TETRA TECH INC
Form 10-Q
February 03, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended January 1, 2012

OR

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

For the transition period from _____ to _____

Commission File Number 0-19655

TETRA TECH, INC.

(Exact name of registrant as specified in its charter)

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

3475 East Foothill Boulevard, Pasadena, California 91107

(Address of principal executive offices) (Zip Code)

(626) 351-4664

(Registrant s telephone number, including area code)

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

Yes ý No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate 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 30, 2012, 63,139,938 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 1, 2012	October 2, 2011
CURRENT ASSETS:		
Cash and cash equivalents	$ 105,720	$ 90,494
Accounts receivable net	664,970	657,179
Prepaid expenses and other current assets	71,351	84,612
Income taxes receivable	4,262	6,817
Total current assets	846,303	839,102
PROPERTY AND EQUIPMENT NET	75,307	77,536
INVESTMENTS IN AND ADVANCES TO UNCONSOLIDATED JOINT VENTURES	3,410	3,454
GOODWILL	577,406	569,414
INTANGIBLE ASSETS NET	74,569	81,053
OTHER ASSETS	23,632	23,429
TOTAL ASSETS	$ 1,600,627	$ 1,593,988
LIABILITIES AND EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 145,595	$ 164,819
Accrued compensation	101,933	110,937
Billings in excess of costs on uncompleted contracts	93,571	84,754
Deferred income taxes	20,768	22,870
Current portion of long-term debt	2,259	2,556
Estimated contingent earn-out liabilities	54,487	64,119
Other current liabilities	85,774	81,654
Total current liabilities	504,387	531,709
DEFERRED INCOME TAXES	30,194	25,394
LONG-TERM DEBT	134,570	144,868
OTHER LONG-TERM LIABILITIES	37,419	36,767
COMMITMENTS AND CONTINGENCIES		
EQUITY:		
Preferred stock Authorized, 2,000 shares of $0.01 par value; no shares issued and outstanding at January 1, 2012, and October 2, 2011		
Common stock Authorized, 150,000 shares of $0.01 par value; issued and outstanding, 62,748 and 62,495 shares at January 1, 2012, and October 2, 2011, respectively	627	625
Additional paid-in capital	404,896	399,420
Accumulated other comprehensive income	15,380	4,754
Retained earnings	472,536	449,926

Tetra Tech stockholders equity		893,439		854,725
Noncontrolling interests		618		525
TOTAL EQUITY		894,057		855,250
TOTAL LIABILITIES AND EQUITY	$	1,600,627	$	1,593,988

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 1, 2012	**January 2, 2011**
Revenue	$ 682,627	$ 611,124
Subcontractor costs	(190,571)	(205,544)
Other costs of revenue	(407,336)	(329,927)
Selling, general and administrative expenses	(48,627)	(41,328)
Operating income	36,093	34,325
Interest expense - net	(1,311)	(1,305)
Income before income tax expense	34,782	33,020
Income tax expense	(12,079)	(10,266)
Net income including noncontrolling interests	22,703	22,754
Net income attributable to noncontrolling interests	(93)	(453)
Net income attributable to Tetra Tech	$ 22,610	$ 22,301
Earnings per share attributable to Tetra Tech:		
Basic	$ 0.36	$ 0.36
Diluted	$ 0.36	$ 0.36
Weighted-average common shares outstanding:		
Basic	62,433	61,665
Diluted	63,068	62,443

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 1, 2012	**January 2, 2011**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income including noncontrolling interests	$ 22,703	$ 22,754
Adjustments to reconcile net income including noncontrolling interests to net cash from operating activities:		
Depreciation and amortization	15,206	13,553
Equity in earnings of unconsolidated joint ventures	(969)	(948)
Distributions of earnings from unconsolidated joint ventures	1,079	886
Stock-based compensation	2,916	2,774
Excess tax benefits from stock-based compensation	(35)	(84)
Deferred income taxes	494	4,318
Provision for doubtful accounts	2,879	(1,092)
Exchange gain	(14)	(72)
Gain on disposal of property and equipment	(84)	(101)
Changes in operating assets and liabilities, net of effects of acquisitions:		
Accounts receivable	(10,669)	37,994
Prepaid expenses and other assets	11,172	(10,375)
Accounts payable	(19,241)	(43,900)
Accrued compensation	(9,004)	(2,477)
Billings in excess of costs on uncompleted contracts	8,796	(7,929)
Other liabilities	9,650	(2,332)
Income taxes receivable/payable	3,434	(4,036)
Net cash provided by operating activities	38,313	8,933
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(4,593)	(4,236)
Payments for business acquisitions, net of cash acquired	(2,574)	(166,877)
Proceeds from sale of property and equipment	377	144
Net cash used in investing activities	(6,790)	(170,969)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on long-term debt	(11,012)	(2,154)
Proceeds from borrowings	546	21,867
Payments of earn-out liabilities	(9,368)	
Net change overdrafts	(738)	
Distributions paid to noncontrolling interests		(501)
Excess tax benefits from stock-based compensation	35	84
Net proceeds from issuance of common stock	2,990	3,270
Net cash (used in) provided by financing activities	(17,547)	22,566
EFFECT OF EXCHANGE RATE CHANGES ON CASH	1,250	83
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	15,226	(139,387)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	90,494	220,933
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 105,720	$ 81,546
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid during the period for:		

Interest	$	1,107	$	585
Income taxes, net of refunds received	$	8,772	$	8,809

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 2, 2011.

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

Our condensed consolidated financial statements include the accounts of our wholly-owned subsidiaries, and joint ventures of which we are the primary beneficiary. For the joint ventures in which we do not have a controlling interest, but exert a significant influence, we apply the equity method of accounting (see Note 12, Joint Ventures for further discussion). In the first quarter of fiscal 2012, we re-aligned certain operating units within our reportable segments to improve organizational effectiveness and efficiency by better aligning operations with similar client types, project types and financial metrics (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 2012 and 2011, 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:

	January 1, 2012	October 2, 2011
	(in thousands)	
Billed	$ 362,362	$ 364,779
Unbilled	319,385	309,091
Contract retentions	19,850	15,553
Total accounts receivable gross	701,597	689,423

Allowance for doubtful accounts		(36,627)		(32,244)
Total accounts receivable net	$	664,970	$	657,179
Current billings in excess of costs on uncompleted contracts	$	93,571	$	84,754
Non-current billings in excess of costs on uncompleted contracts		5,811		5,832
Total billings in excess of costs on uncompleted contracts	$	99,382	$	90,586

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 January 1, 2012 are expected to be billed and collected within 12 months. Unbilled accounts receivable at January 1, 2012 include approximately $19 million related to claims and requests for equitable adjustment on contracts that provide for price redetermination primarily with agencies of the U.S. federal government. This amount is management s estimate of the most probable amount to be realized upon the conclusion of claims settlement process. Contract retentions represent amounts withheld by clients until certain conditions are met or the project is completed, which may take 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

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cash collected from clients and billings to clients on contracts in advance of revenue recognized. The majority of billings in excess of costs on uncompleted contracts will be earned within 12 months.

Billed accounts receivable related to U.S. federal government contracts were $94.8 million and $88.5 million at January 1, 2012 and October 2, 2011, respectively. U.S. federal government unbilled receivables, net of progress payments, were $109.9 million and $102.7 million at January 1, 2012 and October 2, 2011, respectively. The non-current billings in excess of costs on uncompleted contracts are reported as part of our Other long-term liabilities on our condensed consolidated balance sheets. Other than the U.S. federal government, no single client accounted for more than 10% of our accounts receivable at January 1, 2012 and October 2, 2011.

3. Mergers and Acquisitions

At the beginning of the first quarter of fiscal 2011, 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 expanded our geographic presence in eastern Canada, and enabled us to provide clients with additional services throughout Canada. BPR is part of our Engineering and Consulting Services segment. As of the acquisition date, the estimated fair value of the purchase price was approximately $186 million, which resulted in $128.1 million of goodwill. The goodwill amount represented the value paid for the assembled work force, the international geographic presence in eastern Canada, and engineering and consulting expertise. The following table summarizes the estimated fair values of the assets acquired and liabilities assumed as of the acquisition date:

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

In fiscal 2011, we made other acquisitions that enhanced our service offerings and expanded our geographic presence in the Engineering and Consulting Services and Technical Support Services segments. The aggregate fair value of the purchase price for these acquisitions was approximately $100 million.

The fair values of the purchase prices for acquisitions we completed in fiscal 2011 and 2010 include estimated contingent earn-out liabilities. The fair values and ultimate payments of these liabilities are based upon the achievement of specified financial objectives typically over a two-year period from the respective acquisition dates. The aggregate current estimated earn-out liabilities of $54.5 million and $64.1 million are reported in Estimated contingent earn-out liabilities , and the aggregate non-current estimated earn-out liabilities of $11.4 million and $11.0 million are reported in Other long-term liabilities on the condensed consolidated balance sheets at January 1, 2012 and October 2, 2011, respectively.

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4. Goodwill and Intangibles

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

	Engineering and Consulting Services	Technical Support Services	Engineering and Architecture Services (2)	Remediation and Construction Management	Total
			(in thousands)		
Balance at October 2, 2011(1)	$ 376,340	$ 127,526	$ 17,710	$ 47,838	$ 569,414
Adjustments	35				35
Currency translation adjustments(3)	7,957				7,957
Balance at January 1, 2012	$ 384,332	$ 127,526	$ 17,710	$ 47,838	$ 577,406

(1) Prior year amounts for reportable segments have been reclassified to conform to the current year presentation as discussed in Note 1, Basis of Presentation .

(2) Gross amount of goodwill for the Engineering and Architecture Services segment was $122.7 million for both January 1, 2012, and October 2, 2011. For both periods, accumulated impairment losses for this segment were $105 million, reflecting impairment charges in fiscal 2005. There were no impairment losses in the other reportable segments.

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

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

		January 1, 2012		October 2, 2011	
	Weighted-Average Remaining Life (in Years)	Gross Amount	Accumulated Amortization	Gross Amount	Accumulated Amortization
			($ in thousands)		
Non-compete agreements	1.7	$ 5,257	$ (3,756)	$ 5,175	$ (3,430)
Client relations	6.0	83,326	(21,390)	81,619	(17,951)
Backlog	0.7	53,623	(44,547)	52,938	(39,452)
Technology and trade names	4.4	2,755	(699)	2,684	(530)
Total		$ 144,961	$ (70,392)	$ 142,416	$ (61,363)

In the first quarter of fiscal 2012, gross amounts increased due to foreign currency translation adjustments. Amortization expense for these intangible assets for the first quarters of fiscal 2012 and 2011 was $8.3 million and $6.8 million, respectively. Estimated amortization expense for the remainder of fiscal 2012 and succeeding years is as follows:

		Amount (in thousands)
2012	$	18,951
2013		12,291
2014		11,203
2015		10,910
2016		9,388
Beyond		11,826
Total	$	74,569

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5. Property and Equipment

Property and equipment consisted of the following:

	January 1, 2012	October 2, 2011
	(in thousands)	
Land and buildings	$ 11,729	$ 11,729
Equipment, furniture and fixtures	163,999	160,644
Leasehold improvements	24,341	23,304
	200,069	195,677
Accumulated depreciation and amortization	(124,762)	(118,141)
Property and equipment at cost, net	$ 75,307	$ 77,536

The depreciation expense related to property and equipment, including assets under capital leases, was $6.8 million and $6.7 million for the first quarters of fiscal 2012 and 2011, respectively.

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 2012 and 2011 was $2.9 million and $2.8 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 2012, we granted 407,249 stock options with an exercise price of $22.53 per share and an estimated weighted-average fair value of $9.36 per share. In addition, we awarded 105,567 shares of restricted stock to our directors and executive officers at the fair value of $22.53 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 181,348 restricted stock units (RSUs) to our employees at the fair value of $22.53 per share on the award date. All of the RSUs have time-based vesting over a four-year period.

7. Earnings Per Share (EPS)

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

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

	Three Months Ended	
	January 1, 2012	January 2, 2011
	(in thousands, except per share data)	
Net income attributable to Tetra Tech	$ 22,610	$ 22,301
Weighted-average common shares outstanding - basic	62,433	61,665
Effect of dilutive stock options and unvested restricted stock	635	778
Weighted-average common stock outstanding - diluted	63,068	62,443
Earnings per share attributable to Tetra Tech:		
Basic	$ 0.36	$ 0.36
Diluted	$ 0.36	$ 0.36

For the first quarters of fiscal 2012 and 2011, 3.4 million and 2.9 million options were excluded from the calculation of dilutive potential common shares, respectively. These options were not included in the computation of dilutive potential common shares because the assumed proceeds per share exceeded the average market price per share for that period. Therefore, their inclusion would have been anti-dilutive.

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8. Income Taxes

The effective tax rates for the first quarters of fiscal 2012 and 2011 were 34.7% and 31.1%, respectively. In the first quarter of fiscal 2011, the Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010 was re-signed into law, including a retroactive extension of federal research and experimentation credits (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, resulting in a lower effective tax rate in fiscal 2011. With the expiration of federal R&E credits on December 31, 2011, we estimated a benefit from these credits only through the expiration date. Should the R&E credits provision be retroactively extended during fiscal 2012, additional benefits will be reflected in our effective tax rate during the quarter reporting period of enactment.

9. Reportable Segments

In the first quarter of fiscal 2012, we implemented organizational changes that resulted in a realignment of certain operating units within our reportable segments. These changes are intended to improve organizational effectiveness and efficiency by better aligning operations with similar client types, project types and financial metrics. Prior year amounts have been reclassified to conform to the current year presentation.

Our reportable segments are as follows:

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

Technical Support Services (TSS). TSS advises clients through the study, design and implementation phases of projects. TSS provides management consulting and strategic direction in the areas of environmental assessments/hazardous waste management, climate change, international development/stabilization, energy services, 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) and sustainability services, together with technical and program administration services for projects related to water infrastructure, buildings, and transportation and facilities.

Remediation and Construction Management (RCM). RCM is focused on providing full-service support to U.S. federal government, U.S. state and local governments, and U.S. commercial clients. RCM s service lines include environmental remediation, construction management, infrastructure development, and alternative energy.

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

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

Reportable Segments

	ECS	TSS	EAS	RCM	Total
			(in thousands)		
Three months ended January 1, 2012:					
Revenue	$ 245,663	$ 228,832	$ 81,633	$ 160,758	$ 716,886
Segment operating income	19,491	15,502	4,405	5,890	45,288
Three months ended January 2, 2011:					
Revenue	$ 205,389	$ 223,305	$ 67,983	$ 144,565	$ 641,242
Segment operating income	18,301	15,789	4,744	3,111	41,945

Total assets by segment were as follows:

	January 1, 2012	October 2, 2011
	(in thousands)	
ECS	$ 792,491	$ 767,347
TSS	505,309	505,198
EAS	110,112	111,555
RCM	303,667	296,361
Total assets	$ 1,711,579	$ 1,680,461

Reconciliations

	Three Months Ended	
	January 1, 2012	January 2, 2011
	(in thousands)	
Revenue		
Revenue from reportable segments	$ 716,886	$ 641,242
Elimination of inter-segment revenue	(34,259)	(30,118)
Total consolidated revenue	$ 682,627	$ 611,124
Operating Income		
Segment operating income	$ 45,288	$ 41,945
Amortization of intangibles	(8,264)	(6,781)
Other expense (1)	(931)	(839)
Total consolidated operating income	$ 36,093	$ 34,325

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

	January 1, 2012	October 2, 2011
	(in thousands)	
Assets		
Total assets of reportable segments	$ 1,711,579	$ 1,680,461
Assets not allocated to segments and intercompany eliminations	(110,952)	(86,473)
Total consolidated assets	$ 1,600,627	$ 1,593,988

Major Clients

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

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The following table represents our revenue by client sector:

	Three Months Ended	
	January 1, 2012	January 2, 2011
	(in thousands)	
Client Sector		
International (1)	$ 159,931	$ 126,557
U.S. commercial	177,430	135,135
U.S. federal government (2)	271,408	283,520
U.S. state and local government	73,858	65,912
Total	$ 682,627	$ 611,124

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

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

10. Comprehensive Income

Comprehensive income is comprised of net income, 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 1, 2012	January 2, 2011
	(in thousands)	
Net income including noncontrolling interests	$ 22,703	$ 22,754
Other comprehensive income:		
Foreign currency translation adjustment	10,827	7,365
Foreign currency hedge	(201)	(191)
Comprehensive income including noncontrolling interests	33,329	29,928
Comprehensive income attributable to noncontrolling interests	(93)	(453)
Comprehensive income attributable to Tetra Tech	$ 33,236	$ 29,475

11. Fair Value Measurements

Derivative Instruments. In fiscal 2009, we entered into an intercompany promissory note with a wholly-owned Canadian subsidiary in connection with the acquisition of Wardrop Engineering, Inc. The intercompany note receivable is denominated in Canadian dollars (CAD) and has a fixed rate of interest payable in CAD. In the first quarter of fiscal 2010, we entered into a forward contract for CAD $4.2 million (equivalent to U.S. $4.0 million at the date of inception) that matures on January 27, 2012. 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. In the second quarter of fiscal 2012, we settled one of the foreign currency forward contracts for U.S. $3.9

million. Our objective was to eliminate variability of our cash flows on the amount of interest income we receive on the promissory note from changes in foreign currency exchange rates. These contracts were designated as cash flow hedges. Accordingly, changes in the fair value of the contracts 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 2012 and 2011. 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.

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12. Joint Ventures

We are required to perform an analysis to determine whether our variable interests give us a controlling financial interest in a variable interest entity (VIE) and whether we should therefore consolidate the VIE. This analysis requires us to assess whether we have the power to direct the activities of the VIE and the obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIE. 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 has been historically 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.

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.

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. In the first quarter of fiscal 2012, there were no changes in the status of the VIEs and no changes to the primary beneficiary designation of each VIE. Accordingly, we determined that none of the unconsolidated joint ventures should be consolidated and none of the consolidated joint ventures should be de-consolidated.

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 2012 and 2011, we reported $1.0 million and $0.9 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. For consolidated joint ventures, the assets are restricted for use only by those joint ventures and are not available for our general operations. Our consolidated and unconsolidated joint ventures are each, individually and in aggregate, immaterial to our condensed consolidated financial statements.

13. Commitments and Contingencies

We are subject to certain claims and lawsuits typically filed against the engineering, consulting and construction profession, alleging primarily professional errors or omissions. We carry professional liability insurance, subject to certain deductibles and policy limits, against such claims. However, in some actions, parties

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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.

In May 2003, Innovative Technologies Corporation (ITC) filed a lawsuit in Montgomery County, Ohio against Advanced Management Technology, Inc. (AMT) and other defendants for misappropriation of trade secrets, among other claims. In June 2004, we purchased all the outstanding shares of AMT. As part of the purchase agreement, the former owners of AMT agreed to indemnify us for all costs and damages related to this lawsuit. In December 2007, the case went to trial and the jury awarded $5.8 million in compensatory damages to ITC. In addition, the jury awarded $17 million in punitive damages to ITC plus reasonable attorneys fees. In July 2008, the Common Pleas Court of Montgomery County denied AMT s motion for judgment notwithstanding the verdict and conditionally denied AMT s motion for a new trial. Further, the court remitted the verdict to $2.0 million in compensatory damages and $5.8 million in punitive damages. ITC accepted the remittitur, and AMT appealed. The appellate court remanded the matter to the trial court for ruling on ITC s motion for prejudgment interest and attorneys fees. In December 2009, the trial court awarded ITC $2.9 million in attorneys fees and costs, and denied ITC s motion for prejudgment interest. AMT appealed the trial court s decision awarding compensatory and punitive damages, and attorneys fees and costs. ITC cross-appealed the trial court s decision to remit the jury verdict and the trial court s denial of prejudgment interest. On October 28, 2011, the court of appeals issued its decision and affirmed the trial court s rulings. As of that date, the outstanding judgment against AMT, including post-judgment interest, approximated $12.9 million. ITC has filed a motion seeking additional attorneys fees which is pending. In December 2011, AMT appealed the court of appeals decision to the Ohio Supreme Court. AMT has posted a bond, as required by the trial court, for $13.4 million. The Ohio Supreme Court has stayed enforcement of the judgment pending appeal and the bond has been continued. We believe that a reasonably possible range of exposure, including attorneys fees, is from $0 to approximately $14.5 million. At January 1, 2012, we have recorded a liability representing our best estimate of a probable loss. Further, for the same amount, we have recorded a receivable from the former owners of AMT as we believe it is probable they will fully honor their indemnification agreement with us for any and all costs and damages related to this lawsuit.

14. Recent Accounting Pronouncements

In January 2010, the Financial Accounting Standards Board (FASB) issued updated accounting guidance that amends the disclosure requirements with respect to fair value measurements. Specifically, the new guidance requires disclosure of amounts transferred in and out of Levels 1 and 2 fair value measurements, a reconciliation presented on a gross basis rather than a net basis of activity in Level 3 fair value measurements, greater disaggregation of the assets and liabilities for which fair value measurements are presented, and more robust disclosure of the valuation techniques and inputs used to measure Level 2 and 3 fair value measurements. Part of this guidance was effective for us in the first quarter of fiscal 2011. We adopted the additional requirement on Level 3 fair value measurements on October 3, 2011. The adoption of this guidance did not have a material impact on the consolidated financial statements.

In December 2010, the FASB issued updated accounting guidance to clarify that pro forma disclosures should be presented as if a business combination occurred at the beginning of the prior annual period for purposes of preparing both the current reporting period and the prior reporting period pro forma financial information. These disclosures should be accompanied by a narrative description about the nature and amount of material, nonrecurring pro forma adjustments. The new accounting guidance is effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. We adopted this guidance on October 3, 2011; however, no business combinations have been completed since adoption.

In December 2010, the FASB issued updated accounting guidance to amend the criteria for performing Step 2 of the goodwill impairment test for reporting units with zero or negative carrying amounts and requires performing Step 2 if qualitative factors indicate that it is more likely than not that a goodwill impairment exists. The new accounting guidance is effective for fiscal years beginning after December 15, 2010. We

adopted the disclosures on October 3, 2011 and it did not have an impact on the consolidated financial statements.

In May 2011, the FASB issued updated guidance to improve comparability of fair value measurements between GAAP and International Financial Reporting Standards. This update amends current fair value

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measurement and disclosure guidance to include increased transparency around valuation inputs and investment categorization. The updated guidance is effective for fiscal years and interim periods beginning after December 15, 2011. Early adoption is not permitted. We will adopt the updated guidance in the first quarter of fiscal 2013, and we do not expect the adoption to have a material impact on the consolidated financial statements.

In June 2011, the 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 continue to be followed. This new guidance is effective for fiscal years and interim periods beginning after December 15, 2011 (first quarter of fiscal 2013 for us) on a retrospective basis.

In September 2011, the FASB issued updated accounting guidance to simplify how an entity tests goodwill for impairment. The amendments permit 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 annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted. We expect to adopt the guidance in fiscal 2012, and we do not expect the adoption to have a material impact on the 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 GAAP and financial statements prepared on the basis of International Financial Reporting Standards. This guidance is effective for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods with retrospective application required. We will adopt the updated guidance in the first quarter of fiscal 2014 and are evaluating the impact on the consolidated financial statements.

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

FORWARD-LOOKING STATEMENTS

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

GENERAL OVERVIEW

We are a leading provider of consulting, engineering, program management, construction management and technical services that focuses on supporting the global fundamental needs for water, the environment, energy, infrastructure and natural resources. We are a full-service company that leads with science. We typically begin at the earliest stage of a project by identifying technical solutions to problems and developing execution plans tailored to our clients needs and resources. Our solutions may span the entire life cycle of consulting and engineering projects and include applied science, research and technology, engineering, design, construction management, construction, operations and maintenance, and information technology. We focus on both organic and acquisitive growth to expand our geographic reach, diversify our client base, and increase the breadth and depth of our service offerings to address existing and emerging markets. We currently have approximately 13,000 employees worldwide, located primarily in North America.

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

	Three Months Ended	
	January 1, 2012	**January 2, 2011**
Client Sector		
International (1)	23.4%	20.7%
U.S. commercial	26.0	22.1
U.S. federal government (2)	39.8	46.4

U.S. state and local government	10.8	10.8
	100.0%	100.0%

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

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

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In the first quarter of fiscal 2012, we implemented organizational changes that resulted in a realignment of certain operating units within our reportable segments. These changes are intended to improve organizational effectiveness and efficiency by better aligning operations with similar client types, project types and financial metrics. Prior year amounts have been reclassified to conform to the current year presentation.

We manage our business under the following four reportable segments:

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

Technical Support Services. TSS advises clients through the study, design and implementation phases of projects. TSS provides management consulting and strategic direction in the areas of environmental assessments/hazardous waste management, climate change, international development/stabilization, energy services, and technical government staffing services.

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

Remediation and Construction Management. RCM is focused on providing full-service support to U.S. federal government, U.S. state and local governments, and U.S. commercial clients. RCM s service lines include environmental remediation, construction management, infrastructure development, and alternative energy.

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

	Three Months Ended	
	January 1, 2012	**January 2, 2011**
Reportable Segment		
ECS	36.0%	33.6%
TSS	33.5	36.5
EAS	12.0	11.1
RCM	23.5	23.7
Inter-segment elimination	(5.0)	(4.9)
	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:

	Three Months Ended	
	January 1, 2012	January 2, 2011
Contract Type		
Fixed-price	42.5%	37.6%
Time-and-materials	38.5	37.4
Cost-plus	19.0	25.0
	100.0%	100.0%

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

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of these costs. Our SG&A expenses are comprised primarily of marketing and bid and proposal costs, and our corporate headquarters costs related to the executive offices, finance, accounting, administration and information technology. Our SG&A expenses also include a portion of stock-based compensation and depreciation of property and equipment related to our corporate headquarters, and the amortization of identifiable intangible assets. Most of these costs are unrelated to specific clients or projects and can vary as expenses are incurred to support company-wide activities and initiatives.

We experience seasonal trends in our business. Our revenue and operating income are typically lower in the first half of our fiscal year, primarily due to the Thanksgiving, Christmas and New Year s holidays. Many of our clients employees, as well as our own employees, take vacations during these holiday periods. Further, seasonal inclement weather conditions occasionally cause some of our offices to close temporarily or may hamper our project field work, 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. For analytical purposes, acquisitive revenue consists of revenue derived from acquired companies during the first 12 months following their respective acquisition dates.

During fiscal 2011, we made acquisitions that enhanced our service offerings and expanded our geographic presence in the ECS and TSS segments. The largest of these acquisitions was BPR, which was completed in the first quarter of fiscal 2011. BPR is 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 expanded our geographic presence in eastern Canada, and enabled us to provide clients with additional services throughout Canada. BPR is part of the ECS 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 quarters of fiscal 2012 and 2011.

OVERVIEW OF RESULTS AND BUSINESS TRENDS

General. In the first quarter of fiscal 2012, our business grew compared to the year-ago quarter despite continuing challenges for the markets in which we operate. We continued our focus on organic growth and the pursuit of strategic acquisitions that are expected to enhance our service offerings and expand our geographic presence. As a result, our revenue grew 11.7% compared to the year-ago quarter due to contributions from fiscal 2011 acquisitions and strength in projects for Fortune 500 companies worldwide.

We foresee the continuation of a slow and gradual economic recovery in the United States following the severe economic weakness experienced during the global financial crisis and a continuation of strong demand in our international markets. We believe that our non-U.S. markets will experience a faster economic recovery. As such, we expect that our revenue will grow moderately in fiscal 2012 compared to fiscal 2011 due to anticipated growth in our business and contributions from our international activities.

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International. Our international business grew 26.4% in the first quarter of fiscal 2012 compared to the year-ago quarter. The growth was driven by strong demand for our water, environmental and infrastructure design services in Canada, Australia and Chile. We expect that our international business will continue its strong growth in fiscal 2012 compared to fiscal 2011 as a result of our continued expansion in Canada, our recent expansion into Australia and Chile, and demand for our services from broad-based clients worldwide.

U.S. Commercial. Our U.S. commercial business grew 31.3% in the first quarter of fiscal 2012 compared to the year-ago quarter. The growth was primarily attributable to increased revenue from industrial and energy projects for Fortune 500 companies. Many of our largest U.S. commercial clients are returning to more typical environmental and infrastructure capital spending levels following a period of budgetary constraints during the global financial crisis. Therefore, although we expect that some economic weakness may continue in certain sectors of our U.S. commercial business, we are optimistic regarding the growth in this business due to increased spending by our largest U.S. commercial clients. Accordingly, we expect that our U.S. commercial business will grow moderately in fiscal 2012 compared to fiscal 2011. Our U.S. commercial clients typically react rapidly to economic change. However, if the U.S. economy experiences a slowdown in fiscal 2012, we would expect our U.S. commercial outlook to change accordingly.

U.S. Federal Government. Our U.S. federal government business declined 4.3% in the first quarter of fiscal 2012 compared to the year-ago quarter. The decline was primarily due to reduced activity on U.S. Army Corps of Engineers (USACE) and other U.S. Department of Defense (DoD) programs. The decline was partially offset by revenue growth from international development services for the U.S. Department of State (DoS) and from our front-end water, environmental, and infrastructure engineering and design services for other federal government agencies. These agencies included the National Science Foundation (NSF), the U.S. Department of Agriculture (DOA), and the Federal Aviation Administration (FAA). During periods of economic volatility, our U.S. federal government business has historically been the most stable and predictable. However, due to U.S. federal budget uncertainties, we have remained cautious. We expect revenue from our U.S. federal government business to be stable in fiscal 2012 compared to fiscal 2011.

U.S. State and Local Government. Our U.S. state and local government business increased 12.1% in the first quarter of fiscal 2012 compared to the year-ago quarter. The growth was driven by increased revenue from essential infrastructure projects. Many state and local government agencies continue to face serious economic challenges, including budget deficits and difficult cost-cutting decisions. Simultaneously, states are facing major long-term infrastructure needs, including the need for maintenance, repair and upgrading of existing critical infrastructure and the need to build new facilities. The funding risks associated with our U.S. state and local government programs are partially mitigated by regulatory requirements driving some of these programs, such as regulatory-mandated consent decrees. As a result, some programs will generally progress despite budget pressures as demonstrated by the growth in the first quarter of fiscal 2012. However, because we anticipate that many state and local government agencies will continue to face serious economic challenges, we expect our U.S. state and local government business to experience slow growth in fiscal 2012 compared to fiscal 2011.

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RESULTS OF OPERATIONS

Consolidated Results of Operations

	Three Months Ended			
	January 1, 2012	January 2, 2011	Change	
			$	%
	($ in thousands)			
Revenue	$ 682,627	$ 611,124	$ 71,503	11.7%
Subcontractor costs	(190,571)	(205,544)	14,973	7.3
Revenue, net of subcontractor costs (1)	492,056	405,580	86,476	21.3
Other costs of revenue	(407,336)	(329,927)	(77,409)	(23.5)
Selling, general and administrative expenses	(48,627)	(41,328)	(7,299)	(17.7)
Operating income	36,093	34,325	1,768	5.2
Interest expense - net	(1,311)	(1,305)	(6)	(0.5)
Income before income tax expense	34,782	33,020	1,762	5.3
Income tax expense	(12,079)	(10,266)	(1,813)	(17.7)
Net income including noncontrolling interests	22,703	22,754	(51)	(0.2)
Net income attributable to noncontrolling interests	(93)	(453)	360	79.5
Net income attributable to Tetra Tech	$ 22,610	$ 22,301	$ 309	1.4%

(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.

We experienced strong growth in our U.S. commercial, international, and U.S. state and local government sectors, driven by demand for our water, environmental, infrastructure design and construction management services in the industrial, energy and mining markets worldwide. Additionally, the growth resulted from strength in our front-end water, environmental, and infrastructure engineering and design services for certain U.S. federal government clients including FAA, U.S. General Services Administration (GSA), NSF and various military branches of the DoD. The growth in revenue and revenue, net of subcontractor costs, was due partially to the contributions of $37.1 million and $34.0 million, respectively, from fiscal 2011 acquisitions. The overall growth was partially offset by a decline in our U.S. federal government business due primarily to the wind-down of several large projects for the USACE, USAID, U.S. Department of Energy (DOE) and U.S. Environmental Protection Agency (EPA), and delays on new awards for certain large U.S. federal construction management in the U.S. and abroad. Revenue, net of subcontractor costs, grew at a faster pace than revenue due to an increase in self-performed work on energy and USAID programs. Additionally, a revenue decline on USACE construction management programs did not have a significant impact to our revenue, net of subcontractor costs, because these programs had a high level of subcontracting activities.

Operating income increased due to business growth and improved project execution on fixed-price contracts. The increase was partially offset by additional SG&A expenses incurred to support our international expansion, and an additional $1.5 million of amortization expense for intangible assets. Prior-year operating income also benefited from favorable claim settlements.

Income tax expense grew as a result of an increase in pre-tax income and a higher effective tax rate. Our effective tax rate was 34.7% compared to 31.1% for the year-ago period. The lower tax rate in the first quarter of 2011 resulted from a $1.2 million, or $0.02 on a diluted EPS basis, benefit from federal R&E credits for the last nine months of fiscal 2010.

Net income attributable to noncontrolling interests declined because we acquired the remaining interests in a consolidated joint venture in the fourth quarter of fiscal 2011. Net income attributable to Tetra Tech grew for the reasons described above.

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Segment Results of Operations

Engineering and Consulting Services

	Three Months Ended		Change	
	January 1, 2012	January 2, 2011	$	%
	($ in thousands)			
Revenue	$ 245,663	$ 205,389	$ 40,274	19.6%
Subcontractor costs	(42,668)	(40,633)	(2,035)	(5.0)
Revenue, net of subcontractors costs (1)	$ 202,995	$ 164,756	$ 38,239	23.2%
Operating income	$ 19,491	$ 18,301	$ 1,190	6.5%

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

Revenue growth was driven by the continued international expansion of our water, environmental and infrastructure design services. Our international operations, primarily in Canada, contributed an additional $35 million and $36.4 million to revenue and revenue, net of subcontractor costs, respectively, compared with last year s first quarter. Acquisitions completed during fiscal 2011 contributed to this growth. To a lesser extent, the growth resulted from increased activity on U.S. commercial projects and economically driven priority U.S. federal government programs. Operating income increased due to revenue growth, partially offset by increased contract costs on certain projects.

Technical Support Services

	Three Months Ended		Change	
	January 1, 2012	January 2, 2011	$	%
	($ in thousands)			
Revenue	$ 228,832	$ 223,305	$ 5,527	2.5%
Subcontractor costs	(82,974)	(96,045)	13,071	13.6
Revenue, net of subcontractors costs (1)	$ 145,858	$ 127,260	$ 18,598	14.6%
Operating income	$ 15,502	$ 15,789	$ (287)	(1.8)%

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

Revenue and revenue, net of subcontractor costs, increased in the first quarter of fiscal 2012 compared to the year-ago quarter. This growth resulted from the expansion of international development services provided to the DoS, including USAID. These services contributed $4.2 million of increased revenue and $17.5 million of increased revenue, net of subcontractor costs, compared to the first quarter of fiscal 2011. An acquisition completed in the fourth quarter of fiscal 2011 made a significant contribution to this growth. Despite overall revenue growth, operating income decreased due to a change in contract mix resulting in a lower proportion of higher profit margin fixed-price contracts.

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Engineering and Architecture Services

	Three Months Ended			
	January 1, 2012	January 2, 2011	Change $	Change %
	($ in thousands)			
Revenue	$ 81,633	$ 67,983	$ 13,650	20.1%
Subcontractor costs	(27,107)	(15,893)	(11,214)	(70.6)
Revenue, net of subcontractors costs (1)	$ 54,526	$ 52,090	$ 2,436	4.7%
Operating income	$ 4,405	$ 4,744	$ (339)	(7.1)%

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

Revenue growth was driven by demand for our building and facility design services from several large U.S. commercial clients. Additionally, the growth resulted from increased workload on certain design-build projects for U.S. state and local government clients, and on design-build and international development projects for the U.S. federal government. The growth was partially offset by reduced activity on certain infrastructure projects for U.S. state and local government clients. Revenue, net of subcontractor costs, grew at a slower pace than revenue due primarily to increased subcontracting activities on several large design-build projects that transitioned into the construction phase. Operating income in the prior year benefited from a $2.5 million claim settlement on a U.S. commercial development and infrastructure project. Excluding this favorable claim settlement from the prior year, operating income in the current year increased as a result of revenue growth and improved project execution.

Remediation and Construction Management

	Three Months Ended			
	January 1, 2012	January 2, 2011	Change $	Change %
	($ in thousands)			
Revenue	$ 160,758	$ 144,565	$ 16,193	11.2%
Subcontractor costs	(72,081)	(83,092)	11,011	13.3
Revenue, net of subcontractors costs (1)	$ 88,677	$ 61,473	$ 27,204	44.3%
Operating income	$ 5,890	$ 3,111	$ 2,779	89.3%

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

Revenue growth was driven by demand for our remediation and construction management services in the energy and mining markets. Additionally, the growth resulted from increased project execution on infrastructure projects for our U.S. state and local government clients. We also experienced growth on certain U.S. federal government projects for GSA, DOA and various military branches of the DoD. The overall growth was partially offset by the wind-down of several large construction management programs for USACE. Revenue, net of subcontractor costs, grew at a faster pace than revenue due to the increase in self-performed work on energy projects and mining programs, and the wind-down of certain USACE construction management programs, which typically have higher subcontracting activities. Operating income increased due to revenue growth and improved project execution on fixed-price contracts, partially offset by the prior-year favorable claim settlements.

Non-GAAP Financial Measures

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

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EBITDA represents net income 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:

	Three Months Ended	
	January 1, 2012	January 2, 2011
	($ in thousands)	
Net income attributable to Tetra Tech	$ 22,610	$ 22,301
Interest expense, net	1,311	1,305
Depreciation (1)	6,786	6,670
Amortization (1)	8,264	6,781
Income tax expense	12,079	10,266
EBITDA	$ 51,050	$ 47,323
Revenue	$ 682,627	$ 611,124
Subcontractor costs	(190,571)	(205,544)
Revenue, net of subcontractors costs	$ 492,056	$ 405,580

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

Financial Condition, Liquidity and Capital Resources

Capital Requirements. Our capital requirements are to fund working capital needs, capital expenditures 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 the credit agreement described below will be sufficient to meet our capital requirements for at least the next 12 months.

Operating Activities. Net cash provided by operating activities was $38.3 million, an increase of $29.4 million compared to the year-ago quarter. The increase was driven by additional advance payments from clients on contract work and increased EBITDA. Further, favorable changes in accounts payable, other liabilities, and prepaid expenses and other assets compared to the year-ago quarter caused by the timing of cash collections, and payments to vendors and subcontractors, contributed to the increase.

Investing Activities. Net cash used in investing activities was $6.8 million, a decrease of $164.2 million compared to the year-ago quarter. The decrease resulted primarily from a net cash payment related to the BPR acquisition in the year-ago quarter.

Financing Activities. Net cash used in financing activities was $17.5 million, compared to net cash provided by financing activities of $22.6 million in the year-ago quarter. In the first quarter of fiscal 2012, we repaid $10.8 million of debt under our credit agreement, and paid $9.4 million of contingent earn-out liabilities related to a prior-year acquisition. The year-ago quarter included $20 million in borrowing under our credit agreement to fund our working capital needs.

Debt Financing. Under our credit agreement (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 January 1, 2012, we had $133.7 million in borrowings under the Facility at a weighted-average interest rate of 2.12% per annum, $29.7 million in standby letters of credit and $296.6 million in

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availability under the Facility. Of these amounts outstanding, we had $13.7 million in multicurrency borrowings and letters of credit under the Facility at January 1, 2012.

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 January 1, 2012, we were in compliance with these covenants with a consolidated leverage ratio of 1.07x and a consolidated fixed charge coverage ratio of 2.41x. The Facility is guaranteed by our material subsidiaries and certain additional designated subsidiaries. Borrowings under the Credit Agreement are collateralized by our accounts receivable, the stock of our subsidiaries and intercompany debt.

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.

Off-Balance Sheet Arrangements

Variable Interest Entities. 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. We analyzed all of our joint ventures to determine whether they are VIEs. If a joint venture is determined to be a VIE, we assess whether we are the primary beneficiary and need to consolidate that joint venture. At January 1, 2012, none of our unconsolidated joint ventures had any debt other than operating payables and accruals. For further discussion of our VIEs, see Note 12, Joint Ventures of the Notes to Condensed Consolidated Financial Statements .

Critical Accounting Policies

Our critical accounting policies are disclosed in our Annual Report on Form 10-K for the fiscal year ended October 2, 2011. To date, there have been no material changes in our critical accounting policies as reported in our 2011 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.

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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 January 1, 2012, we had $133.7 million in borrowings outstanding under the Facility at a weighted-average interest rate of 2.12% 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 2012 and fiscal 2011, our foreign currency gains were immaterial. These gains 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 the 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 2012 and 2011, 23.4% and 20.7% 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 2012, the effect of foreign exchange rate translation on the condensed consolidated balance sheets was an increase in equity of $10.8 million compared to an increase in equity of $7.4 million in the first quarter of fiscal 2011. 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 first quarter of fiscal 2010, we entered into a forward contract for CAD $4.2 million (equivalent to U.S. $4.0 million at the date of inception) that matures on January 27, 2012. 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. In the second quarter of fiscal 2012, we settled one of the foreign currency forward contracts for U.S. $3.9 million. For more information, see Note 11, Fair Value Measurements of the Notes to Condensed Consolidated Financial Statements .

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

Item 4. Controls and Procedures

Evaluation of disclosure controls and procedures and changes in internal control over financial reporting. As of January 1, 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 2012 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 seek 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.

In May 2003, ITC filed a lawsuit in Montgomery County, Ohio against AMT and other defendants for misappropriation of trade secrets, among other claims. In June 2004, we purchased all the outstanding shares of AMT. As part of the purchase agreement, the former owners of AMT agreed to indemnify us for all costs and damages related to this lawsuit. In December 2007, the case went to trial and the jury awarded $5.8 million in compensatory damages to ITC. In addition, the jury awarded $17 million in punitive damages to ITC plus reasonable attorneys fees. In July 2008, the Common Pleas Court of Montgomery County denied AMT s motion for judgment notwithstanding the verdict and conditionally denied AMT s motion for a new trial. Further, the court remitted the verdict to $2.0 million in compensatory damages and $5.8 million in punitive damages. ITC accepted the remittitur, and AMT appealed. The appellate court remanded the matter to the trial court for ruling on ITC s motion for prejudgment interest and attorneys fees. In December 2009, the trial court awarded ITC $2.9 million in attorneys fees and costs, and denied ITC s motion for prejudgment interest. AMT appealed the trial court s decision awarding compensatory and punitive damages, and attorneys fees and costs. ITC cross-appealed the trial court s decision to remit the jury verdict and the trial court s denial of prejudgment interest. On October 28, 2011, the court of appeals issued its decision and affirmed the trial court s rulings. As of that date, the outstanding judgment against AMT, including post-judgment interest, approximated $12.9 million. ITC has filed a motion seeking additional attorneys fees which is pending. In December 2011, AMT appealed the court of appeals decision to the Ohio Supreme Court. AMT has posted a bond, as required by the trial court, for $13.4 million. The Ohio Supreme Court has stayed enforcement of the judgment pending appeal and the bond has been continued. We believe that a reasonably possible range of exposure, including attorneys fees, is from $0 to approximately $14.5 million. At January 1, 2012, we have recorded a liability representing our best estimate of a probable loss. Further, for the same amount, we have recorded a receivable from the former owners of AMT as we believe it is probable they will fully honor their indemnification agreement with us for any and all costs and damages related to this lawsuit.

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Item 1A. Risk Factors

Set forth below and elsewhere in this report and in other documents we file with the SEC are descriptions of the risks and uncertainties that could cause our actual results to differ materially from the results contemplated by the forward-looking statements contained in this report.

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, delays and uncertainties related to federal budgets. 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 2011 and the first quarter of fiscal 2012, our business, financial condition and results of operations may be materially and adversely affected.

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;
- 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;

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

- The impairment of goodwill or identifiable intangible assets;

- The fluctuation of a foreign currency exchange rate;

- Stock-based compensation expense;

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

- How well we execute our strategy and operating plans;

- Changes in tax laws or regulations or accounting rules;

- 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 market.

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 and U.S. commercial clients is cyclical and vulnerable to economic downturns. If economic growth slows, U.S. state or local 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 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.

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 2012, we generated 26.0% 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.

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The August 2011 federal debt ceiling legislation and delayed action by the U.S. federal government could reduce government demand for the services we provide.

Congressional negotiations during July and August 2011 leading to the debt ceiling legislation and related concerns regarding the ability of government to address critical economic issues, together with the announcement by Standard & Poor s of the downgrading of its rating on U.S. sovereign debt, resulted in significant and continuing financial market and economic disruptions. On August 2, 2011, federal legislation increasing the federal debt ceiling included significant reductions in spending, a substantial portion of which is related to defense spending. Future levels of expenditures and authorizations for defense-related or other federal programs may decrease, remain constant or shift to other programs in areas in which we do not currently provide services. Any significant reduction in U.S. federal government expenditures could have a material adverse effect on our results of operation and financial condition.

We derive a majority of our revenue from U.S. 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 2012, we generated 50.6% 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 39.8% of our revenue for the first quarter of fiscal 2012 from the following agencies: 16.6% from DoD agencies, 9.3% from USAID and 13.9% 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. federal government contracting business, including the following:

- Changes in and delays or cancellations of government programs, requirements or appropriations;
- Budget constraints or policy changes resulting in delay or curtailment of expenditures related to the services we provide;
- Re-competes of government contracts;
- The timing and amount of tax revenue received by federal, state and local governments, and the overall level of government expenditures;

- Curtailment in the use of government contracting firms;

- Delays associated with insufficient numbers of government staff to oversee contracts;

- The increasing preference by government agencies for contracting with small and disadvantaged businesses;

- Competing political priorities and changes in the political climate with regard to the funding or operation of the services we provide;

- The adoption of new laws or regulations affecting our contracting relationships with the federal, state or local governments;

- Unsatisfactory performance on government contracts by us or one of our subcontractors, negative government audits, or other events that may impair our relationship with the federal, state or local governments;

- A dispute with or improper activity by any of our subcontractors; and

- General economic or political conditions.

These and other factors could cause U.S. federal 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

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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.

A delay in the completion of the budget process of the U.S. government could delay procurement of our services and have an adverse effect on our future revenue.

When the U.S. government does not complete its budget process before its fiscal year-end on September 30, government operations are typically funded by means of a continuing resolution that authorizes agencies to continue to operate but does not authorize new spending initiatives. When the U.S. government operates under a continuing resolution, government agencies may delay the procurement of services, which could reduce our future revenue.

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 disallowance 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. 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. The U.S. federal government has also increased its use of IDIQs in which the client qualifies multiple contractors for a specific program and then awards specific task orders or projects among the qualified contractors. 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. In addition, the U.S. federal government has announced its intention to scale back outsourcing of services in favor of

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insourcing jobs to its employees, which could reduce our revenue. Moreover, even if we are qualified to work on a government contract, we may not be awarded the contract because of existing government policies designed to protect small businesses and underrepresented minority contractors. Our inability to win or renew government contracts during regulated procurement processes could harm our operations and significantly reduce or eliminate our profits.

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

Each year, client funding for some of our U.S. government contracts may directly or indirectly rely on government appropriations or public-supported financing. Legislatures may appropriate funds for a given project on a year-by-year basis, even though the project may take more than one year to perform. In addition, public-supported financing such as U.S. state and local municipal bonds may be only partially raised to support existing projects. The outcome of ongoing political debate in Congress regarding cuts to federal government spending could result in reductions in the funding proposed by the Administration for certain projects. The legislation passed in August 2011 includes significant reductions in U.S. federal government spending over a ten-year period. Similarly, the impact of the economic downturn on 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, the state of the economy, competing political priorities, 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, and if we do not replace these contracts, we may suffer 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.

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

Our engagements often involve large-scale, complex projects. The quality of our performance on such projects depends in large part upon our ability to manage the relationship with our clients and our ability to effectively manage the project and deploy appropriate resources, including third-party contractors and our own personnel, in a timely manner. We may commit to a client that we will complete a project by a scheduled date. We may also commit that a project, when completed, will achieve specified performance standards. If the project is not completed by the scheduled date or fails to meet required performance standards, we may either incur significant additional costs or be held responsible for the costs incurred by the client to rectify damages due to late completion or failure to achieve the required performance standards. The uncertainty of the timing of a project can present difficulties in planning the amount of personnel needed for the project. If the project is delayed or canceled, we may bear the cost of an underutilized workforce that was dedicated to fulfilling the project. In addition, performance of projects can be affected by a number of factors beyond our control, including unavoidable delays from government inaction, public opposition, inability to obtain financing, weather conditions, unavailability of vendor materials, changes in the project scope of services requested by our clients,

industrial accidents, environmental hazards, labor disruptions and other factors. To the extent these events occur, the total costs of the project could exceed our estimates, and we could experience reduced profits or, in some cases, incur a loss on a project, which may reduce or eliminate our overall profitability. Further, any defects or errors, or failures to meet our clients expectations, could result in claims for damages against us. Our contracts generally limit our liability for damages that arise from negligent acts, errors, mistakes or omissions in rendering services to our clients. However, we cannot be sure that these contractual provisions will protect us from liability for damages in the event we are sued.

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

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

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

To prepare financial statements in conformity with GAAP, management is required to make estimates and assumptions as of the date of the financial statements. These estimates and assumptions affect the reported values of assets, liabilities, revenue and expenses, as well as disclosures of contingent assets and liabilities. For example, we 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;

- Estimated earn-out payments due in connection with business combinations;

- Valuation of employee benefit plans;

- Valuation of stock-based compensation expense; and

- Accruals for estimated liabilities, including litigation and insurance reserves.

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

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

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

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

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

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

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

Our business and operating results could be adversely affected by our inability to accurately estimate the overall risks, revenue or costs on a contract. In particular, 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.

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

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

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

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

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

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

- 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.

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.

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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:

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

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

Further, acquisitions may also 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 on a regular basis 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.

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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 have represented a substantial portion of our assets. At January 1, 2012, our goodwill was $577.4 million and other intangible assets were $74.6 million. We are required to perform a goodwill and indefinite-lived intangible asset impairment test for potential impairment at least on an annual basis. The goodwill impairment test requires us to determine the fair value of our reporting units, which are the components one level below our four 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 of our management to effectively manage our growth or the inability of our employees to achieve anticipated performance could have a material adverse effect on our business.

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

Our backlog at January 1, 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.

Our international operations are subject to a number of risks that could significantly reduce our revenue and profits, or subject us to criminal and civil enforcement actions.

In the first quarter of 2012, we generated 23.4% of our revenue from our foreign 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:

- Lack of developed legal systems to enforce contractual rights;

- Greater risk of uncollectible accounts and longer collection cycles;

- Currency fluctuations;

- The potential for greater physical security risks, which may cause us to leave a country quickly;

- Logistical and communication challenges;

- Potentially adverse changes in laws and regulatory practices;

- Changes in labor conditions;

- General economic, political and financial conditions in foreign markets; and

- Exposure to civil or criminal liability under the Foreign Corrupt Practices Act (FCPA) and other international regulations. For example, practices in the local business community outside the United States might not conform to international business standards and could violate anticorruption regulations, including the FCPA, which prohibits giving or offering to give anything of value with the intent to influence the awarding of government contracts.

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International risks and violations of international regulations may significantly reduce our profits and revenue and subject us to criminal or civil enforcement actions, including fines, suspensions or disqualification from future U.S. federal procurement contracting. Although we have policies and procedures to ensure legal and regulatory compliance, our employees, subcontractors and agents could take actions that violate these requirements. As a result, our international risk exposure may be more or less than the percentage of revenue attributed to our international operations.

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, 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. If any of our business partners fail to satisfactorily perform their contractual obligations as a result of financial or other difficulties, we may be required to incur additional costs and provide additional services in order to make up for our business partners shortfall. If we are unable to adequately address our business partners performance issues, then our client could terminate the joint project, exposing us to legal liability, loss of reputation and reduced profit or loss on the project.

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.

Changes in resource management 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, infrastructure and the environment. 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 Facility under our Credit Agreement. Unfavorable financial or economic conditions could impact certain issuers willingness or ability to fund our 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.

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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. These competitive forces 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.

The value of our common stock could be volatile.

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 Iraq and Afghanistan;

- Broader market fluctuations; and

- General economic or political conditions.

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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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 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. 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. 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, including our profits and revenue.

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

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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 and agents. Our failure to comply with applicable laws or regulations or acts of misconduct could subject us to fines and penalties, loss of security clearances, and suspension or debarment from contracting, any or all of which could harm our reputation, reduce our revenue and profits, and subject us to criminal and civil enforcement actions.

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

Certain of our contracts may require our employees travel to and work in high-risk countries that are undergoing political, social and economic upheavals resulting in war, civil unrest, criminal activity, acts of terrorism or public health crises. For example, we currently have employees working in Afghanistan and Pakistan. 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 and rating bureaus, and may be evaluated by certain clients in cases in which safety requirements have been established in our contracts. If we fail to meet these requirements or do not properly implement and comply with our safety program, there could be 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.

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

We must comply with a number of governmental 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 Conversation 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. Liabilities related to environmental contamination or human exposure to hazardous

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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.

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 would 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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Item 6. Exhibits

The following documents are filed as Exhibits to this Report:

10.1	Tetra Tech, Inc. Employee Stock Purchase Plan (as amended through January 1, 2012)
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
101	The following financial information from our Company s Quarterly Report on Form 10-Q, for the period ended January 1, 2012, formatted in eXtensible Business Reporting Language: (i) Condensed Consolidated Balance Sheets, (ii) Condensed Consolidated Statements of Income, (iii) Condensed Consolidated Statements of Cash Flows, (iv) 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 3, 2012	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 Vice President, Controller (Principal Accounting Officer)