TETRA TECH INC
Form 10-Q
February 04, 2011

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

ý	**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF**
	THE SECURITIES EXCHANGE ACT OF 1934
	For the quarterly period ended January 2, 2011

OR

o	**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
	For the transition period from ___________ to ___________

Commission File Number 0-19655

TETRA TECH, INC.

(Exact name of registrant as specified in its charter)

Delaware	**95-4148514**
(State or other jurisdiction of	(I.R.S. Employer

incorporation or organization)	Identification Number)

3475 East Foothill Boulevard, Pasadena, California 91107

(Address of principal executive offices) (Zip Code)

(626) 351-4664

(Registrant s telephone number, including area code)

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

Yes ý No o

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 ý No o

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

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

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

Yes o No ý

As of January 31, 2011, 62,294,547 shares of the registrant s common stock were outstanding.

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PART I. **FINANCIAL INFORMATION**

Item 1. **Financial Statements**

Tetra Tech, Inc.

Condensed Consolidated Balance Sheets

(unaudited - in thousands, except par value)

ASSETS	January 2, 2011	October 3, 2010
CURRENT ASSETS:		
Cash and cash equivalents	$ 81,546	$ 220,933
Accounts receivable net	600,312	566,642
Prepaid expenses and other current assets	59,187	49,889
Income taxes receivable	16,926	7,249
Total current assets	757,971	844,713
PROPERTY AND EQUIPMENT:		
Land and buildings	11,723	11,707
Equipment, furniture and fixtures	151,913	145,210
Leasehold improvements	22,587	18,104
Total	186,223	175,021
Accumulated depreciation and amortization	(101,845)	(95,638)
PROPERTY AND EQUIPMENT NET	84,378	79,383
INVESTMENTS IN AND ADVANCES TO UNCONSOLIDATED JOINT VENTURES	3,067	140
GOODWILL	535,125	394,422
INTANGIBLE ASSETS NET	75,505	45,995
OTHER ASSETS	19,279	17,036
TOTAL ASSETS	$ 1,475,325	$ 1,381,689
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 151,528	$ 166,450
Accrued compensation	90,819	93,243
Billings in excess of costs on uncompleted contracts	78,557	79,401
Deferred income taxes	23,172	21,851
Current portion of long-term debt	4,284	5,002
Contingent earn-out liability	25,942	10,513
Other current liabilities	81,834	90,747
Total current liabilities	456,136	467,207
DEFERRED INCOME TAXES	29,602	12,506
LONG-TERM DEBT	142,122	122,510
OTHER LONG-TERM LIABILITIES	51,198	31,333
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS EQUITY:		
Preferred stock Authorized, 2,000 shares of $0.01 par value; no shares issued and outstanding as of January 2, 2011 and October 3, 2010		
	620	618

Common stock Authorized, 150,000 shares of $0.01 par value; issued and outstanding, 61,973 and 61,755 shares as of January 2, 2011 and October 3, 2010, respectively				
Additional paid-in capital		374,666		368,865
Accumulated other comprehensive income		25,937		18,763
Retained earnings		382,188		359,887
Total Tetra Tech stockholders equity		783,411		748,133
Noncontrolling interests		12,856		
TOTAL STOCKHOLDERS EQUITY		796,267		748,133
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$	1,475,325	$	1,381,689

See accompanying Notes to Condensed Consolidated Financial Statements.

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Tetra Tech, Inc.

Condensed Consolidated Statements of Income

(unaudited in thousands, except per share data)

	Three Months Ended January 2, 2011	Three Months Ended December 27, 2009
Revenue	$ 611,124	$ 541,957
Subcontractor costs	(205,544)	(198,464)
Other costs of revenue	(329,927)	(273,710)
Selling, general and administrative expenses	(41,328)	(38,666)
Operating income	34,325	31,117
Interest expense	(1,305)	(256)
Income before income tax expense	33,020	30,861
Income tax expense	(10,266)	(12,152)
Net income including noncontrolling interests	22,754	18,709
Net income attributable to noncontrolling interests	(453)	
Net income attributable to Tetra Tech	$ 22,301	$ 18,709
Earnings per share attributable to Tetra Tech:		
Basic	$ 0.36	$ 0.31
Diluted	$ 0.36	$ 0.30
Weighted-average common shares outstanding:		
Basic	61,665	61,161
Diluted	62,443	62,089

See accompanying Notes to Condensed Consolidated Financial Statements.

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Tetra Tech, Inc.

Condensed Consolidated Statements of Cash Flows

(unaudited in thousands)

	Three Months Ended January 2, 2011	December 27, 2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income including noncontrolling interests	$ 22,754	$ 18,709
Adjustments to reconcile net income including noncontrolling interests to net cash from operating activities:		
Depreciation and amortization	13,553	7,897
Equity in earnings of unconsolidated joint ventures	(948)	(232)
Distributions of earnings from unconsolidated joint ventures	886	1,216
Stock-based compensation	2,774	2,700
Excess tax benefits from stock-based compensation	(84)	(701)
Deferred income taxes	4,318	7,934
Provision for doubtful accounts	(1,092)	(326)
Exchange gain	(72)	(106)
(Gain) loss on disposal of property and equipment	(101)	53
Changes in operating assets and liabilities, net of effects of acquisitions:		
Accounts receivable	37,994	14,892
Prepaid expenses and other assets	(10,375)	(267)
Accounts payable	(43,900)	(9,350)
Accrued compensation	(2,477)	(30,822)
Billings in excess of costs on uncompleted contracts	(7,929)	(12,812)
Other liabilities	(2,332)	4,570
Income taxes receivable/payable	(4,036)	(8,513)
Net cash provided by (used in) operating activities	8,933	(5,158)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(4,236)	(3,920)
Payments for business acquisitions, net of cash acquired	(166,877)	(1,415)
Proceeds from sale of property and equipment	144	139
Net cash used in investing activities	(170,969)	(5,196)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on long-term debt	(2,154)	(251)
Proceeds from borrowings	21,867	
Distributions paid to noncontrolling interests	(501)	
Excess tax benefits from stock-based compensation	84	701
Net proceeds from issuance of common stock	3,270	1,433
Net cash provided by financing activities	22,566	1,883
EFFECT OF EXCHANGE RATE CHANGES ON CASH	83	398
NET DECREASE IN CASH AND CASH EQUIVALENTS	(139,387)	(8,073)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	220,933	89,185
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 81,546	$ 81,112
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	$ 585	$ 353
Income taxes, net of refunds received	$ 8,809	$ 13,022

See accompanying Notes to Condensed Consolidated Financial Statements.

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TETRA TECH, INC.

Notes to Condensed Consolidated Financial Statements

1. Basis of Presentation

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

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

Our condensed consolidated financial statements include the accounts of our wholly-owned subsidiaries, and joint ventures of which we are the primary beneficiary. For the joint ventures in which we do not have a controlling interest, but exert a significant influence, we apply the equity method of accounting (see Note 11 Joint Ventures for further discussion). All significant intercompany balances and transactions have been eliminated in consolidation. Certain prior year amounts have been reclassified to conform to the current year presentation.

2. Accounts Receivable Net

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

	January 2, 2011	October 3, 2010
	(in thousands)	
Billed	$ 346,623	$ 314,905
Unbilled	274,627	271,643
Contract retentions	12,562	13,020
Total accounts receivable gross	633,812	599,568
Allowance for doubtful accounts	(33,500)	(32,926)
Total accounts receivable net	$ 600,312	$ 566,642

Billings in excess of costs on uncompleted contracts	$ 84,506	$ 85,221

Billed accounts receivable represent amounts billed to clients that have not been collected. Unbilled accounts receivable represent revenue recognized but not yet billed pursuant to contract terms or billed after the period end date. Substantially all unbilled receivables as of January 2, 2011 are expected to be billed and collected within twelve months. Contract retentions represent amounts withheld by clients until certain conditions are met or the project is completed, which may be several months or years. The allowance for doubtful accounts is determined based on a review of client-specific accounts, and contract issues resulting from current events and economic circumstances. Billings in excess of costs on uncompleted contracts represent the amount of cash collected from clients and billings to clients on contracts in advance of revenue recognized. The majority of billings in excess of costs on uncompleted contracts will be earned within twelve months.

Billed accounts receivable related to U.S. federal government contracts were $93.5 million and $86.3 million as of January 2, 2011 and October 3, 2010, respectively. U.S. federal government unbilled receivables, net of progress payments, were $107.8 million and $102.0 million as of January 2, 2011 and October 3, 2010, respectively. We reported $5.9 million and $5.8 million of non-current billings in excess of costs on uncompleted contracts as part of our Other long-term liabilities on our condensed consolidated balance sheets as of January 2, 2011 and October 3, 2010, respectively. Other than the U.S. federal government, no single client accounted for more than 10% of our accounts receivable as of January 2, 2011 and October 3, 2010.

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3. Mergers and Acquisitions

On October 4, 2010, we acquired all of the outstanding capital stock of BPR, Inc. (BPR), a Canadian scientific and engineering services firm that provides multidisciplinary consulting and engineering support for water, energy, industrial plants, buildings and infrastructure projects. This acquisition further expands our geographic presence in eastern Canada, and enables us to provide clients with additional services throughout Canada. BPR is part of our Engineering and Consulting Services segment. The initial purchase price was approximately $157 million, which was financed with borrowings under our revolving credit facility and available cash resources. In addition, the former shareholders may receive over a two-year period from the acquisition date contingent earn-out payments up to an aggregate maximum of approximately $40 million upon achievement of specified financial objectives. The estimated fair value of the contingent earn-out payments resulted in a discounted liability of $31.4 million, of which $15.5 million is reflected in Contingent earn-out liability and $15.9 million is included in Other long-term liabilities in the condensed consolidated balance sheet as of January 2, 2011. The contingent earn-out consideration is based on future operating income, and its fair value is estimated by management assessing the probability of the results being achieved in the future. The goodwill amount represents the value paid for the assembled workforce, the international geographic presence, and engineering and consulting expertise. The following table summarizes the estimated fair values of the assets acquired and liabilities assumed as of the date of acquisition:

	Amount (in thousands)
Current assets	$ 77,698
Property and equipment	7,178
Goodwill	131,350
Intangible and other assets	36,988
Current liabilities	(42,481)
Long-term deferred taxes	(11,053)
Noncontrolling interests	(12,222)
Net assets acquired	$ 187,458

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

4. Goodwill and Intangibles

The changes in the carrying value of goodwill by segment for the three months ended January 2, 2011 were as follows:

	October 3, 2010	Goodwill Additions	Currency Translation Adjustments (in thousands)	Goodwill Adjustments	January 2, 2011
Engineering and consulting services	$ 244,616	$ 131,350	$ 5,554	$ 2,106	$ 383,626
Technical support services	68,661			1,193	69,854
Engineering and architecture services	17,210			500	17,710
Remediation and construction management	63,935				63,935
Total	$ 394,422	$ 131,350	$ 5,554	$ 3,799	$ 535,125

The goodwill additions are attributable to the BPR acquisition described above. Substantially all the goodwill additions are not deductible for income tax purposes. The foreign currency translation adjustments relate to our Canadian operations. The goodwill adjustments reflect primarily earn-out payments associated with acquisitions consummated prior to fiscal 2010. The purchase price allocations related to the BPR acquisition are preliminary, and subject to adjustment based on the valuation and final determination of net assets acquired. We do not believe that any adjustment will have a material effect on our consolidated results of operations.

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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)	January 2, 2011 Gross Amount	January 2, 2011 Accumulated Amortization	October 3, 2010 Gross Amount	October 3, 2010 Accumulated Amortization
			($ in thousands)		
Non-compete agreements	2.3	$ 5,262	$ (2,537)	$ 4,295	$ (2,177)
Client relations	6.1	62,711	(10,756)	41,020	(8,351)
Backlog	1.3	46,980	(28,459)	35,311	(24,329)
Technology and trade name	5.4	2,452	(148)	246	(20)
Total		$ 117,405	$ (41,900)	$ 80,872	$ (34,877)

The increases in gross amounts resulted from the BPR acquisition and, to a lesser extent, foreign currency translation adjustments. For the first quarters of fiscal 2011 and 2010, amortization expense for these intangible assets was $6.8 million and $3.0 million, respectively. Estimated amortization expense for the remainder of fiscal 2011 and the succeeding years is as follows:

	Amount (in thousands)
2011	$ 18,990
2012	18,809
2013	9,485
2014	8,435
2015	8,242
Beyond	11,544
Total	$ 75,505

5. Stockholders Equity and Stock Compensation Plans

We recognize the fair value of our stock-based compensation awards as compensation expense on a straight-line basis over the requisite service period in which the award vests. Stock-based compensation expense for the first quarters of fiscal 2011 and 2010 was $2.8 million and $2.7 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 2011, we granted 1,012,849 stock options with an exercise price of $23.48 per share and an estimated weighted-average fair value of $9.12 per share. In addition, we awarded 84,606 shares of restricted stock to our directors and executive officers at the fair value of $23.48 per share on the award date. All of these shares are performance-based and vest over a three-year period. The number of shares that ultimately vest is based on the growth in our earnings per share.

6. Earnings Per Share (EPS)

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

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

	Three Months Ended			
	January 2, 2011		December 27, 2009	
	(in thousands, except per share data)			
Net income attributable to Tetra Tech	$	22,301	$	18,709
Weighted-average common shares outstanding - basic		61,665		61,161
Effect of dilutive stock options and unvested restricted stock		778		928
Weighted-average common stock outstanding - diluted		62,443		62,089
Earnings per share attributable to Tetra Tech:				
Basic	$	0.36	$	0.31
Diluted	$	0.36	$	0.30

For the first quarters of fiscal 2011 and 2010, 2.9 million and 1.2 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.

7. Income Taxes

The effective tax rates for the first quarters of fiscal 2011 and 2010 were 31.1% and 39.4%, respectively. The lower effective tax rate was primarily a result of the research and experimentation credits (R&E credits) extension and the continued expansion of foreign operations. In the first quarter of fiscal 2011, the Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010 was signed into law. The Act included a retroactive extension of R&E credits for amounts incurred from January 1, 2010 through December 31, 2011. As a result of the retroactive extension, a $1.2 million benefit from R&E credits for the last nine months of fiscal 2010 was included in our first quarter of fiscal 2011 tax expense.

We expect to complete R&E credit studies for fiscal 2008 and fiscal 2009 during the second quarter of fiscal 2011. The results of these studies may impact the benefit recognized for the R&E credits estimated for fiscal years 2008 through 2010. Any adjustments to amounts previously recorded will be included in tax expense for the second quarter of fiscal 2011.

8. Reportable Segments

Our reportable segments are as follows:

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

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

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

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

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

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

Reportable Segments

	ECS	TSS	EAS (in thousands)	RCM	Total
Three months ended January 2, 2011					
Revenue	$ 250,921	$ 147,830	$ 67,983	$ 174,508	$ 641,242
Segment operating income	21,108	11,569	4,744	4,524	41,945
Depreciation expense	2,756	260	487	2,419	5,922
Total assets	855,444	293,824	95,299	296,838	1,541,405
Three months ended December 27, 2009					
Revenue	$ 164,555	$ 130,085	$ 65,998	$ 200,393	$ 561,031
Segment operating income	13,196	10,410	2,291	9,466	35,363
Depreciation expense	1,407	159	553	2,057	4,176
Total assets	493,458	230,052	87,311	312,571	1,123,392

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Reconciliations

	Three Months Ended January 2, 2011	Three Months Ended December 27, 2009
	(in thousands)	
Revenue		
Revenue from reportable segments	$ 641,242	$ 561,031
Elimination of inter-segment revenue	(30,118)	(19,074)
Total consolidated revenue	$ 611,124	$ 541,957
Operating Income		
Segment operating income	$ 41,945	$ 35,363
Amortization of intangibles	(6,781)	(2,980)
Other expense (1)	(839)	(1,266)
Total consolidated operating income	$ 34,325	$ 31,117
Depreciation Expense		
Depreciation expense from reportable segments	$ 5,922	$ 4,176
Other (2)	747	639
Total consolidated depreciation expense	$ 6,669	$ 4,815
Assets		
Total assets of reportable segments	$ 1,541,405	$ 1,123,392
Assets not allocated to segments and intercompany eliminations	(66,080)	(37,178)
Total consolidated assets	$ 1,475,325	$ 1,086,214

(1) Other expense includes corporate costs not allocable to segments.
(2) Other includes depreciation expense from corporate headquarters.

Major Clients

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

The following table represents our revenue by client sector:

	Three Months Ended January 2, 2011	Three Months Ended December 27, 2009
	(in thousands)	
Client Sector		
Federal government	$ 283,520	$ 299,371
State and local government	65,912	75,314
Commercial	135,135	127,466
International (1)	126,557	39,806

Total	$	611,124	$	541,957

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

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9. Comprehensive Income

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

	Three Months Ended	
	January 2, 2011	December 27, 2009
	(in thousands)	
Net income including noncontrolling interests	$ 22,754	$ 18,709
Other comprehensive income:		
Foreign currency translation adjustment	7,365	4,102
Foreign currency hedge	(191)	(170)
Comprehensive income including noncontrolling interests	29,928	22,641
Comprehensive income attributable to noncontrolling interests	(453)	
Comprehensive income attributable to Tetra Tech	$ 29,475	$ 22,641

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 Canadian dollars. In the first quarter of fiscal 2010, we entered into three foreign currency forward contracts to fix the U.S. dollar amount of interest income to be received over the next three annual periods. Each contract is for CAD $4.2 million (equivalent to U.S. $4.0 million at date of inception) and one contract matures on each of January 27, 2010, January 27, 2011, and January 27, 2012. In the second quarter of fiscal 2010, we settled the first foreign currency forward contract for U.S. $3.9 million. We also entered into a new forward contract for CAD $4.2 million (equivalent to U.S. $3.9 million at date of inception) that matures on January 28, 2013. Our objective was to eliminate variability of our cash flows on the amount of interest income we receive on the promissory note from changes in foreign currency exchange rates for a three-year period. These contracts were designated as cash flow hedges. Accordingly, changes in the fair value of the contracts are recorded in Other comprehensive income. The fair value and the change in the fair value were not material for the first quarters of fiscal 2011 and 2010. No gains or losses were recognized in earnings as these contracts were deemed to be effective hedges.

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

11. Joint Ventures

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

In the normal course of business, we form joint ventures, including partnerships and partially-owned limited liability companies, with third parties primarily to bid on and execute specific projects. In accordance with the current consolidation standard, we analyzed all of our joint ventures and classified them into two groups: (1) joint ventures that must be consolidated because they are either not VIEs and we hold the majority voting interest, or because they are VIEs and we are the primary beneficiary; and (2) joint ventures that do not need to be consolidated because they are either not VIEs and we hold a minority voting interest, or because they are VIEs and we are not the primary beneficiary.

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

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

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

Consolidated Joint Ventures

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

		January 2, 2011 (in thousands)
Cash	$	5,259
Other current assets		16,766
Non-current assets		16,362
Total assets	$	38,387
Accounts payable	$	10,065
Other liabilities		2,068
Total liabilities		12,133
Total Tetra Tech equity		13,398
Noncontrolling interests		12,856
Total owners equity		26,254
Total liabilities and owners equity	$	38,387

The aggregate revenue of the consolidated joint ventures was $19.2 million for the three months ended January 2, 2011. The assets, liabilities and revenue of the consolidated joint ventures were immaterial for prior annual and interim periods as the largest consolidated joint ventures were acquired in connection with our BPR acquisition in the first quarter of fiscal 2011. The assets of our consolidated joint ventures are restricted for use only by those joint ventures and are not available for our general operations.

Unconsolidated Joint Ventures

We account for the majority of our unconsolidated joint ventures using the equity method of accounting. Under this method, we recognize our proportionate share of the net earnings of these joint ventures as a single line item under Other costs of revenue in our condensed consolidated statements of income. For the first quarters of fiscal 2011 and 2010, we reported \$0.9 million and \$0.2 million of equity in earnings of unconsolidated joint ventures, respectively. Our maximum exposure to loss as a result of our investments in unconsolidated VIEs is typically limited to the aggregate of the carrying value of the investment and future funding commitments. Future funding commitments for the unconsolidated VIEs are immaterial. The unconsolidated VIEs are individually and in aggregate immaterial to our condensed consolidated financial statements.

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As of January 2, 2011, the aggregate carrying values of the assets and liabilities of the unconsolidated VIEs were $39.0 million and $21.7 million, respectively. The carrying value of these assets and liabilities as of October 3, 2010 were immaterial.

12. Commitments and Contingencies