (2,565) | (11.7) |

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

Revenue in fiscal 2013 is comparable to the year-ago quarter while revenue, net of subcontractor costs, increased \$6.2 million compared to that quarter. Our international operations contributed an additional \$10.3 million and \$10.8 million of revenue and revenue, net of subcontractor costs, respectively, compared with last year's first quarter. This growth was driven by demand for our water, environmental and infrastructure design services globally, primarily from industrial and commercial clients. The decline in U.S. federal government revenue substantially offset this growth. Operating income declined \$2.6 million compared with the year-ago quarter due primarily to delays in project funding for certain municipal and mining projects in Canada.

**Technical Support Services**

|  | December 30,<br>2012 | Three Months Ended<br>January 1,<br>2012 | Change      | %      |
|--|----------------------|--|-------------|--------|
|  |                      | (\$ in thousands)                        | \$          |        |
| Revenue                                  | \$ 243,924           | \$ 255,123                               | \$ (11,199) | (4.4)% |
| Subcontractor costs                      | (76,363)             | (86,293)                                 | 9,930       | 11.5   |
| Revenue, net of subcontractors costs (1) | \$ 167,561           | \$ 168,830                               | \$ (1,269)  | (0.8)  |
| Operating income                         | \$ 22,343            | \$ 17,542                                | \$ 4,801    | 27.4   |

(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 \$11.2 million and \$1.3 million, respectively, compared to the first quarter of last year. This decline was primarily driven by decreases of \$26.9 million and \$8.7 million in revenue and revenue, net of subcontractor costs, respectively, from U.S. federal government programs across several agencies. These declines were partially offset by the growth in our work for commercial oil and gas clients, which included over \$7.0 million of revenue from a company we acquired in the third quarter of fiscal 2012. Despite a decrease in revenue, our operating income increased \$4.8 million as a result of our improved project performance; the benefit of higher

margin work from our oil and gas business, of which about half was derived from recent acquisitions; and the proactive reduction of overhead costs.

Table of Contents**Remediation and Construction Management**

|  | December 30,<br>2012 | Three Months Ended<br>January 1,<br>2012 | \$         | Change | %      |
|--|----------------------|--|------------|--------|--------|
|  | (\$ in thousands)    |  |            |        |        |
| Revenue                                  | \$ 158,431           | \$ 160,806                               | \$ (2,375) |        | (1.5)% |
| Subcontractor costs                      | (69,520)             | (72,129)                                 | 2,609      |        | 3.6    |
| Revenue, net of subcontractors costs (1) | \$ 88,911            | \$ 88,677                                | \$ 234     |        | 0.3    |
| Operating income                         | \$ 7,082             | \$ 5,890                                 | \$ 1,192   |        | 20.2   |

(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, were essentially the same as compared to the year-ago quarter. Although we experienced lower levels of activity with our U.S. federal government clients, we recognized higher revenue on commercial remediation and state transportation projects. Our operating income increased \$1.2 million compared to the same period last year due primarily to a \$1.1 million gain from a claim settlement on a U.S. federal government construction project in the first quarter of 2013.

**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.

EBITDA represents net income 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.

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

|                                       | December 30,<br>2012 | Three Months Ended<br>January 1,<br>2012 |
|---------------------------------------|----------------------|--|
|                                       | (in thousands)       |  |
| Net income attributable to Tetra Tech | \$ 26,224            | \$ 22,610                                |

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|                                      |    |           |    |           |
|--------------------------------------|----|-----------|----|-----------|
| Interest expense, net                |    | 1,185     |    | 1,311     |
| Depreciation (1)                     |    | 6,808     |    | 6,786     |
| Amortization (1)                     |    | 5,633     |    | 8,264     |
| Income tax expense                   |    | 14,228    |    | 12,079    |
| EBITDA                               | \$ | 54,078    | \$ | 51,050    |
| Revenue                              | \$ | 658,545   | \$ | 682,627   |
| Subcontractor costs                  |    | (161,347) |    | (190,571) |
| Revenue, net of subcontractors costs | \$ | 497,198   | \$ | 492,056   |

- (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.



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**Financial Condition, Liquidity and Capital Resources**

*Capital Requirements.* Our capital requirements are to fund working capital needs, capital expenditures 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 credit agreement (the 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.* Net cash provided by operating activities was \$17.8 million, a decrease of \$20.6 million compared to the prior-year quarter. The decrease resulted from changes in accrued compensation, accounts payable, other liabilities, prepaid expenses and other assets, and billings in excess of costs on uncompleted contract caused by the timing of payments to vendors, subcontractors and employees. Additionally, our income tax payments increased \$12.4 million in the first quarter of fiscal 2013 compared to the same quarter last year. The overall decrease was partially mitigated by a favorable change in accounts receivable due to the timing of cash collections and EBITDA growth.

*Investing Activities.* Net cash used in investing activities was \$18.5 million, an increase of \$11.7 million compared to the prior-year quarter. The increase resulted from net cash payments related to business acquisitions completed in the first quarter of fiscal 2013.

*Financing Activities.* Net cash provided by financing activities was \$47.9 million, compared to net cash used in financing activities of \$17.5 million in the prior-year quarter. In the first quarter of fiscal 2013, we borrowed \$89.2 million under the Credit Agreement to fund our working capital needs, acquisitions completed in the second quarter of fiscal 2013 and contingent earn-outs. The net cash provided by financing activities was partially offset by increases of \$11.5 million in repayments of long-term debt and \$13.0 million in contingent earn-out payments compared to the same quarter last year.

*Debt Financing.* Under our Credit Agreement, our revolving credit facility ( Facility ) is a \$460 million, five-year facility that matures on March 28, 2016. The Facility includes a \$200 million sublimit for the issuance of standby letters of credit and a \$100 million sublimit for multicurrency borrowings and letters of credit. At December 30, 2012, we had \$146.2 million in borrowings under the Facility at a weighted-average interest rate of 2.1% per annum. Additionally, we had \$24.5 million in standby letters of credit, of which \$5.5 million was issued outside of the Facility, and we had \$51.2 million in multicurrency borrowings under the Facility. At December 30, 2012, we had \$294.8 million of available credit under the Facility all of which could be borrowed without being in violation of our debt covenants.

The Credit Agreement contains certain financial and various other affirmative and negative covenants. They include, among others, a maximum consolidated leverage ratio of 2.5x (total funded debt/EBITDA, as defined in the Credit Agreement) and a minimum consolidated fixed charge coverage ratio of 1.25x (EBITDA, as defined in the Credit Agreement minus capital expenditures/cash interest plus taxes plus principal payments of indebtedness including capital leases, notes and post-acquisition payments). At December 30, 2012, we were in compliance with these covenants with a consolidated leverage ratio of 0.95x and a consolidated fixed charge coverage ratio of 1.60x. The Facility is guaranteed

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by our material subsidiaries and certain additional designated subsidiaries. Borrowings under the Credit Agreement are collateralized by our accounts receivable, the stock of our subsidiaries and intercompany loans.

*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.

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**Income Taxes**

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 will include a tax benefit from 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:

- 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 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 Credit Agreement or additional credit facilities, our ability to issue or renew standby letters of credit and bank guarantees would impair our ability to maintain normal operations. As of December 30, 2012, we had \$19.0 million in standby letters of credit outstanding under our Credit Agreement and \$5.5 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 as of December 30, 2012.
- 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 pursuant

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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 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.

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**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 Credit Agreement. We may borrow on our Facility, at our option, at either (a) a base rate (the highest of the U.S. federal funds rate plus 0.50% per annum, the bank's prime rate or the Eurocurrency rate plus 1.00%) plus a margin that ranges from 0.50% to 1.50% per annum, or (b) a Eurocurrency rate plus a margin that ranges from 1.50% to 2.50% per annum. Borrowings at the base rate have no designated term and may be repaid without penalty any time prior to the Facility's maturity date. Borrowings at a Eurodollar rate have a term no less than 30 days and no greater than 90 days. Typically, at the end of such term, such borrowings may be rolled over at our discretion into either a borrowing at the base rate or a borrowing at a Eurodollar rate with similar terms, not to exceed the maturity date of the Facility. The Facility matures on March 28, 2016, or earlier at our discretion upon payment in full of loans and other obligations. At December 30, 2012, we had \$146.2 million in borrowings outstanding under the Facility at a weighted-average interest rate of 2.1% per annum.

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 first quarters of fiscal 2013 and 2012, foreign currency gains and losses were immaterial and were recognized as part of SG&A expenses in our condensed consolidated statements of income.

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 quarters of fiscal 2013 and 2012, 25.4% and 23.4% of our consolidated revenue, respectively, was generated by our international business, and such revenue was primarily denominated in CAD. For the first quarter of fiscal 2013, the effect of foreign exchange rate translation on the condensed consolidated balance sheets was a reduction in equity of \$5.6 million compared to an increase in equity of \$10.8 million in the first quarter of fiscal 2012. These amounts were recognized as an adjustment to equity through other comprehensive income.

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 matures on January 28, 2013. In the third quarter of fiscal 2011, we entered into a new forward contract for CAD \$4.2 million (equivalent to U.S. \$4.2 million at the date of inception) that matures on January 27, 2014. Our objective is to eliminate variability of our cash flows on the amount of interest income we receive on the promissory notes from changes in foreign currency exchange rates. For more information, see Note 10, 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 December 30, 2012, 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 first 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.

On April 17, 2012, authorities in the province of Quebec, Canada charged two employees of BPR Triax, a subsidiary of BPR Inc., and BPR Triax, under the Canadian Criminal Code with allegations of corruption. BPR Triax generates approximately \$4 million in annual revenue. BPR Inc. is one of our Canadian subsidiaries, headquartered in Quebec City, Quebec. 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 we believe the allegations are limited to activities at BPR Triax prior to our acquisition of BPR Inc. in October 2010. The financial impact to us 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. The risks described below highlight some of the factors that have affected, and in the future could affect, our operations. 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 Budget Control Act of 2011 could significantly reduce government spending for the services we provide.**

On August 2, 2011, the Budget Control Act of 2011 (the Budget Control Act ) was enacted, which could impose an estimated \$1.2 trillion in future federal spending cuts if budget deficit targets are not achieved. If the U.S. federal government does not meet the Budget Control Act targets or does not otherwise delay or change this legislation, then automatic across-the-board budget cuts, or sequestrations, will be mandated across the federal budget in March 2013. Any significant reduction in federal government spending could reduce demand for our services, cancel or delay federal projects, and result in the closure of federal facilities and significant personnel reductions, which could have a material adverse effect on our results of operation and financial condition.

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

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;
- 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;

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- 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;
- 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;

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- actual events, circumstances, outcomes and amounts differing from judgments, assumptions and estimates used in determining the value of certain assets (including the amounts of related valuation allowances), liabilities and other items reflected in our consolidated financial statements;
- how well we execute our strategy and operating plans;
- 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 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.



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**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 first quarter of 2013, we generated 26.3% 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 first quarter of 2013, we generated 48.3% 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 34.6% of our revenue for the first quarter of 2013 from the following agencies: 12.8% from DoD agencies, 9.9% from USAID and 11.9% 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.

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;
- 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-compete of government contracts;

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- 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;

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- 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.

**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.

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**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.**

In the first quarter of 2013, we generated 25.4% 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.

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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.

**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

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generally do not have non-compete or employment agreements with key employees who were once equity holders of these companies. Further, many of our non-compete agreements have expired. We do not maintain key-man life insurance policies on any of our executive officers or senior managers.

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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;
  
- 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.

**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.**

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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.

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.

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.



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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.

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**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:

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

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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.

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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;
- 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.

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 December 30, 2012, our goodwill was \$644.1 million and other intangible assets were \$78.7 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.

**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.

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

Our backlog at December 30, 2012, 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.

**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.

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**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 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;



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

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



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**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.

**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.

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**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.**

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.

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

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

**If our reports and opinions are not in compliance with professional standards and other regulations, we could be subject to monetary damages and penalties.**

We issue reports and opinions to clients based on our professional engineering expertise, as well as our other professional credentials. Our reports and opinions may need to comply with professional standards, licensing requirements, securities regulations and other laws and rules governing the performance of professional services in the jurisdiction in which the services are performed. In addition, we could be liable to third parties who use or rely upon our reports or opinions even if we are not contractually bound to those third parties. For example, if we deliver an inaccurate report or one that is not in compliance with the relevant standards, and that report is made available to a third party, we could be subject to third-party liability, resulting in monetary damages and penalties.

**We may be subject to liabilities under environmental laws and regulations.**

Our services are subject to numerous U.S. and international environmental protection laws and regulations that are complex and stringent. For example, we must comply with a number of U.S. federal government laws that strictly regulate the handling, removal, treatment, transportation and disposal of toxic and hazardous substances. Under the Comprehensive Environmental Response Compensation and Liability Act of 1980, as amended ( CERCLA ), and comparable state laws, we may be required to investigate and remediate regulated hazardous materials. CERCLA and comparable state laws typically impose strict, joint and several liabilities without regard to whether a company knew of or caused the release of hazardous substances. The liability for the entire cost of clean-up could be imposed upon any responsible party. Other principal federal environmental, health and safety laws affecting us include, but are not limited to, the Resource Conservation and Recovery Act, the National Environmental Policy Act, the Clean Air Act, the Occupational Safety and Health Act, the Toxic Substances Control Act and the Superfund Amendments and Reauthorization Act. Our business operations may also be subject to similar state and international laws relating to environmental protection. Further, past business practices at companies that we have acquired may also expose us to future unknown environmental liabilities. Liabilities related to environmental contamination or human exposure to hazardous substances, or a failure to comply with applicable regulations, could result in substantial costs to us, including clean-up costs, fines and civil or criminal sanctions, third-party claims for property damage or personal injury or cessation of remediation activities. Our continuing work in the areas governed by these laws and regulations exposes us to the risk of substantial liability.

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

Force majeure or extraordinary events beyond the control of the contracting parties, such as natural and man-made disasters, as well as terrorist actions, could negatively impact the economies in which we operate by causing the closure of offices, interrupting projects and forcing the relocation of employees. Further, despite our implementation of network security measures, our servers are vulnerable to computer viruses, break-ins and similar disruptions from unauthorized tampering with our computer systems. We typically remain obligated to perform our services after a terrorist action or natural disaster unless the contract contains a force majeure clause that relieves us of our contractual obligations in such an extraordinary event. If we are not able to react quickly to force majeure, our operations may be affected significantly, which would have a negative impact on our financial condition, results of operations or cash flows.

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

Our success depends, in part, upon our ability to protect our proprietary information and other intellectual property. We rely principally on trade secrets to protect much of our intellectual property where we do not believe that patent or copyright protection is appropriate or obtainable. However, trade secrets are difficult to protect. Although our employees are subject to confidentiality obligations, this protection may be inadequate to deter or prevent misappropriation of our confidential information. In addition, we may be unable to detect unauthorized use of our intellectual property or otherwise take appropriate steps to enforce our rights. Failure to obtain or maintain trade secret protection could adversely affect our competitive business position. In addition, if we are unable to prevent third parties from infringing or misappropriating our trademarks or other proprietary information, our competitive position could be adversely affected.

**Systems and information technology interruption could adversely impact our ability to operate.**

We rely heavily on computer, information, and communications technology and systems to operate. From time to time, we experience system interruptions and delays. If we are unable to effectively deploy software and hardware, upgrade our systems and network infrastructure, and take steps to improve and protect our systems, systems operations could be interrupted or delayed.

Our computer and communications systems and operations could be damaged or interrupted by natural disasters, telecommunications failures, acts of war or terrorism and similar events or disruptions. In addition, we face the threat of unauthorized system access, computer hackers, computer viruses, malicious code, organized cyber-attacks, and other security breaches and system disruptions. We devote significant resources to the security of our computer systems, but they may still be vulnerable to threats. Anyone who circumvents security measures could misappropriate proprietary information or cause interruptions or malfunctions in system operations. As a result, we may be required to expend significant resources to protect against the threat of system disruptions and security breaches, or to alleviate problems caused by disruptions and breaches.

Any of these or other events could cause system interruption, delays, and loss of critical data that could delay or prevent operations, and could have a material adverse effect on our business, financial condition, results of operations and cash flows, and could negatively impact our clients.



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**Delaware law and our charter documents may impede or discourage a merger, takeover or other business combination even if the business combination would have been in the best interests of our stockholders.**

We are a Delaware corporation and the anti-takeover provisions of Delaware law impose various impediments to the ability of a third party to acquire control of us, even if a change in control would be beneficial to our stockholders. In addition, our Board of Directors has the power, without stockholder approval, to designate the terms of one or more series of preferred stock and issue shares of preferred stock, which could be used defensively if a takeover is threatened. Our incorporation under Delaware law, the ability of our Board of Directors to create and issue a new series of preferred stock and provisions in our certificate of incorporation and bylaws, such as those relating to advance notice of certain stockholder proposals and nominations, could impede a merger, takeover or other business combination involving us or discourage a potential acquirer from making a tender offer for our common stock, even if the business combination would have been in the best interests of our current stockholders.

**Our stock price could become more volatile and stockholders' investments could lose value.**

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

- quarter-to-quarter variations in our financial results, including revenue, profits, days sales outstanding, backlog, and other measures of financial performance or financial condition;
- our announcements or our competitors' announcements of significant events, including acquisitions;
- resolution of threatened or pending litigation;
- changes in investors' and analysts' perceptions of our business or any of our competitors' businesses;
- investors' and analysts' assessments of reports prepared or conclusions reached by third parties;
- changes in environmental legislation;



- investors' perceptions of our performance of services in countries in which the U.S. military is engaged, including Afghanistan;
- broader market fluctuations; and
- general economic or political conditions.

Volatility in the financial markets could cause a decline in our stock price, which could trigger an impairment of the goodwill of individual reporting units that could be material to our consolidated financial statements. A significant drop in the price of our stock could also expose us to the risk of securities class action lawsuits, which could result in substantial costs and divert management's attention and resources, which could adversely affect our business. Additionally, volatility or a lack of positive performance in our stock price may adversely affect our ability to retain key employees, many of whom are granted stock options and shares of restricted stock, the value of which is dependent on the performance of our stock price.

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**Item 4. Mine Safety Disclosure**

Section 1503 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act ) requires domestic mine operators to disclose violations and orders issued under the Federal Mine Safety and Health Act of 1977 (the Mine Act ) by the U.S. Mine Safety and Health Administration. We do not act as the owner of any mines, but we may act as a mining operator as defined under the Mine Act where we may be an independent contractor performing services or construction at such mine. Information concerning mine safety violations or other regulatory matters required by Section 1503(a) of the Dodd-Frank Act and Item 104 Regulations S-K is included in Exhibit 95.

**Item 6. Exhibits**

The following documents are filed as Exhibits to this Report:

- 31.1 Chief Executive Officer Certification pursuant to Rule 13a-14(a)/15d-14(a).
- 31.2 Chief Financial Officer Certification pursuant to Rule 13a-14(a)/15d-14(a).
- 32.1 Certification of Chief Executive Officer pursuant to Section 1350.
- 32.2 Certification of Chief Financial Officer pursuant to Section 1350.
- 95 Mine Safety Disclosure.
- 101 The following financial information from our Company's Quarterly Report on Form 10-Q, for the period ended December 30, 2012, formatted in eXtensible Business Reporting Language: (i) Condensed Consolidated Balance Sheets, (ii) Condensed Consolidated Statements of Income, (iii) Condensed Consolidated Statement of Comprehensive Income, (iv) Condensed Consolidated Statements of Cash Flows, (v) Notes to Condensed Consolidated Financial Statements.\*

\* Pursuant to Rule 406T of Regulation S-T, the XBRL related information in Exhibit 101 to this Quarterly Report on Form 10-Q shall not be deemed to be filed for purposes of Section 18 of the Securities Exchange Act of 1934 (the Exchange Act ), as amended, or otherwise subject to the liability of the section, and shall not be deemed part of a registration statement, prospectus or other document filed under the Securities Act of 1933 or the Exchange Act, except as shall be expressly set forth by specific reference in such filings.

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**SIGNATURES**

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

Dated: February 1, 2013

TETRA TECH, INC.

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

By: /s/ Steven M. Burdick  
Steven M. Burdick  
Chief Financial Officer and Treasurer  
(Principal Financial Officer)

By: /s/ Brian N. Carter  
Brian N. Carter  
Senior Vice President, Corporate Controller  
(Principal Accounting Officer)