

TETRA TECH INC
Form 10-Q
February 02, 2015
[Table of Contents](#)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended December 28, 2014

OR

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

For the transition period from _____ to _____

Commission File Number 0-19655

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TETRA TECH, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

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

3475 East Foothill Boulevard, Pasadena, California 91107

(Address of principal executive offices) (Zip Code)

(626) 351-4664

(Registrant's telephone number, including area code)

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

Yes No

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

Yes No

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

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

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

Yes No

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As of January 26, 2015, 61,661,071 shares of the registrant's common stock were outstanding.

Table of Contents

TETRA TECH, INC.

INDEX

<u>PART I.</u>	<u>FINANCIAL INFORMATION</u>	<u>PAGE NO.</u>
<u>Item 1.</u>	<u>Financial Statements (unaudited)</u>	3
	<u>Condensed Consolidated Balance Sheets as of December 28, 2014 and September 28, 2014</u>	3
	<u>Condensed Consolidated Statements of Income for the Three Months Ended December 28, 2014 and December 29, 2013</u>	4
	<u>Condensed Consolidated Statements of Comprehensive Income for the Three Months Ended December 28, 2014 and December 29, 2013</u>	5
	<u>Condensed Consolidated Statements of Cash Flows for the Three Monthss Ended December 28, 2014 and December 29, 2013</u>	6
	<u>Notes to Condensed Consolidated Financial Statements</u>	7
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	19
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	30
<u>Item 4.</u>	<u>Controls and Procedures</u>	30
<u>PART II.</u>	<u>OTHER INFORMATION</u>	31
<u>Item 1.</u>	<u>Legal Proceedings</u>	31
<u>Item 1A.</u>	<u>Risk Factors</u>	32
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	50
<u>Item 4.</u>	<u>Mine Safety Disclosure</u>	50
<u>Item 6.</u>	<u>Exhibits</u>	50
<u>SIGNATURES</u>		51

Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****Tetra Tech, Inc.****Condensed Consolidated Balance Sheets****(unaudited - in thousands, except par value)**

ASSETS	December 28, 2014	September 28, 2014
Current assets:		
Cash and cash equivalents	\$ 98,890	\$ 122,379
Accounts receivable net	667,425	701,892
Prepaid expenses and other current assets	53,040	52,256
Income taxes receivable	25,338	22,076
Total current assets	844,693	898,603
Property and equipment net	70,661	73,864
Investments in and advances to unconsolidated joint ventures	1,936	2,140
Goodwill	698,833	714,190
Intangible assets net	55,889	63,095
Other long-term assets	24,124	24,512
Total assets	\$ 1,696,136	\$ 1,776,404
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	\$ 116,571	\$ 175,952
Accrued compensation	96,838	110,186
Billings in excess of costs on uncompleted contracts	106,882	103,343
Deferred income taxes	19,916	20,387
Current portion of long-term debt	10,907	10,989
Estimated contingent earn-out liabilities	6,786	3,568
Other current liabilities	78,467	79,436
Total current liabilities	436,367	503,861
Deferred income taxes	33,483	28,786
Long-term debt	190,116	192,842
Long-term estimated contingent earn-out liabilities	3,462	3,462
Other long-term liabilities	39,122	34,397
Commitments and contingencies		
Equity:		

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Preferred stock Authorized, 2,000 shares of \$0.01 par value; no shares issued and outstanding at December 28, 2014, and September 28, 2014

Common stock Authorized, 150,000 shares of \$0.01 par value; issued and outstanding, 62,169 and 62,591 shares at December 28, 2014, and September 28, 2014, respectively

	622	626
Additional paid-in capital	390,214	402,516
Accumulated other comprehensive loss	(67,587)	(42,538)
Retained earnings	672,677	651,475
Tetra Tech stockholders' equity	995,926	1,012,079
Noncontrolling interests	1,122	977
Total equity	997,048	1,013,056
Total liabilities and equity	\$ 1,696,136	\$ 1,776,404

See Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended	
	December 28, 2014	December 29, 2013
Revenue	\$ 581,056	\$ 645,848
Subcontractor costs	(143,976)	(162,857)
Other costs of revenue	(358,281)	(396,528)
Selling, general and administrative expenses	(42,187)	(47,375)
Contingent consideration fair value adjustments		4,630
Operating income	36,612	43,718
Interest expense	(1,790)	(2,424)
Income before income tax expense	34,822	41,294
Income tax expense	(9,176)	(13,967)
Net income including noncontrolling interests	25,646	27,327
Net income attributable to noncontrolling interests	(71)	(12)
Net income attributable to Tetra Tech	\$ 25,575	\$ 27,315
Earnings per share attributable to Tetra Tech:		
Basic	\$ 0.41	\$ 0.43
Diluted	\$ 0.41	\$ 0.42
Weighted-average common shares outstanding:		
Basic	62,452	64,227
Diluted	63,112	65,048
Cash dividends paid per share	\$ 0.07	\$

See Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended	
	December 28,	December 29,
	2014	2013
Net income including noncontrolling interests	\$ 25,646	\$ 27,327
Other comprehensive income, net of tax:		
Foreign currency translation adjustments	(24,510)	(22,135)
(Loss) gain on cash flow hedge valuations, net of tax	(480)	826
Other comprehensive loss, net of tax	(24,990)	(21,309)
Comprehensive income including noncontrolling interests	656	6,018
Net income attributable to noncontrolling interests	(71)	(12)
Foreign currency translation adjustments	(59)	38
Comprehensive (income) loss attributable to noncontrolling interests	(130)	26
Comprehensive income attributable to Tetra Tech	\$ 526	\$ 6,044

See Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended	
	December 28,	December 29,
	2014	2013
Cash flows from operating activities:		
Net income including noncontrolling interests	\$ 25,646	\$ 27,327
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	12,992	15,914
Equity in earnings of unconsolidated joint ventures	(650)	(650)
Distributions of earnings from unconsolidated joint ventures	810	364
Stock-based compensation	2,840	2,339
Excess tax benefits from stock-based compensation	(142)	(213)
Deferred income taxes	4,846	557
Provision for doubtful accounts	(1,150)	3,069
Fair value adjustments to contingent consideration		(4,630)
Foreign exchange loss (gain)	120	(91)
(Gain) loss on disposal of property and equipment	(51)	1,035
Changes in operating assets and liabilities, net of effects of business acquisitions:		
Accounts receivable	35,617	19,237
Prepaid expenses and other assets	769	(3,928)
Accounts payable	(59,382)	(6,186)
Accrued compensation	(13,348)	(13,646)
Billings in excess of costs on uncompleted contracts	3,539	12,671
Other liabilities	(6,276)	(7,790)
Income taxes receivable/payable	(726)	(3,660)
Net cash provided by operating activities	5,454	41,719
Cash flows from investing activities:		
Capital expenditures	(7,137)	(6,602)
Payments for business acquisitions, net of cash acquired		(10,678)
Payment received on note for sale of operation		3,900
Proceeds from sale of property and equipment	5,216	1,926
Net cash used in investing activities	(1,921)	(11,454)
Cash flows from financing activities:		
Payments on long-term debt	(15,926)	(233)
Proceeds from borrowings	13,493	
Payments of earn-out liabilities		(1,589)
Net change in overdrafts		(915)
Excess tax benefits from stock-based compensation	142	213
Repurchases of common stock	(20,167)	
Dividend paid	(4,372)	
Net proceeds from issuance of common stock	1,521	6,327
Net cash (used in) provided by financing activities	(25,309)	3,803

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Effect of foreign exchange rate changes on cash	(1,713)	(2,577)
Net (decrease) increase in cash and cash equivalents	(23,489)	31,491
Cash and cash equivalents at beginning of period	122,379	129,305
Cash and cash equivalents at end of period	\$ 98,890	\$ 160,796
Supplemental information:		
Cash paid during the period for:		
Interest	\$ 1,867	\$ 2,251
Income taxes, net of refunds received of \$0.4 million and \$0.8 million	\$ 4,700	\$ 16,158

See Notes to Condensed Consolidated Financial Statements.

Table of Contents**TETRA TECH, INC.****Notes to Condensed Consolidated Financial Statements****1. Basis of Presentation**

The accompanying unaudited condensed consolidated financial statements and related notes of Tetra Tech, Inc. (we, us or our) have been prepared in accordance with generally accepted accounting principles in the United States of America (GAAP) for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. They do not include all of the information and footnotes required by GAAP for complete financial statements and, therefore, should be read in conjunction with the audited consolidated financial statements and related notes contained in our Annual Report on Form 10-K for the fiscal year ended September 28, 2014.

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

Beginning in the first quarter of fiscal 2015, we reorganized our core operations to better align them with our markets, resulting in two renamed reportable segments. We now report our water resources, water and wastewater treatment, environment, and infrastructure engineering activities in the Water, Environment and Infrastructure (WEI) reportable segment. Our Resource Management and Energy (RME) reportable segment includes our oil and gas, energy, mining, waste management, remediation, utilities, and international development services. We report the results of the wind-down of our non-core construction activities in the Remediation and Construction Management (RCM) reportable segment. Prior year amounts for reportable segments have been revised to conform to the current-year presentation.

2. Accounts Receivable Net

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

	December 28, 2014	September 28, 2014
	(in thousands)	
Billed	\$ 337,791	\$ 351,693
Unbilled	342,336	363,050
Contract retentions	23,621	26,929
Total accounts receivable gross	703,748	741,672
Allowance for doubtful accounts	(36,323)	(39,780)
Total accounts receivable net	\$ 667,425	\$ 701,892

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Billings in excess of costs on uncompleted contracts	\$	106,882	\$	103,343
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Billed accounts receivable represent amounts billed to clients that have not been collected. Unbilled accounts receivable represent revenue recognized but not yet billed pursuant to contract terms or billed after the period end date. Most of our unbilled receivables at December 28, 2014 are expected to be billed and collected within 12 months. Contract retentions represent amounts withheld by clients until certain conditions are met or the project is completed, which may be several months or years. The allowance for doubtful accounts represents amounts that may become uncollectible or unrealizable in the future. We determine an estimated allowance for uncollectible accounts based on management's consideration of trends in the actual and forecasted credit quality of our clients, including delinquency and payment history; type of client, such as a government agency or a commercial sector client; and general economic and particular industry conditions that may affect a client's ability to pay. Billings in excess of costs on uncompleted contracts represent the amount of cash collected from clients and billings to clients on contracts in advance of revenue recognized. The majority of billings in excess of costs on uncompleted contracts, excluding those related to claims, will be earned within 12 months.

Table of Contents

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

Total accounts receivable at December 28, 2014 and September 28, 2014 included approximately \$78 million and \$79 million, respectively, related to claims, including requests for equitable adjustment, on contracts that provide for price redetermination. We regularly evaluate all claim amounts and record appropriate adjustments to operating earnings when it is probable that the claim will result in a different contract value than the amount previously estimated. As a result of this assessment, we recognized revenue and an increase to operating income of \$3.2 million in the first quarter of fiscal 2015 related to the settlement of claims with a federal government client.

Billed accounts receivable related to U.S. federal government contracts were \$69.1 million and \$57.4 million at December 28, 2014 and September 28, 2014, respectively. U.S. federal government unbilled receivables were \$67.8 million and \$73.2 million at December 28, 2014 and September 28, 2014, respectively. Other than the U.S. federal government, no single client accounted for more than 10% of our accounts receivable at December 28, 2014 and September 28, 2014.

We recognize revenue for most of our contracts using the percentage-of-completion method, primarily utilizing the cost-to-cost approach to estimate the progress towards completion in order to determine the amount of revenue and profit to recognize. Changes in those estimates could result in recognition of cumulative catch-up adjustments to the contract's inception-to-date revenue, costs, and profit in the period in which such changes are made. As a result, we recognized net unfavorable operating income adjustments of \$2.4 million during the first quarter of fiscal 2015 compared to \$1.2 million in last year's first quarter. Changes in revenue and cost estimates could also result in a projected loss that would be recorded immediately in earnings. As of December 28, 2014 and September 28, 2014, we recorded a liability for anticipated losses of \$16.8 million and \$18.6 million, respectively. The estimated cost to complete the related contracts as of December 28, 2014 was \$99.1 million.

3. Mergers and Acquisitions

We made no acquisitions in the first quarter of fiscal 2015. In fiscal 2014, we made immaterial acquisitions that enhanced our service offerings and expanded our geographic presence in our WEI and RME reportable segments.

Goodwill additions resulting from the above business combinations are primarily attributable to the existing workforce of the acquired companies and the synergies expected to arise after the acquisitions. Specifically, the goodwill additions related to the fiscal 2014 acquisitions primarily represent the value of workforces with distinct expertise in the oil and gas and disaster preparedness markets. In addition, these acquired capabilities, when combined with our existing global consulting and engineering business, result in opportunities that allow us to provide services under contracts that could not have been pursued individually by either us or the acquired companies. The results of these acquisitions were included in the consolidated financial statements from their respective closing dates. None of the acquisitions were considered material, individually or in the aggregate, to our condensed consolidated financial statements. As a result, no pro forma information has been provided for the respective periods.

Table of Contents

Most of our acquisition agreements include contingent earn-out agreements, which are generally based on the achievement of future operating income thresholds. The contingent earn-out arrangements are based on our valuations of the acquired companies, and reduce the risk of overpaying for acquisitions if the projected financial results are not achieved. The fair values of any earn-out arrangements are included as part of the purchase price of the acquired companies on their respective acquisition dates. For each transaction, we estimate the fair value of contingent earn-out payments as part of the initial purchase price and record the estimated fair value of contingent consideration as a liability in Estimated contingent earn-out liabilities and Long-term estimated contingent earn-out liabilities on the consolidated balance sheets. We consider several factors when determining that contingent earn-out liabilities are part of the purchase price, including the following: (1) the valuation of our acquisitions is not supported solely by the initial consideration paid, and the contingent earn-out formula is a critical and material component of the valuation approach to determining the purchase price; and (2) the former owners of acquired companies that remain as key employees receive compensation other than contingent earn-out payments at a reasonable level compared with the compensation of our other key employees. The contingent earn-out payments are not affected by employment termination.

We measure our contingent earn-out liabilities at fair value on a recurring basis using significant unobservable inputs classified within Level 3 of the fair value hierarchy (as described in Critical Accounting Policies and Estimates in our Annual Report on Form 10-K for the fiscal year ended September 28, 2014). We use a probability-weighted discounted income approach as a valuation technique to convert future estimated cash flows to a single present value amount. The significant unobservable inputs used in the fair value measurements are operating income projections over the earn-out period (generally two or three years), and the probability outcome percentages we assign to each scenario. Significant increases or decreases to either of these inputs in isolation would result in a significantly higher or lower liability, with a higher liability capped by the contractual maximum of the contingent earn-out obligation. Ultimately, the liability will be equivalent to the amount paid, and the difference between the fair value estimate and amount paid will be recorded in earnings. The amount paid that is less than or equal to the contingent earn-out liability on the acquisition date is reflected as cash used in financing activities in our consolidated statements of cash flows. Any amount paid in excess of the contingent earn-out liability on the acquisition date is reflected as cash used in operating activities.

We review and re-assess the estimated fair value of contingent consideration on a quarterly basis, and the updated fair value could differ materially from the initial estimates. Changes in the estimated fair value of our contingent earn-out liabilities related to the time component of the present value calculation are reported in interest expense. Adjustments to the estimated fair value related to changes in all other unobservable inputs are reported in operating income. During the first quarter of fiscal 2014, we recorded net decreases in our contingent earn-out liabilities and reported related net gains in operating income of \$4.6 million. The fiscal 2014 gains primarily resulted from updated valuations of the contingent consideration liability associated with our fiscal 2013 acquisition of Parkland Pipeline (Parkland). Parkland serves the oil and gas industry in Western Canada. Subsequent to the acquisition date, we lowered our income projections over the remaining earn-out periods and recorded corresponding reductions of the earn-out liabilities for Parkland. We also determined that these lower income projections were the result of temporary events, and would not negatively impact Parkland's longer-term performance or result in goodwill impairment. We recorded no gains or losses related to changes in the estimated fair value of our contingent earn-out liabilities in the first quarter of fiscal 2015.

At December 28, 2014, there was a total maximum of \$44.7 million of outstanding contingent consideration related to acquisitions. Of this amount, \$6.8 million was estimated as the fair value and accrued on our condensed consolidated balance sheet. In the first quarter of fiscal 2015, we made no earn-out payments. In the first quarter of fiscal 2014, we made \$1.6 million of earn-out payments to former owners and reported them as cash used in financing activities.

4. Goodwill and Intangible Assets

Effective September 29, 2014, we reorganized our core operations to better align them with our markets, resulting in two renamed reportable segments. We now report our water resources, water and wastewater treatment, environment, and infrastructure engineering activities in the WEI reportable segment. Our RME reportable segment includes our oil and gas, energy, mining, waste management, remediation, utilities, and

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international development services. We report the results of the wind-down of our non-core construction activities in the RCM reportable segment. Prior year amounts for reportable segments have been revised to conform to the current-year presentation.

Table of Contents

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

	WEI	RME	RCM	Total
	(in thousands)			
Balance at September 28, 2014	\$ 238,086	\$ 476,104	\$	\$ 714,190
Goodwill additions				
Foreign exchange impact	(5,452)	(9,905)		(15,357)
Balance at December 28, 2014	\$ 232,634	\$ 466,199	\$	\$ 698,833

We perform our annual goodwill impairment review at the beginning of our fiscal fourth quarter. Our most recent review at June 30, 2014 (i.e. the first day of our fourth quarter in fiscal 2014), indicated that we had no impairment of goodwill, and all of our reporting units had estimated fair values that were in excess of their carrying values, including goodwill.

The reorganization of our core operations, described further in Note 10, Reportable Segments, also impacted the definition of our reporting units used for goodwill impairment testing. As a result, as of September 29, 2014, we performed impairment testing for goodwill under our new segment structure and determined that the estimated fair value of each reporting unit exceeded its corresponding carrying amount including recorded goodwill, and, as such, no impairment existed as of September 29, 2014. However, our Global Mining Practice (GMP) reporting unit had an estimated fair value that exceeded its carrying value by less than 20%. As of December 28, 2014, the goodwill amount for GMP was \$65.6 million. Although we believe that our estimate of fair value for GMP is reasonable, if GMP's financial performance falls significantly below our expectations or market prices for similar businesses decline, the goodwill for GMP could become impaired.

Foreign exchange impact relates to our foreign subsidiaries with functional currencies that are different than our reporting currency. The gross amounts of goodwill for WEI were \$263.7 million and \$269.2 million at December 28, 2014 and September 28, 2014, respectively, excluding \$31.1 million of accumulated impairment. The gross amounts of goodwill for RME were \$492.6 million and \$502.5 million at December 28, 2014 and September 28, 2014, respectively, excluding \$26.4 million of accumulated impairment.

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

	Weighted-Average Remaining Life (in Years)	December 28, 2014		September 28, 2014	
		Gross Amount	Accumulated Amortization (\$ in thousands)	Gross Amount	Accumulated Amortization
Non-compete agreements	1.9	\$ 1,033	\$ (562)	\$ 1,086	\$ (524)
Client relations	3.6	119,098	(64,742)	122,198	(61,117)
Backlog	0.1	1,209	(1,174)	1,283	(1,072)
Technology and trade names	1.9	2,815	(1,788)	2,917	(1,676)
Total		\$ 124,155	\$ (68,266)	\$ 127,484	\$ (64,389)

Table of Contents

Foreign currency translation adjustments reduced net identifiable intangible assets by \$1.3 million in the first quarter of fiscal 2015. Amortization expense for the identifiable intangible assets for the first quarters of fiscal 2015 and 2014 was \$5.9 million and \$8.6 million, respectively. Estimated amortization expense for the remainder of fiscal 2015 and succeeding years is as follows:

	Amount (in thousands)	
2015	\$	14,327
2016		16,713
2017		13,987
2018		5,968
2019		2,887
Beyond		2,007
Total	\$	55,889

5. Property and Equipment

Property and equipment consisted of the following:

	December 28, 2014		September 28, 2014	
	(in thousands)			
Land and buildings	\$	4,029	\$	4,029
Equipment, furniture and fixtures		189,955		204,298
Leasehold improvements		24,050		24,478
Total property and equipment		218,034		232,805
Accumulated depreciation		(147,373)		(158,941)
Property and equipment, net	\$	70,661	\$	73,864

The depreciation expense related to property and equipment, including assets under capital leases, was \$6.9 million and \$7.1 million for the first quarters of fiscal 2015 and 2014, respectively.

6. Stock Repurchase and Dividends

In June 2013, our Board of Directors authorized a stock repurchase program under which we could repurchase up to \$100 million of our common stock. Stock repurchases could be made on the open market or in privately negotiated transactions with third parties. From the inception of this program through September 28, 2014, we repurchased through open market purchases a total of 3.9 million shares at an average price of \$25.59 per share, for a total cost of \$100 million.

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On November 10, 2014, the Board of Directors authorized a new stock repurchase program under which we may repurchase up to \$200 million of our common stock over the next two years. In the first quarter of fiscal 2015, we repurchased through open market purchases a total of 760,926 shares at an average price of \$26.50, for a total cost of \$20.2 million under this new repurchase program.

On November 10, 2014, the Board of Directors declared a quarterly cash dividend of \$0.07 per share to shareholders of record as of the close of business on November 26, 2014. The total dividend of \$4.4 million was paid on December 14, 2014.

Subsequent Event. On January 26, 2015, the Board of Directors declared a quarterly cash dividend of \$0.07 per share payable on February 26, 2015 to stockholders of record as of the close of business on February 11, 2015.

Table of Contents**7. Stockholders Equity and Stock Compensation Plans**

We recognize the fair value of our stock-based compensation awards as compensation expense on a straight-line basis over the requisite service period in which the award vests. Stock-based compensation expense for the first quarters of fiscal 2015 and 2014 was \$2.8 million and \$2.3 million, respectively. The majority of these amounts were included in Selling, general and administrative (SG&A) expenses in our condensed consolidated statements of income. In the first quarter of fiscal 2015, we granted 266,420 stock options with an exercise price of \$27.26 per share and an estimated weighted-average fair value of \$8.20 per share. In addition, we awarded 155,265 performance shares units (PSUs) to our non-employee directors and executive officers at the fair value of \$27.26 per share on the award date. All of the PSUs are performance-based and vest, if at all, after the conclusion of the three-year performance period. The number of PSUs that ultimately vest is based 50% on the growth in our diluted earnings per share and 50% on our total shareholder return over the vesting period. Additionally, we awarded 239,247 restricted stock units (RSUs) to our non-employee directors, executive officers and employees at the fair value of \$27.26 per share on the award date. All of the executive officer and employee RSUs have time-based vesting over a four-year period, and the non-employee director RSUs vest after one year.

8. Earnings Per Share (EPS)

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

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

	Three Months Ended	
	December 28, 2014	December 29, 2013
	(in thousands, except per share data)	
Net income attributable to Tetra Tech	\$ 25,575	\$ 27,315
Weighted-average common shares outstanding - basic	62,452	64,227
Effect of dilutive stock options and unvested restricted stock	660	821
Weighted-average common stock outstanding - diluted	63,112	65,048
Earnings per share attributable to Tetra Tech:		
Basic	\$ 0.41	\$ 0.43
Diluted	\$ 0.41	\$ 0.42

For the first quarters of fiscal 2015 and 2014, 0.8 million and 0.4 million options, respectively, were excluded from the calculation of dilutive potential common shares because the assumed proceeds per share exceeded the average market price per share during the period. Therefore, their inclusion would have been anti-dilutive.

9. Income Taxes

The effective tax rates for the first quarters of fiscal 2015 and 2014 were 26.4% and 33.8%, respectively. During the first quarter of fiscal 2015, the Tax Increase Prevention Act of 2014 was signed into law. This law retroactively extended the federal research and experimentation credits (R&E credits) for amounts incurred from January 1, 2014 through December 31, 2014. Our income tax expense for the first quarter of fiscal 2015 includes a tax benefit of \$1.2 million attributable to operating income during the last nine months of fiscal 2014, primarily related to the retroactive recognition of these tax credits.

At December 28, 2014, approximately \$53 million of undistributed earnings of our foreign subsidiaries, primarily in Canada, are expected to be permanently reinvested. Accordingly, no provision for U.S. income taxes or foreign withholding taxes has been made. Upon distribution of those earnings, we would be subject to U.S. income taxes and foreign withholding taxes. Determination of the amount of unrecognized deferred U.S. income tax liability is not practicable; however, the potential foreign tax credit associated with the deferred income would be available to partially reduce the resulting U.S. tax liabilities.

Table of Contents

We review the realizability of deferred tax assets on a quarterly basis by assessing the need for a valuation allowance. As of December 28, 2014, we performed our assessment of net deferred tax assets. Significant management judgment is required in determining the provision for income taxes and, in particular, any valuation allowance recorded against our deferred tax assets. Applying the applicable accounting guidance requires an assessment of all available evidence, both positive and negative, regarding the realizability of the net deferred tax assets. Based upon recent results, we concluded that a cumulative loss in recent years exists in certain foreign jurisdictions. We have historically relied on the following factors in our assessment of the realizability of our net deferred tax assets:

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

We considered these factors in our estimate of the reversal pattern of deferred tax assets, using assumptions that we believe are reasonable and consistent with operating results. However, as a result of projected cumulative pre-tax losses in these certain foreign jurisdictions for the 36 months ending September 27, 2015, we concluded that our estimates of future taxable income and certain tax planning strategies did not constitute sufficient positive evidence to assert that it is more likely than not that certain deferred tax assets would be realizable before expiration. Based on our assessment, we have concluded that it is more likely than not that the assets will be realized except for the assets related to loss carry-forwards in foreign jurisdictions for which a valuation allowance of \$7.3 million has been provided in prior years.

10. Reportable Segments

Beginning in the first quarter of fiscal 2015, we reorganized our core operations to better align them with our markets, resulting in two renamed reportable segments. We now report our water resources, water and wastewater treatment, environment, and infrastructure engineering activities in the WEI reportable segment. Our RME reportable segment includes our oil and gas, energy, mining, waste management, remediation, utilities, and international development services. We report the results of the wind-down of our non-core construction activities in the RCM reportable segment. Prior year amounts for reportable segments have been revised to conform to the current-year presentation.

Our reportable segments are as follows:

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WEI: WEI provides consulting and engineering services worldwide for a broad range of water and infrastructure-related needs in both developed and emerging economies. WEI supports both public and private clients including federal, state/provincial, and local governments, and global and local commercial and industrial clients. The primary markets for WEI's services include water management, environmental restoration, government consulting, and a broad range of civil infrastructure requirements for facilities, transportation, and regional and local development. WEI's services span from early data collection and monitoring, to data analysis and information technology, to science and engineering applied research, to engineering design, to construction management and operations and maintenance.

RME: RME provides consulting and engineering services worldwide for a broad range of resource management and energy needs. RME supports both private and public clients, including global industrial and commercial clients, U.S. federal agencies in large scale remediation, and major international development agencies. The primary markets for RME's services include oil and gas, energy, mining, remediation, utilities, waste management, and international development. RME's services span from early data collection and monitoring, to data analysis and information technology, to science and engineering applied research, to engineering design, to construction management and operations and maintenance. RME supports engineering, procurement and construction management (EPCM) for full service implementation of commercial projects, especially for oil and gas, industrial, and mining customers.

RCM: We report the results of the wind-down of our non-core construction activities in the RCM reportable segment. We plan to complete all remaining work performed in this segment primarily in fiscal 2015.

Table of Contents

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

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

Reportable Segments

	Three Months Ended	
	December 28, 2014	December 29, 2013
(in thousands)		
Revenue		
WEI	\$ 233,668	\$ 229,330
RME	331,673	359,263
RCM	34,430	82,082
Elimination of inter-segment revenue	(18,715)	(24,827)
Total revenue	\$ 581,056	\$ 645,848
Operating Income (Loss)		
WEI	\$ 21,832	\$ 22,225
RME	25,720	33,260
RCM	(3,420)	(4,131)
Corporate (1)	(7,520)	(7,636)
Total operating income	\$ 36,612	\$ 43,718
Depreciation		
WEI	\$ 1,232	\$ 1,414
RME	3,679	4,163
RCM	660	798
Corporate	1,293	754
Total depreciation	\$ 6,864	\$ 7,129

(1) Includes amortization of intangibles, other costs, and other income not allocable to our reportable segments.

	December 28, 2014	September 28, 2014
	(in thousands)	
Total Assets		
WEI	\$ 267,615	\$ 302,877
RME	421,493	442,911
RCM	112,026	100,996
Corporate (1)	895,002	929,620
Total assets	\$ 1,696,136	\$ 1,776,404

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(1) Corporate assets consist of intercompany eliminations and assets not allocated to our reportable segments including goodwill, intangible assets, deferred income taxes and certain other assets.

Table of Contents*Major Clients*

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

The following table represents our revenue by client sector:

Client Sector	Three Months Ended	
	December 28, 2014	December 29, 2013
	(in thousands)	
International (1)	\$ 147,061	\$ 163,933
U.S. commercial	175,183	186,296
U.S. federal government (2)	184,186	195,184
U.S. state and local government	74,626	100,435
Total	\$ 581,056	\$ 645,848

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

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

11. Fair Value Measurements

The fair value of long-term debt was determined using the present value of future cash flows based on the borrowing rates currently available for debt with similar terms and maturities (Level 2 measurement, as described in *Critical Accounting Policies and Estimates* in our Annual Report on Form 10-K for the fiscal year ended September 28, 2014). The carrying value of our long-term debt approximated fair value at December 28, 2014 and September 28, 2014. As of December 28, 2014 we had borrowings of \$199.9 million outstanding under our amended credit agreement, which were used to fund our business acquisitions, working capital needs, and contingent earn-outs.

12. Joint Ventures*Consolidated Joint Ventures*

The aggregate revenue of our consolidated joint ventures was \$2.2 million and \$2.6 million for the first quarters of fiscal 2015 and 2014, respectively. The assets and liabilities of these consolidated joint ventures were immaterial at December 28, 2014 and September 28, 2014. These assets are restricted for use only by those joint ventures and are not available for our general operations. Cash and cash equivalents

maintained by the consolidated joint ventures at December 28, 2014 and September 28, 2014 were \$1.7 million and \$1.4 million, respectively.

Unconsolidated Joint Ventures

We account for our unconsolidated joint ventures using the equity method of accounting. Under this method, we recognize our proportionate share of the net earnings of these joint ventures within *Other costs of revenue* in our condensed consolidated statements of income. For both the first quarter of fiscal 2015 and 2014, we reported \$0.7 million of equity in earnings of unconsolidated joint ventures. Our maximum exposure to loss as a result of our investments in unconsolidated joint ventures is typically limited to the aggregate of the carrying value of the investment. Future funding commitments for our unconsolidated joint ventures are immaterial. The unconsolidated joint ventures are, individually and in the aggregate, immaterial to our condensed consolidated financial statements.

The aggregate carrying values of the assets and liabilities of the unconsolidated joint ventures were \$20.3 million and \$18.4 million, respectively, at December 28, 2014, and \$20.1 million and \$18.0 million, respectively, at September 28, 2014.

Table of Contents**13. Derivative Financial Instruments**

We use certain interest rate derivative contracts to hedge interest rate exposures on our variable rate debt. We enter into foreign currency derivative contracts with financial institutions to reduce the risk that cash flows and earnings will be adversely affected by foreign currency exchange rate fluctuations. Our hedging program is not designated for trading or speculative purposes.

We recognize derivative instruments as either assets or liabilities on the accompanying condensed consolidated balance sheets at fair value (Level 2 measurement, as described in Critical Accounting Policies and Estimates in our Annual Report on Form 10-K for the fiscal year ended September 28, 2014). We record changes in the fair value (i.e., gains or losses) of the derivatives that have been designated as accounting hedges in our condensed consolidated balance sheets as accumulated other comprehensive income (loss).

In fiscal 2013, we entered into three interest rate swap agreements that we designated as cash flow hedges to fix the variable interest rates on a portion of borrowings under our term loan facility. In the first quarter of fiscal 2014, we entered into two interest rate swap agreements that we designated as cash flow hedges to fix the variable interest rates on the borrowings under the term loan facility. At December 28, 2014, the effective portion of our interest rate swap agreements designated as cash flow hedges before tax effect was \$0.3 million, all of which we expect to be reclassified from accumulated other comprehensive income to interest expense within the next 12 months.

As of December 28, 2014, the total notional principal amount of our outstanding interest rate swap agreements which expire in May 2018 was \$199.9 million and the weighted average fixed interest rate was 1.32%.

The fair values of our outstanding derivatives designated as hedging instruments were as follows:

Balance Sheet Location	December 28,	September 28,
	2014	2014
	(in thousands)	
Interest rate swap agreements	\$ 523	\$ 45

The impact of the effective portions of derivative instruments in cash flow hedging relationships on income and other comprehensive income from our foreign currency forward contracts and interest rate swap agreements was immaterial for the first three months of fiscal 2015 and the fiscal year ended September 28, 2014. Additionally, there were no ineffective portions of derivative instruments. Accordingly, no amounts were excluded from effectiveness testing for our foreign currency forward contracts and interest rate swap agreements. We had no derivative instruments that were not designated as hedging instruments for fiscal 2014 and the first quarter of fiscal 2015.

Table of Contents**14. Reclassifications Out of Accumulated Other Comprehensive Income (Loss)**

The accumulated balances and reporting period activities for the three months ended December 28, 2014 and December 29, 2013 related to reclassifications out of accumulated other comprehensive income (loss) are summarized as follows:

	Foreign Currency Translation Adjustments	Loss on Derivative Instruments (in thousands)	Accumulated Other Comprehensive Income (Loss)
Balances at September 29, 2013	\$ 2,340	\$ (482)	\$ 1,858
Other comprehensive income (loss) before reclassifications	(22,096)	308	(21,788)
Reclassification adjustment of prior derivative settlement, net of tax		517	517
Net current-period other comprehensive income (loss)	(22,096)	825	(21,271)
Balances at December 29, 2013	\$ (19,756)	\$ 343	\$ (19,413)
Balances at September 28, 2014	\$ (43,085)	\$ 547	\$ (42,538)
Other comprehensive income (loss) before reclassifications	(24,569)	111	(24,458)
Reclassification adjustment of prior derivative settlement, net of tax		(591)	(591)
Net current-period other comprehensive income (loss)	(24,569)	(480)	(25,049)
Balances at December 28, 2014	\$ (67,654)	\$ 67	\$ (67,587)

15. Commitments and Contingencies

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

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

On April 17, 2012, authorities in the province of Quebec, Canada charged two former employees of BPR Triax, a subsidiary of BPR, and BPR Triax, under the Canadian Criminal Code with allegations of corruption. Discovery procedures associated with the charges are currently ongoing, and the legal process is expected to continue into 2016. We have conducted an internal investigation concerning this matter and, based

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on the results of our investigation, we believe these allegations are limited to activities at BPR Triax prior to our acquisition of BPR.

On April 19, 2013, a class action proceeding was filed in Montreal in which BPR, BPR's former president, and other Quebec-based engineering firms and individuals are named as defendants. The plaintiff class includes all individuals and entities that have paid real estate or municipal taxes to the city of Montreal. The allegations include participation in collusion to share contracts awarded by the City of Montreal, conspiracy to reduce competition and fix prices, payment of bribes to officials, making illegal political contributions, and bid rigging. A class certification hearing was held in March 2014, and on May 7, 2014, the court dismissed the action. On June 5, 2014, the plaintiff filed an appeal, and the defendants then filed a motion to dismiss. On November 3, 2014, the court dismissed the plaintiff's appeal. The plaintiff has filed an appeal with the Supreme Court of Canada.

Table of Contents

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

16. Recent Accounting Pronouncements

In July 2013, the FASB issued an update on the financial statement presentation of unrecognized tax benefits. We are required to present a liability related to an unrecognized tax benefit as a reduction of a deferred tax asset for a net operating loss carryforward, a similar tax loss or a tax credit carryforward if such settlement is required or expected in the event the uncertain tax position is disallowed. The guidance became effective for us in the first quarter of fiscal 2015. The adoption of this guidance did not have a material impact on our consolidated financial statements.

In April 2014, the FASB issued guidance that changes the threshold for reporting discontinued operations and adds new disclosures. The new guidance defines a discontinued operation as a disposal of a component or group of components that is disposed of or is classified as held for sale and represents a strategic shift that has (or will have) a major effect on our operations and financial results. For disposals of individually significant components that do not qualify as discontinued operations, we must disclose pre-tax earnings of the disposed component. This guidance is effective for us prospectively in the first quarter of fiscal 2016. Early adoption is permitted, but only for disposals (or classifications as held for sale) that have not been reported in financial statements previously issued or available for issuance. We do not expect the adoption of this guidance to have a material impact on our consolidated financial statements.

In May 2014, the FASB issued an accounting standard that will supersede existing revenue recognition guidance under current U.S. GAAP. The new standard is a comprehensive new revenue recognition model that requires a company to recognize revenue to depict the transfer of goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. The accounting standard is effective for us in the first quarter of fiscal year 2018. Companies may use either a full retrospective or a modified retrospective approach to adopt this standard, and management is currently evaluating which transition approach to use. We are currently in the process of assessing what impact this new standard may have on our condensed consolidated financial statements.

In August 2014, the FASB issued an amendment to the accounting guidance related to the evaluation of an entity to continue as a going concern. The amendment establishes management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern in connection with preparing financial statements for each annual and interim reporting period. The update also gives guidance to determine whether to disclose information about relevant conditions and events when there is substantial doubt about an entity's ability to continue as a going concern. This guidance is effective for us in the first quarter of fiscal 2017. We do not expect the adoption of this guidance to have an impact on our condensed consolidated financial statements.

In January 2015, the FASB issued an amendment to the accounting guidance related to the income statement presentation of extraordinary and unusual items. The amendment eliminates from U.S. GAAP the concept of extraordinary items. This guidance is effective for us in the first quarter of fiscal 2017. We do not expect the adoption of this guidance to have an impact on our condensed consolidated financial statements.

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

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

GENERAL OVERVIEW

We are a leading provider of consulting, engineering, program management, and construction management services that focuses on addressing fundamental needs for water, environment, infrastructure, resource management, and energy. We typically begin at the earliest stage of a project by identifying technical solutions to problems and developing execution plans tailored to our clients' needs and resources. Our solutions may span the entire life cycle of consulting and engineering projects, and include applied science, research and technology, engineering, design, construction management, construction, operations and maintenance, and information technology. Our commitment to continuous improvement and investment in growth has diversified our client base, expanded our geographic reach, and increased the breadth and depth of our service offerings to address existing and emerging markets. We currently have approximately 13,000 staff worldwide, located primarily in North America.

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

Client Sector	Three Months Ended	
	December 28, 2014	December 29, 2013
International (1)	25.3%	25.4%
U.S. commercial	30.2	28.8

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U.S. federal government (2)	31.7	30.2
U.S. state and local government	12.8	15.6
	100.0%	100.0%

- (1) Includes revenue generated from foreign operations, primarily in Canada, and revenue generated from non-U.S. clients.
- (2) Includes revenue generated under U.S. federal government contracts performed outside the United States.

Table of Contents

Beginning in the first quarter of fiscal 2015, we reorganized our core operations to better align them with our markets, resulting in two renamed reportable segments. We now report our water resources, water and wastewater treatment, environment, and infrastructure engineering activities in the WEI reportable segment. Our RME reportable segment includes our oil and gas, energy, mining, waste management, remediation, utilities, and international development services. We report the results of the wind-down of our non-core construction activities in the RCM reportable segment. Prior year amounts for reportable segments have been revised to conform to the current-year presentation.

Our reportable segments are as follows:

Water, Environment and Infrastructure. WEI provides consulting and engineering services worldwide for a broad range of water and infrastructure-related needs in both developed and emerging economies. WEI supports both public and private clients including federal, state/provincial, and local governments, and global and local commercial and industrial clients. The primary markets for WEI's services include water management, environmental restoration, government consulting, and a broad range of civil infrastructure requirements for facilities, transportation, and regional and local development. WEI's services span from early data collection and monitoring, to data analysis and information technology, to science and engineering applied research, to engineering design, to construction management and operations and maintenance.

Resource Management and Energy. RME provides consulting and engineering services worldwide for a broad range of resource management and energy needs. RME supports both private and public clients, including global industrial and commercial clients, U.S. federal agencies in large scale remediation, and major international development agencies. The primary markets for RME's services include oil and gas, energy, mining, remediation, utilities, waste management, and international development. RME's services span from early data collection and monitoring, to data analysis and information technology, to science and engineering applied research, to engineering design, to construction management and operations and maintenance. RME supports EPCM for full service implementation of commercial projects, especially for oil and gas, industrial, and mining customers.

Remediation and Construction Management. We report the results of the wind-down of our non-core construction activities in the RCM reportable segment. We plan to complete all remaining work performed in this segment primarily in fiscal 2015.

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

Reportable Segment	Three Months Ended	
	December 28, 2014	December 29, 2013
WEI	40.2%	35.5%
RME	57.1	55.6
RCM	5.9	12.7
Inter-segment elimination	(3.2)	(3.8)
	100.0%	100.0%

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

Contract Type	Three Months Ended	
	December 28, 2014	December 29, 2013
Fixed-price	39.2%	46.8%
Time-and-materials	41.3	34.5
Cost-plus	19.5	18.7
	100.0%	100.0%

Table of Contents

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

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

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

ACQUISITIONS AND DIVESTITURES

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

We made no acquisitions in the first quarter of fiscal 2015. In fiscal 2014, we completed immaterial acquisitions that enhanced our service offerings and expanded our geographic presence in our WEI and RME segments.

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We perform our annual goodwill impairment review at the beginning of our fiscal fourth quarter. Our most recent review at June 30, 2014 (i.e. the first day of our fourth quarter in fiscal 2014), indicated that we had no impairment of goodwill, and all of our reporting units had estimated fair values that were in excess of their carrying values, including goodwill.

The reorganization of our core operations previously described also impacted the definition of our reporting units used for goodwill impairment testing. As a result, as of September 29, 2014, we performed impairment testing for goodwill under our new segment structure and determined that the estimated fair value of each reporting unit exceeded its corresponding carrying amount including recorded goodwill, and as such, no impairment existed as of September 29, 2014. However, our Global Mining Practice (GMP) reporting unit had an estimated fair value that exceeded its carrying value by less than 20%. As of December 28, 2014, the goodwill amount for GMP was \$65.6 million. Although we believe that our estimate of fair value for GMP is reasonable, if GMP's financial performance falls significantly below our expectations or market prices for similar businesses decline, the goodwill for GMP could become impaired.

Table of Contents

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 2015 and 2014.

OVERVIEW OF RESULTS AND BUSINESS TRENDS

General. In the first quarter of fiscal 2015, our revenue declined 10.0% compared to the year-ago period. This decline primarily reflects the reduction in construction activities compared to last year due to our decision in fiscal 2014 to exit from select fixed-price construction markets. Excluding these activities, which are reported in the RCM segment, our revenue declined 4.0% in the first quarter of fiscal 2015 compared to the same period last year. Approximately half of this decline was due to foreign exchange rate fluctuations as the U.S. dollar continued to strengthen during the first quarter of fiscal 2015 against most of the foreign currencies in which we conduct our international business. The remainder of the decline reflects the reduction in mining activities, particularly in Canada, the timing of U.S. federal government remediation projects, and severe winter weather conditions that hindered our field activities in the Northeastern United States during the first quarter of fiscal 2015.

International. Our international business decreased 10.3% in the first quarter of fiscal 2015 compared to the year-ago quarter. Foreign exchange rate fluctuations had a significant adverse impact on our international revenue in the first quarter of fiscal 2015. Excluding the impact of foreign exchange, our international business decreased 3.0% compared to last year. This decline primarily reflects continued weakness in our mining operations, particularly in Canada. We anticipate modestly higher international revenue levels in fiscal 2015 on a constant currency basis as our oil and gas business remains strong. However, in the event oil prices continue to fall, our business is likely to be negatively impacted.

U.S. Commercial. Our U.S. commercial business decreased 6.0% in the first quarter of fiscal 2015 compared to the same period last year. This decline was partially due to the reduction in construction activities compared to last year due to our decision in fiscal 2014 to exit from certain construction markets. Excluding these activities, which are reported in the RCM segment, our U.S. commercial revenue decreased 3.4% in the first quarter of fiscal 2015 compared to the same period last year. This decline primarily reflects a reduction in solid waste-related field activities that were curtailed by abnormally severe winter weather conditions in the Northeastern United States during the first quarter of fiscal 2015. Our U.S. commercial clients typically react rapidly to economic change. Accordingly, if the U.S. economy experiences a slowdown or pickup in fiscal 2015, we would expect our U.S. commercial outlook to change correspondingly.

U.S. Federal Government. Our U.S. federal government business declined 5.6% in the first quarter of fiscal 2015 compared to the year-ago quarter. This decline was primarily due to the aforementioned reduction in RCM construction activities compared to last year. Excluding these activities, our U.S. federal government revenue decreased slightly in the first quarter of fiscal 2015 compared to the same period last year due to a decline in remediation activity, which more than offset the broad-based increases in revenues from federal infrastructure projects. During periods of economic volatility, our U.S. federal government clients have historically been the most stable and predictable. We remain cautious, but expect our U.S. federal revenue to be stable or increase slightly during the remainder of fiscal 2015, excluding the RCM segment.

U.S. State and Local Government. Our U.S. state and local government business decreased 25.7% in the first quarter of fiscal 2015 compared to the same period in fiscal 2014. Our decision in fiscal 2014 to exit from certain construction activities primarily caused the decline, especially those related to transportation projects. Excluding these activities, our U.S. state and local government revenue increased 9.7% in the first

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quarter of fiscal 2015 compared to the year-ago quarter. Many state and local government agencies are experiencing improved financial conditions compared to recent years. Simultaneously, states are facing major long-term infrastructure needs, including the need for maintenance, repair, and upgrading of existing critical infrastructure and the need to build new facilities. As a result, we experienced broad-based growth in U.S. state and local government infrastructure project-related revenue over the last 12 months. We expect our U.S. state and local government business to continue to show growth during the remainder of fiscal 2015, excluding the RCM segment.

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

	December 28, 2014	Three Months Ended		Change	
		December 29, 2013			
		(\$ in thousands)			
Revenue	\$ 581,056	\$ 645,848	\$ (64,792)	(10.0)%	
Subcontractor costs	(143,976)	(162,857)	18,881	11.6	
Revenue, net of subcontractor costs (1)	437,080	482,991	(45,911)	(9.5)	
Other costs of revenue	(358,281)	(396,528)	38,247	9.6	
Selling, general and administrative expenses	(42,187)	(47,375)	5,188	11.0	
Contingent consideration for value adjustment		4,630	(4,630)	NM	
Operating income	36,612	43,718	(7,106)	(16.3)	
Interest expense	(1,790)	(2,424)	634	26.2	
Income before income tax expense	34,822	41,294	(6,472)	(15.7)	
Income tax expense	(9,176)	(13,967)	4,791	34.3	
Net income including noncontrolling interests	25,646	27,327	(1,681)	(6.2)	
Net income attributable to noncontrolling interests	(71)	(12)	(59)	NM	
Net income attributable to Tetra Tech	\$ 25,575	\$ 27,315	\$ (1,740)	(6.4)	

(1) We believe that the presentation of Revenue, net of subcontractor costs, which is 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 programs, issue grants. Generally, these subcontractor costs and grants are passed through to our clients and, in accordance with GAAP and industry practice, are included in our revenue when it is our contractual responsibility to procure or manage these activities. The grants are included as part of our subcontractor costs. Because subcontractor services can vary significantly from project to project and period to period, changes in revenue may not necessarily be indicative of our business trends. Accordingly, we segregate subcontractor costs from revenue to promote a better understanding of our business by evaluating revenue exclusive of costs associated with external service providers.

In the first quarter of fiscal 2015, revenue and revenue, net of subcontractor costs, decreased \$64.8 million, or 10.0%, and \$45.9 million, or 9.5%, respectively, compared to the first quarter of last year. These declines reflect the above-described reduction in construction activities compared to last year. Revenue and revenue, net of subcontractor costs, from these activities, which are reported in the RCM segment, declined \$47.7 million and \$23.1 million, respectively, in the first quarter of fiscal 2015 compared to the same period last year. Our first quarter fiscal 2015 results also reflect declines caused by foreign exchange rate fluctuations as the U.S. dollar continued to strengthen during the first quarter of fiscal 2015 against most of the foreign currencies in which we conduct our international business. These fluctuations negatively impacted revenue and revenue, net of subcontractor costs, by \$12.0 million and \$10.7 million, respectively, for the first quarter of fiscal 2015 compared to the same period last year. On a constant currency basis, our revenue and revenue, net of subcontractor costs, excluding the exited activities in the RCM segment, decreased 1.9% and 2.7%, respectively, compared to the first quarter of fiscal 2014. This adjusted revenue decline reflects the reduction in mining activities, particularly in Canada, the timing of large U.S. federal government remediation projects, and the abnormally severe winter weather conditions that hindered our field activities in the Northeastern United States during the first quarter of fiscal 2015.

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Our operating income was \$36.6 million in the first quarter of fiscal 2015 compared to \$43.7 million in the year-ago quarter, a decrease of \$7.1 million. During the first quarter of fiscal 2014, we recorded a net decrease in our contingent earn-out liabilities and reported related net gains in operating income of \$4.6 million. Subsequent to the acquisition date, we determined that the related acquired companies, Parkland and AEG, would achieve operating income at different levels than those assumed at the acquisition dates. No gains or losses from earn-out liabilities were recorded in the first quarter of fiscal 2015. Excluding these fiscal 2014 net gains, our operating income declined \$2.5 million, or 6.3%, compared to the first quarter of last year. This decline primarily resulted from lower operating income from our commodity-focused businesses, particularly mining and oil and gas, of \$3.2 million, which reflects the recent and continuing declines in commodity prices. Additionally, our solid waste-related field activities were curtailed by the above-mentioned winter weather conditions during the first quarter of fiscal 2015, which resulted in lower related operating income of \$2.5 million compared to the first quarter of last year. The \$2.7 million decrease in the amortization of intangibles in the first quarter of fiscal 2015 compared to the year-ago quarter partially offset the declines.

Table of Contents

In the first quarter of fiscal 2015, we recorded income tax expense of \$9.2 million, representing an effective tax rate of 26.4%, compared to \$14.0 million, representing an effective tax rate of 33.8%, in the first quarter of fiscal 2014. During the first quarter of fiscal 2015, the Tax Increase Prevention Act of 2014 was signed into law. This law retroactively extended the federal R&E credits for amounts incurred from January 1, 2014 through December 31, 2014. Our income tax expense for the first quarter of fiscal 2015 includes a tax benefit of \$1.2 million attributable to operating income during the last nine months of fiscal 2014, primarily related to the retroactive recognition of these credits. The remainder of the decline in the effective tax rate was primarily due to a higher proportion of operating income from international operations, which have lower tax rates than the U.S., in fiscal 2015 compared to last year.

Segment Results of Operations**Water, Environment and Infrastructure**

	December 28, 2014	Three Months Ended December 29, 2013 (\$ in thousands)	\$	Change	%
Revenue	\$ 233,668	\$ 229,330	\$ 4,338		1.9%
Subcontractor costs	(49,994)	(48,588)	(1,406)		(2.9)
Revenue, net of subcontractors costs	\$ 183,674	\$ 180,742	\$ 2,932		1.6
Operating income	\$ 21,833	\$ 22,225	\$ (392)		(1.8)

Revenue and revenue, net of subcontractor costs, increased \$4.3 million and \$2.9 million, respectively, in the first quarter of fiscal 2015 compared to the same period last year. As described above, foreign exchange rate fluctuations negatively impacted revenue and revenue, net of subcontractor costs, in the amounts of \$5.0 million and \$4.4 million, respectively, for the first quarter of fiscal 2015 compared to the same period last year. On a constant currency basis, our revenue and revenue, net of subcontractor costs, increased 4.1% and 4.0%, respectively, compared to the first quarter of fiscal 2014. This growth reflects increased revenue from U.S. federal and state and local government infrastructure projects across a broad range of government agencies.

Although our revenue increased, our operating income decreased slightly in the first quarter of fiscal 2015 compared to the year-ago quarter. This decline reflects a higher proportion of government revenue and a corresponding decline in commercial revenue in the first quarter fiscal 2015 compared to last year's first quarter. Our commercial revenue has a higher margin than revenue from government projects. As a result of this change in business mix, our operating income margin declined from 12.3% in the first quarter of fiscal 2014 to 11.9% in the first quarter of fiscal 2015.

Resource Management and Energy

	December 28, 2014	Three Months Ended December 29, 2013	\$	Change	%
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(\$ in thousands)

Revenue	\$ 331,673	\$ 359,263	\$ (27,590)	(7.7)%
Subcontractor costs	(88,878)	(90,727)	1,849	2.0
Revenue, net of subcontractors costs	\$ 242,795	\$ 268,536	\$ (25,741)	(9.6)
Operating income	\$ 25,720	\$ 33,260	\$ (7,540)	(22.7)

Table of Contents

Revenue and revenue, net of subcontractor costs, decreased \$27.6 million and \$25.7 million, respectively, in the first quarter of fiscal 2015 compared to the first quarter of last year. As in the WEI segment, foreign exchange rate fluctuations had an adverse impact on revenue and revenue, net of subcontractor costs, during the first quarter of fiscal 2015 in the amounts of \$7.2 million and \$6.4 million, respectively, for the first quarter of fiscal 2015 compared to the same period last year. On a constant currency basis, our revenue and revenue, net of subcontractor costs, decreased 5.7% and 7.2%, respectively, compared to the first quarter of fiscal 2014. This adjusted revenue decline primarily reflects the decrease in commodity-related activities, particularly in Canada. Revenue from these services declined \$12.7 million compared to the first quarter of fiscal 2014. Further, the timing of certain large U.S. federal government remediation projects, and weather conditions that hindered our solid waste field activities in the Northeastern United States, caused additional declines in revenue in the first quarter of fiscal 2015 compared to the year-ago quarter.

Operating income declined \$7.5 million in the first quarter of fiscal 2015, or 22.7%, compared to the same period last year. The decline in operating income was more significant than the declines in revenue and revenue, net of subcontract costs, respectively. As a result, our operating margin declined to 10.6% in the first quarter of fiscal 2015 from to 12.4% in last year's first quarter. This trend primarily reflects the reduced level of higher-margin commodity-based activities, particularly oil and gas services, in the first quarter of fiscal 2015 compared to the same period last year.

Remediation and Construction Management

	December 28, 2014	Three Months Ended December 29, 2013 (\$ in thousands)	Change \$	%
Revenue	\$ 34,430	\$ 82,082	\$ (47,652)	(58.1)%
Subcontractor costs	(23,819)	(48,369)	24,550	50.8
Revenue, net of subcontractors costs	\$ 10,611	\$ 33,713	\$ (23,102)	(68.5)
Operating income	\$ (3,420)	\$ (4,131)	\$ 711	17.2

Revenue and revenue, net of subcontractor costs, decreased \$47.7 million and \$23.1 million, respectively, in the first quarter of fiscal 2015 compared to the year-ago period. We report the results of the wind-down of our non-core construction activities in this reportable segment. We plan to complete all remaining work performed in the RCM segment primarily in fiscal 2015.

Non-GAAP Financial Measures

We provide certain non-GAAP financial measures that we believe are appropriate for evaluating the operating performance of our business. These non-GAAP measures should not be considered in isolation from, and is 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 combinations. Revenue, net of subcontractor costs, is defined as revenue less subcontractor costs. Revenue, net of subcontractor costs, as we calculate it, may not be comparable to similarly titled measures employed by other companies.

Table of Contents

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	
	December 28, 2014	December 29, 2013
	(in thousands)	
Net income attributable to Tetra Tech	\$ 25,575	\$ 27,315
Interest expense	1,790	2,424
Depreciation (1)	6,864	7,129
Amortization (1)	5,930	8,581
Income tax expense	9,176	13,967
EBITDA	\$ 49,335	\$ 59,416
Revenue	\$ 581,056	\$ 645,848
Subcontractor costs	(143,976)	(162,857)
Revenue, net of subcontractors costs	\$ 437,080	\$ 482,991

(1) The total of depreciation and amortization expenses is different than 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 primary sources of liquidity are cash flows from operations and borrowings under our credit facilities. Our primary uses of cash are to fund working capital, capital expenditures, stock repurchases, cash dividends and repayment of debt, as well as to fund acquisitions and earn-out obligations from prior acquisitions. We believe that our existing cash and cash equivalents, operating cash flows and borrowing capacity under our Amended and Restated Credit Agreement (the Amended Credit Agreement) will be sufficient to meet our capital requirements for at least the next 12 months. On November 10, 2014, the Board of Directors authorized a new stock repurchase program under which we may repurchase up to \$200 million of our common stock over the next two years. On November 10, 2014, the Board of Directors also declared a quarterly cash dividend of \$0.07 per share that was paid on December 15, 2014 to shareholders of record as of the close of business on November 26, 2014.

Subsequent Event. On January 26, 2015, the Board of Directors declared a quarterly cash dividend of \$0.07 per share, payable on February 26, 2015 to stockholders of record as of the close of business on February 11, 2015.

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

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As of December 28, 2014, cash and cash equivalents were \$98.9 million, a decrease of \$23.5 million compared to the prior year end. The decrease was primarily due to repurchases of common stock and the payment of dividends funded with cash on hand at the end of fiscal 2014.

Operating Activities. Net cash provided by operating activities was \$5.5 million, a decrease of \$36.3 million compared to the prior-year quarter. This decrease primarily reflects the timing of payments for trade accounts payable.

Investing Activities. Net cash used in investing activities was \$2.0 million, a decrease of \$9.5 million compared to the first quarter of fiscal 2014. This decrease primarily resulted from a \$10.7 million decrease in net payments for business acquisitions.

Table of Contents

Financing Activities. Net cash used in financing activities was \$25.3 million, compared to net cash provided by financing activities of \$3.8 million in last year's first quarter. The decline was primarily due to \$20.2 million of common stock repurchases in the first quarter of fiscal 2015 and the payment of a \$4.4 million dividend on December 14, 2014.

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

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

As of December 28, 2014, we had \$199.9 million in outstanding borrowings under the Amended Credit Agreement, consisting entirely of the Term Loan Facility at a weighted-average interest rate of 1.58% per annum and \$1.2 million in standby letters of credit. Our average effective weighted-average interest rate on borrowings outstanding at December 28, 2014 under the Amended Credit Agreement, including the effects of interest rate swap agreements described in Note 13, Derivative Financial Instruments of the Notes to Condensed Consolidated Financial Statements, was 2.72%. At December 28, 2014, we had \$460 million of available credit under the Revolving Credit Facility, of which \$147.9 million could be borrowed without a violation of our debt covenants. In addition, we entered into agreements with three banks to issue up to \$53 million in standby letters of credit. The aggregate amount of standby letters of credit outstanding under these additional facilities and other bank guarantees was \$29.6 million, of which \$6 million was issued in currencies other than the U.S. dollar.

The Amended Credit Agreement contains certain affirmative and restrictive covenants, and customary events of default. The financial covenants provide for a maximum Consolidated Leverage Ratio of 2.50 to 1.00 (total funded debt/EBITDA, as defined in the Amended Credit Agreement) and a minimum Consolidated Fixed Charge Coverage Ratio of 1.25 to 1.00 (EBITDA, as defined in the Amended Credit Agreement minus capital expenditures/cash interest plus taxes plus principal payments of indebtedness including capital leases, notes and post-acquisition payments).

On June 23, 2014, the Amended Credit Agreement was amended to revise the definition of Permitted Share Repurchases so that we may, during each fiscal year (beginning with the fiscal year that began on September 29, 2014) make Permitted Share Repurchases in an amount equal to the greater of \$75.0 million or 7.5% of Consolidated Net Worth at the end of the immediately preceding fiscal year (without any carry forward of unused portions of each basket to subsequent fiscal years).

At December 28, 2014, we were in compliance with these covenants with a consolidated leverage ratio of 1.54x and a consolidated fixed charge coverage ratio of 2.59x. Our obligations under the Amended Credit Agreement are guaranteed by certain of our subsidiaries and are secured by

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first priority liens on (i) the equity interests of certain of our subsidiaries, including those subsidiaries that are guarantors or borrowers under the Amended Credit Agreement, and (ii) our accounts receivable, general intangibles and intercompany loans, and those of our subsidiaries that are guarantors or borrowers.

Table of Contents

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.

Dividends. Our Board of Directors has authorized the following dividends:

	Dividend Per Share	Record Date	Total Maximum Payment	Payment Date
		(in thousands, except per share data)		
November 10, 2014	\$ 0.07	November 26, 2014	\$ 4,400	December 15, 2014
January 26, 2015	\$ 0.07	February 11, 2015	N/A	February 26, 2015

Income Taxes

We review the realizability of deferred tax assets on a quarterly basis by assessing the need for a valuation allowance. As of December 28, 2014, we performed our assessment of net deferred tax assets. Significant management judgment is required in determining the provision for income taxes and, in particular, any valuation allowance recorded against our deferred tax assets. Applying the applicable accounting guidance requires an assessment of all available evidence, positive and negative, regarding the realizability of the net deferred tax assets. Based upon recent results, we concluded that a cumulative loss in recent years exists in certain foreign jurisdictions. We have historically relied on the following factors in our assessment of the realizability of our net deferred tax assets:

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

We considered these factors in our estimate of the reversal pattern of deferred tax assets, using assumptions that we believe are reasonable and consistent with operating results. However, as a result of projected cumulative pre-tax losses in these certain foreign jurisdictions for the 36 months ending September 27, 2015, we concluded that our estimates of future taxable income and certain tax planning strategies did not constitute sufficient positive evidence to assert that it is more likely than not that certain deferred tax assets would be realizable before expiration. Based on our assessment, we have concluded that it is more likely than not that the assets will be realized except for the assets

related to loss carry-forwards in foreign jurisdictions for which a valuation allowance of \$7.3 million has been provided in prior years.

Off-Balance Sheet Arrangements

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

The following is a summary of our off-balance sheet arrangements:

- Letters of credit and bank guarantees are used primarily to support project performance and insurance programs. We are required to reimburse the issuers of letters of credit and bank guarantees for any payments they make under the outstanding letters of credit or bank guarantees. Our Amended Credit Agreement and additional letter of credit facilities cover the issuance of our standby letters of credit and bank guarantees and are critical for our normal operations. If we default on the Amended Credit Agreement or additional credit facilities, our inability to issue or renew standby letters of credit and bank guarantees would impair our ability to maintain normal operations. At December 28, 2014, we had \$1.2 million in standby letters of credit outstanding under our Amended Credit Agreement and \$29.6 million in standby letters of credit outstanding under our additional letter of credit facilities.

Table of Contents

- From time to time, we provide guarantees and indemnifications related to our services. If our services under a guaranteed or indemnified project are later determined to have resulted in a material defect or other material deficiency, then we may be responsible for monetary damages or other legal remedies. When sufficient information about claims on guaranteed or indemnified projects is available and monetary damages or other costs or losses are determined to be probable, we recognize such guaranteed losses.

- In the ordinary course of business, we enter into various agreements as part of certain unconsolidated subsidiaries, joint ventures, and other jointly executed contracts where we are jointly and severally liable. We enter into these agreements primarily to support the project execution commitments of these entities. The potential payment amount of an outstanding performance guarantee is typically the remaining cost of work to be performed by or on behalf of third parties under engineering and construction contracts. However, we are not able to estimate other amounts that may be required to be paid in excess of estimated costs to complete contracts and, accordingly, the total potential payment amount under our outstanding performance guarantees cannot be estimated. For cost-plus contracts, amounts that may become payable pursuant to guarantee provisions are normally recoverable from the client for work performed under the contract. For lump sum or fixed-price contracts, this amount is the cost to complete the contracted work less amounts remaining to be billed to the client under the contract. Remaining billable amounts could be greater or less than the cost to complete. In those cases where costs exceed the remaining amounts payable under the contract, we may have recourse to third parties, such as owners, co-venturers, subcontractors or vendors, for claims.

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

Critical Accounting Policies

Our critical accounting policies are disclosed in our Annual Report on Form 10-K for the fiscal year ended September 28, 2014. To date, there have been no material changes in our critical accounting policies as reported in our 2014 Annual Report on Form 10-K.

New Accounting Pronouncements

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

Financial Market Risks

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

We are exposed to interest rate risk under our Amended Credit Agreement. We can borrow, at our option, under both the Term Loan Facility and Revolving Credit Facility. We may borrow on the Revolving Credit Facility, at our option, at either (a) a Eurocurrency rate plus a margin that ranges from 1.15% to 2.00% per annum, or (b) a base rate for loans in U.S. dollars (the highest of the U.S. federal funds rate plus 0.50% per annum, the bank's prime rate or the Eurocurrency rate plus 1.00%) plus a margin that ranges from 0.15% to 1.00% per annum. Borrowings at the base rate have no designated term and may be repaid without penalty any time prior to the Facility's maturity date. Borrowings at a Eurodollar rate have a term no less than 30 days and no greater than 90 days. Typically, at the end of such term, such borrowings may be rolled over at our discretion into either a borrowing at the base rate or a borrowing at a Eurodollar rate with similar terms, not to exceed the maturity date of the Facility. The Facility matures on May 7, 2018. At December 28, 2014 we had borrowings outstanding under the Amended Credit Agreement of \$199.9 million at a weighted-average interest rate of 1.58%, of which the entire amount was outstanding under the Term Loan Facility.

Table of Contents

In fiscal 2013, we entered into three interest rate swap agreements with three banks to fix the variable interest rate on \$153.8 million of our Term Loan Facility. In fiscal 2014, we entered into two interest rate swap agreements with two banks to fix the variable interest rate on \$51.3 million of our Term Loan Facility. The objective of these interest rate swaps was to eliminate the variability of our cash flows on the amount of interest expense we pay under our Amended Credit Facility. Our average effective interest rate on borrowings outstanding under the Amended Credit Agreement, including the effects of interest rate swap agreements, at December 28, 2014 was 2.72%. For more information, see Note 13, Derivative Financial Instruments of the Notes to Condensed Consolidated Financial Statements .

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. Foreign currency gains and losses were immaterial for both the first quarter of fiscal 2015 and the prior-year quarter. Foreign currency gains and losses are reported as part of Selling, general and administrative expenses in our condensed consolidated statements of income.

We have foreign currency exchange rate exposure in our results of operations and equity primarily as a result of the currency translation related to our Canadian subsidiaries where the local currency is the functional currency. To the extent the U.S. dollar strengthens against the CAD, the translation of these foreign currency denominated transactions will result in reduced revenue, operating expenses, assets and liabilities. Similarly, our revenue, operating expenses, assets and liabilities will increase if the U.S. dollar weakens against the CAD. For the first quarters of both fiscal 2015 and 2014, 25% of our consolidated revenue was generated by our international business, and such revenue was primarily denominated in CAD. For the first quarter of fiscal 2015, the effect of foreign exchange rate translation on the condensed consolidated balance sheets was a reduction in equity of \$24.5 million compared to a reduction in equity of \$22.1 million in the first quarter of fiscal 2014. These amounts were recognized as an adjustment to equity through other comprehensive income.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

Item 4. Controls and Procedures

Evaluation of disclosure controls and procedures and changes in internal control over financial reporting. As of December 28, 2014, 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 2015 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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

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

On April 17, 2012, authorities in the province of Quebec, Canada charged two former employees of BPR Triax, a subsidiary of BPR, and BPR Triax, under the Canadian Criminal Code with allegations of corruption. Discovery procedures associated with the charges are currently ongoing, and the legal process is expected to continue into 2016. We have conducted an internal investigation concerning this matter and, based on the results of our investigation, we believe these allegations are limited to activities at BPR Triax prior to our acquisition of BPR.

On April 19, 2013, a class action proceeding was filed in Montreal in which BPR, BPR's former president, and other Quebec-based engineering firms and individuals are named as defendants. The plaintiff class includes all individuals and entities that have paid real estate or municipal taxes to the city of Montreal. The allegations include participation in collusion to share contracts awarded by the City of Montreal, conspiracy to reduce competition and fix prices, payment of bribes to officials, making illegal political contributions, and bid rigging. A class certification hearing was held in March 2014, and on May 7, 2014, the court dismissed the action. On June 5, 2014, the plaintiff filed an appeal, and the defendants then filed a motion to dismiss. On November 3, 2014, the court dismissed the plaintiff's appeal. The plaintiff has filed an appeal with the Supreme Court of Canada.

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

Table of Contents

Item 1A. Risk Factors

We operate in a changing environment that involves numerous known and unknown risks and uncertainties that could materially adversely affect our operations. Set forth below and elsewhere in this report and in other documents we file with the SEC are descriptions of the risks and uncertainties that could cause our actual results to differ materially from the results contemplated by the forward-looking statements contained in this report. Additional risks we do not yet know of or that we currently think are immaterial may also affect our business operations. If any of the events or circumstances described in the following risks actually occurs, our business, financial condition or results of operations could be materially adversely affected.

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

General worldwide economic conditions have experienced a downturn due to the reduction of available credit, slower economic activity, concerns about inflation and deflation, volatile energy and commodity costs, decreased consumer confidence and capital spending, adverse business conditions, and, in the United States, the negative impact on economic growth resulting from the combination of federal income tax increases and government spending restrictions. These conditions make it extremely difficult for our clients and our vendors to accurately forecast and plan future business activities and could cause businesses to slow spending on services, and they have also made it very difficult for us to predict the short-term and long-term impacts on our business. We cannot predict the timing, strength, or duration of any economic slowdown or subsequent economic recovery worldwide or in our industry. If the economy or markets in which we operate deteriorate from the level experienced in fiscal 2014, 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, and state and local government clients;
- integration of acquired companies;

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- 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;

Table of Contents

- the timing of expenses incurred for corporate initiatives;
- reductions in the prices of services offered by our competitors;
- threatened or pending litigation;
- legislative and regulatory enforcement policy changes that may affect demand for our services;
- the impairment of goodwill or identifiable intangible assets;
- the fluctuation of a foreign currency exchange rate;
- stock-based compensation expense;
- 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;
- success in executing our strategy and operating plans;
- changes in tax laws or regulations or accounting rules;
- results of income tax examinations;
- the timing of announcements in the public markets regarding new services or potential problems with the performance of services by us or our competitors, or any other material announcements;
- speculation in the media and analyst community, changes in recommendations or earnings estimates by financial analysts, changes in investors' or analysts' valuation measures for our stock, and market trends unrelated to our stock; and
- continued volatility in the financial and commodity markets.

As a consequence, operating results for a particular future period are difficult to predict and, therefore, prior results are not necessarily indicative of results to be expected in future periods. Any of the foregoing factors, or any other factors discussed elsewhere herein, could have a material adverse effect on our business, results of operations, and financial condition that could adversely affect our stock price.

Demand for our services is cyclical and vulnerable to economic downturns. If economic growth slows, government fiscal conditions worsen, or client spending declines further, then our revenue, profits, and financial condition may deteriorate.

Demand for our services is cyclical, and vulnerable to economic downturns and reductions in government and private industry spending. Such downturns or reductions 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, government fiscal conditions worsen, or client spending declines further, then our revenue, profits, and overall financial condition may deteriorate. Our 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.

Table of Contents

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

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

Demand for our oil and gas services fluctuates and a decline in demand could adversely affect our revenue, profits, and financial condition.

Demand for our oil and gas services fluctuates, and we depend on our customers' willingness to make future expenditures to explore for, develop, produce, and transport oil and natural gas in the United States and Canada. Our customers' willingness to undertake these activities depends largely upon prevailing industry conditions that are influenced by numerous factors over which we have no control, including:

- prices, and expectations about future prices, of oil and natural gas;
- domestic and foreign supply of and demand for oil and natural gas;
- the cost of exploring for, developing, producing, and delivering oil and natural gas;
- transportation capacity, including but not limited to train transportation capacity and its future regulation;
- available pipeline, storage, and other transportation capacity;
- availability of qualified personnel and lead times associated with acquiring equipment and products;
- federal, state, provincial, and local regulation of oilfield activities;
- environmental concerns regarding the methods our customers use to produce hydrocarbons;
- the availability of water resources and the cost of disposal and recycling services; and
- seasonal limitations on access to work locations.

Anticipated future prices for natural gas and crude oil are a primary factor affecting spending by our customers. Lower prices or volatility in prices for oil and natural gas typically decrease spending, which can cause rapid and material declines in demand for our services and in the prices we are able to charge for our services. In addition, should the proposed Keystone XL pipeline project application be denied or further delayed by the U.S. federal government, then there may be a slowing of spending in the development of the Canadian oil sands. Worldwide political, economic, military, and terrorist events, as well as natural disasters and other factors beyond our control, contribute to oil and natural gas price levels and volatility and are likely to continue to do so in the future.

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

In the first quarter of fiscal 2015, we generated 44.5% of our revenue from contracts with U.S. federal, and state and local 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.

Table of Contents

The demand for our U.S. government-related services is generally driven by the level of government program funding. Accordingly, the success and further development of our business depends, in large part, upon the continued funding of these U.S. government programs, and upon our ability to obtain contracts and perform well under these programs. There are several factors that could materially affect our U.S. government contracting business. These and other factors could cause U.S. government agencies to delay or cancel programs, to reduce their orders under existing contracts, to exercise their rights to terminate contracts or not to exercise contract options for renewals or extensions. Such factors, which include the following, could have a material adverse effect on our revenue or the timing of contract payments from U.S. government agencies:

- the failure of the U.S. government to complete its budget and appropriations process before its fiscal year-end, which would result in the funding of government operations by means of a continuing resolution that authorizes agencies to continue to operate but does not authorize new spending initiatives. As a result, U.S. government agencies may delay the procurement of services;
- changes in and delays or cancellations of government programs, requirements, or appropriations;
- budget constraints or policy changes resulting in delay or curtailment of expenditures related to the services we provide;
- re-competing of government contracts;
- the timing and amount of tax revenue received by federal, and 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 federal, state or local governments;
- a dispute with or improper activity by any of our subcontractors; and
- general economic or political conditions.

On December 26, 2013, President Obama signed into law the 2013 Budget Act, which raises the sequestration caps mandated by the Budget Control Act of 2011 for fiscal years 2014 and 2015, and extends the caps into 2022 and 2023. The 2013 Budget Act therefore eliminates some of the spending cuts required by the sequestration that were scheduled to occur in January 2014 and in 2015.

Table of Contents

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 the U.S. Department of Defense 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 that such costs be disallowed. Historically, we have not experienced significant disallowed costs as a result of government audits. However, we can provide no assurance that the DCAA or other government audits will not result in material disallowances for incurred costs in the future. In addition, U.S. government contracts are subject to various other requirements relating to the formation, administration, performance, and accounting for these contracts. We may also be subject to *qui tam* litigation brought by private individuals on behalf of the U.S. government under the Federal Civil False Claims Act, which could include claims for treble damages. U.S. government contract violations could result in the imposition of civil and criminal penalties or sanctions, contract termination, forfeiture of profit, and/or suspension of payment, any of which could make us lose our status as an eligible government contractor. We could also suffer serious harm to our reputation. Any interruption or termination of our U.S. government contractor status could reduce our profits and revenue significantly.

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

U.S. government contracts are awarded through a regulated procurement process. The U.S. federal government has increasingly relied upon multi-year contracts with pre-established terms and conditions, such as indefinite delivery/indefinite quantity (IDIQ) contracts, which generally require those contractors who have previously been awarded the IDIQ to engage in an additional competitive bidding process before a task order is issued. As a result, new work awards tend to be smaller and of shorter duration, since the orders represent individual tasks rather than large, programmatic assignments. In addition, we believe that there has been an increase in the award of federal contracts based on a low-price, technically acceptable criteria emphasizing price over qualitative factors, such as past performance. As a result, pricing pressure may reduce our profit margins on future federal contracts. The increased competition and pricing pressure, in turn, may require us to make sustained efforts to reduce costs in order to realize revenue, and profits under government contracts. If we are not successful in reducing the amount of costs we incur, our profitability on government contracts will be negatively impacted. In addition, the U.S. federal government has scaled back outsourcing of services in favor of insourcing jobs to its employees, which could reduce our revenue. Moreover, even if we are qualified to work on a government contract, we may not be awarded the contract because of existing government policies designed to protect small businesses and under-represented 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. Similarly, the impact of the economic downturn on U.S. state and local governments may make it more difficult for them to fund projects. In addition to the state of the economy and competing political priorities, public funds and the timing of payment of these funds may be influenced by, among other things, curtailments in the use of government contracting firms, increases in raw material costs, delays associated with insufficient numbers of government staff to oversee contracts, budget constraints, the timing and amount of tax receipts, and the overall level of government expenditures. If adequate public funding is not available or is delayed, then our profits and revenue could decline.

Table of Contents

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

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

Our revenue from 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 fiscal 2015, we generated 49.2% of our revenue from U.S. and foreign commercial clients. Due to continuing weakness in general economic conditions, our 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.

Our international operations expose us to legal, political, and economic risks that could harm our business and financial results.

Our international operations expose us to legal, political, and economic risks in different countries, as well as currency exchange rate fluctuations that could harm our business and financial results.

In the first quarter of fiscal 2015, we generated 25.3% of our revenue from our international operations, primarily in Canada, and from international clients for work that is performed by our domestic operations. International business is subject to a variety of risks, including:

- imposition of governmental controls and changes in laws, regulations, or policies;
- lack of developed legal systems to enforce contractual rights;
- greater risk of uncollectible accounts and longer collection cycles;
- currency exchange rate fluctuations, devaluations, and other conversion restrictions;
- uncertain and changing tax rules, regulations, and rates;
- the potential for civil unrest, acts of terrorism, force majeure, war or other armed conflict, and greater physical security risks, which may cause us to leave a country quickly;
- logistical and communication challenges;

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- changes in regulatory practices, including tariffs and taxes;
- changes in labor conditions;
- general economic, political, and financial conditions in foreign markets; and
- exposure to civil or criminal liability under the U.S. Foreign Corrupt Practices Act (FCPA), the U.K. Bribery Act, the Canadian Corruption of Foreign Public Officials Act, the Brazilian Clean Companies Act, the anti-boycott rules, trade and export control regulations, as well as other international regulations.

For example, an ongoing government investigation into political corruption in Quebec contributed to the slow-down in procurements and business activity in that province, which has adversely affected our business. The Province of Quebec has adopted legislation that requires businesses and individuals seeking contracts with governmental bodies (including cities, towns, municipalities, and the provincial government) be certified by a Quebec regulatory authority as deserving the trust of the public for contracts over a specified size. Our failure to obtain certification could adversely affect our business.

Table of Contents

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

We could be adversely affected by violations of the FCPA and similar worldwide anti-bribery laws.

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

We could be adversely impacted if we fail to comply with domestic and international export laws.

To the extent we export technical services, data and products outside of the United States, we are subject to U.S. and international laws and regulations governing international trade and exports, including but not limited to the International Traffic in Arms Regulations (ITAR), the Export Administration Regulations, and trade sanctions against embargoed countries. A failure to comply with these laws and regulations could result in civil or criminal sanctions, including the imposition of fines, the denial of export privileges, and suspension or debarment from participation in U.S. government contracts, which could have a material adverse effect on our business.

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

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

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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. Failure to meet performance standards or complete performance on a timely basis could also adversely affect our reputation.

Table of Contents

The loss of key personnel or our inability to attract and retain qualified personnel could impair our ability to provide services to our clients and otherwise conduct our business effectively.

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

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

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

- the application of the percentage-of-completion method of accounting and revenue recognition on contracts, change orders, and contract claims, including related unbilled accounts receivable;
- unbilled accounts receivable, including amounts related to requests for equitable adjustment to contracts that provide for price redetermination, primarily with the U.S. federal government. These amounts are recorded only when they can be reliably estimated and realization is probable;
- provisions for uncollectible receivables, client claims, and recoveries of costs from subcontractors, vendors, and others;
- provisions for income taxes, R&E tax credits, valuation allowances, and unrecognized tax benefits;
- value of goodwill and recoverability of other intangible assets;
- valuations of assets acquired and liabilities assumed in connection with business combinations;
- valuation of contingent earn-out liabilities recorded in connection with business combinations;
- valuation of employee benefit plans;
- valuation of stock-based compensation expense; and

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- 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.

Table of Contents

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 could 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 and the impact of change orders and claims, are recorded when the amounts are known and can be reasonably estimated. Such revisions could occur in any period and their effects could be material. Although we have historically made reasonably reliable estimates of the progress towards completion of long-term contracts, the uncertainties inherent in the estimating process make it possible for actual costs to vary materially from estimates, including reductions or reversals of previously recorded revenue and profit.

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

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

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The U.S. federal government and some clients have increased the use of fixed-priced contracts. Under fixed-price contracts, we receive a fixed price irrespective of the actual costs we incur and, consequently, we are exposed to a number of risks. We realize a profit on fixed-price contracts only if we can control our costs and prevent cost over-runs on our contracts. Fixed-price contracts require cost and scheduling estimates that are based on a number of assumptions, including those about future economic conditions, costs, and availability of labor, equipment and materials, and other exigencies. We could experience cost over-runs 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 the 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.

Table of Contents

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 adequately recover on claims brought by us against clients for additional contract costs could have a negative impact on our liquidity and profitability.

We have brought claims against clients for additional costs exceeding the contract price or for amounts not included in the original contract price. These types of claims occur due to matters such as client-caused delays or changes from the initial project scope, both of which may result in additional cost. Often, these claims can be the subject of lengthy arbitration or litigation proceedings, and it is difficult to accurately predict when these claims will be fully resolved. When these types of events occur and unresolved claims are pending, we have used working capital in projects to cover cost overruns pending the resolution of the relevant claims. A failure to promptly recover on these types of claims could have a negative impact on our liquidity and profitability. Total accounts receivable at December 28, 2014 included approximately \$78 million related to such claims.

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.

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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 amended 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;

Table of Contents

- 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.

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

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

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

Further, acquisitions may cause us to:

- issue common stock that would dilute our current stockholders' ownership percentage;

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- use a substantial portion of our cash resources;
- increase our interest expense, leverage, and debt service requirements (if we incur additional debt to pay for an acquisition);
- assume liabilities, including environmental liabilities, for which we do not have indemnification from the former owners. Further, indemnification obligations may be subject to dispute or concerns regarding the creditworthiness of the former owners;
- record goodwill and non-amortizable intangible assets that are subject to impairment testing and potential impairment charges;
- experience volatility in earnings due to changes in contingent consideration related to acquisition earn-out liability estimates;

Table of Contents

- 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 do not follow the same cost accounting policies and billing practices that we follow may be subject to larger cost disallowances for greater periods than we typically encounter. If we fail to determine the existence of unallowable costs and do not establish appropriate reserves in advance of an acquisition, we may be exposed to material unanticipated liabilities, which could have a material adverse effect on our business.

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

Because we have historically acquired a significant number of companies, goodwill and other intangible assets represent a substantial portion of our assets. As of December 28, 2014, our goodwill was \$698.8 million and other intangible assets were \$55.9 million. We are required to perform a goodwill impairment test for potential impairment at least on an annual basis. We also assess the recoverability of the unamortized balance of our intangible assets when indications of impairment are present based on expected future profitability and undiscounted expected cash flows and their contribution to our overall operations. The goodwill impairment test requires us to determine the fair value of our reporting units, which are the components one level below our reportable segments. In determining fair value, we make significant judgments and estimates, including assumptions about our strategic plans with regard to our operations. We also analyze current economic indicators and market valuations to help determine fair value. To the extent economic conditions that would impact the future operations of our reporting units change, our goodwill may be deemed to be impaired, and we would be required to record a non-cash charge that could result in a material adverse effect on our financial position or results of operations.

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

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

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

Our backlog at December 28, 2014, was \$1.9 billion, a decrease of \$136.3 million, or 6.8%, compared to the end of fiscal 2014. 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. As a result of these factors, our backlog as of any particular date is an uncertain indicator of our future earnings.

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

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

Table of Contents

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 a subcontractor fails to deliver on a timely basis the agreed-upon supplies, fails to perform the agreed-upon services, or goes out of business, then we may be required to purchase the services or supplies from another source at a higher price, and our ability to fulfill our obligations as a prime contractor may be jeopardized. This may reduce the profit to be realized or result in a loss on a project for which the services or supplies are needed.

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

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

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

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

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

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

Our results could be adversely affected by an inability to access the revolving credit facility under our amended credit agreement. Unfavorable financial or economic conditions could impact certain lenders' willingness or ability to fund our revolving credit facility. In addition, increases in interest rates or credit spreads, volatility in financial markets or the interest rate environment, significant political or economic events, defaults of significant issuers, and other market and economic factors, may negatively impact the general level of debt issuance, the debt issuance plans of

certain categories of borrowers, the types of credit-sensitive products being offered, and/or a sustained period of market decline or weakness could have a material adverse effect on us.

Table of Contents

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

Our amended credit agreement limits or restricts our ability to, among other things:

- incur additional indebtedness;
- create liens securing debt or other encumbrances on our assets;
- make loans or advances;
- pay dividends or make distributions to our stockholders;
- purchase or redeem our stock;
- repay indebtedness that is junior to indebtedness under our credit agreement;
- acquire the assets of, or merge or consolidate with, other companies; and
- sell, lease, or otherwise dispose of assets.

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

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

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

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

We engage in consulting, engineering, program management, construction management, construction, and technical services that can result in substantial injury or damages that may expose us to legal proceedings, investigations, and disputes. For example, in the ordinary course of our business, we may be involved in legal disputes regarding personal injury claims, employee or labor disputes, professional liability claims, and general commercial disputes involving project cost overruns and liquidated damages, as well as other claims. In addition, in the ordinary course of our business, we frequently make professional judgments and recommendations about environmental and engineering conditions of project

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sites for our clients, and we may be deemed to be responsible for these judgments and recommendations if they are later determined to be inaccurate. Any unfavorable legal ruling against us could result in substantial monetary damages or even criminal violations. We maintain insurance coverage as part of our overall legal and risk management strategy to minimize our potential liabilities; however, insurance coverage contains exclusions and other limitations that may not cover our potential liabilities. Generally, our insurance program covers workers compensation and employer's liability, general liability, automobile liability, professional errors and omissions liability, property, and contractor's pollution liability (in addition to other policies for specific projects). Our insurance program includes deductibles or self-insured retentions for each covered claim that may increase over time. In addition, our insurance policies contain exclusions that insurance providers may use to deny or restrict coverage. Excess liability and professional liability insurance policies provide for coverage on a claims-made basis, covering only claims actually made and reported during the policy period currently in effect. If we sustain liabilities that exceed or that are excluded from our insurance coverage, or for which we are not insured, it could have a material adverse impact on our results of operations and financial condition (see Note 15, Commitments and Contingencies of the Notes to Condensed Consolidated Financial Statements for more information).

Table of Contents

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 failure to comply with anti-bribery and other laws or regulations, could harm our reputation, reduce our revenue and profits, and subject us to criminal and civil enforcement actions.

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

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

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

Table of Contents

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

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

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

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

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

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

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

Our services are subject to numerous U.S. and international environmental protection laws and regulations that are complex and stringent. For example, we must comply with a number of U.S. federal government laws that strictly regulate the handling, removal, treatment, transportation, and disposal of toxic and hazardous substances. Under the Comprehensive Environmental Response Compensation and Liability Act of 1980, as amended (CERCLA), and comparable state laws, we may be required to investigate and remediate regulated hazardous materials. CERCLA and comparable state laws typically impose strict, joint and several liabilities without regard to whether a company knew of or caused the release of hazardous substances. The liability for the entire cost of clean-up could be imposed upon any responsible party. Other principal U.S. federal

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environmental, health, and safety laws affecting us include, but are not limited to, the Resource Conservation and Recovery Act, NEPA, the Clean Air Act, the Occupational Safety and Health Act, the Federal Mine Safety and Health Act of 1977 (the Mine Act), the Toxic Substances Control Act, and the Superfund Amendments and Reauthorization Act. Our business operations may also be subject to similar state and international laws relating to environmental protection. Further, past business practices at companies that we have acquired may also expose us to future unknown environmental liabilities. Liabilities related to environmental contamination or human exposure to hazardous substances, or a failure to comply with applicable regulations, could result in substantial costs to us, including clean-up costs, fines civil or criminal sanctions, and 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.

Table of Contents

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. We typically remain obligated to perform our services after a terrorist action or natural disaster unless the contract contains a force majeure clause that relieves us of our contractual obligations in such an extraordinary event. If we are not able to react quickly to force majeure, our operations may be affected significantly, which would have a negative impact on our financial condition, results of operations, or cash flows.

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

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

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

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

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

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

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

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

Table of Contents

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

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

- quarter-to-quarter variations in our financial results, including revenue, profits, days sales outstanding, backlog, and other measures of financial performance or financial condition;
- our announcements or our competitors' announcements of significant events, including acquisitions;
- our announcements concerning the payment of dividends or the repurchase of our shares;
- 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;
- broader market fluctuations; and
- general economic or political conditions.

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

Table of Contents

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

In June 2013, our Board of Directors authorized a stock repurchase program under which we could repurchase up to \$100 million of our common stock. In February 2014, the Board amended this repurchase program to authorize the repurchase of up to \$30 million in open market purchases through September 2014, revised the pricing parameters and extended the program through fiscal 2014. Stock repurchases could be made on the open market or in privately negotiated transactions with third parties. From the inception of this repurchase program through September 28, 2014, we repurchased through open market purchases a total of 3.9 million shares at an average price of \$25.59 per share, for a total cost of \$100 million. On November 10, 2014, the Board authorized a new stock repurchase program under which we could repurchase up to \$200 million of our common stock over the next two years. As of December 28, 2014, we repurchased through open market purchases a total of 760,926 shares at an average price of \$26.50, for a total cost of \$20.2 million under this new repurchase program. These shares were repurchased during the period from November 24, 2014 through December 28, 2014.

Item 4. Mine Safety Disclosure

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

Item 6. Exhibits

The following documents are filed as Exhibits to this Report:

31.1 Chief Executive Officer Certification pursuant to Rule 13a-14(a)/15d-14(a).

31.2 Chief Financial Officer Certification pursuant to Rule 13a-14(a)/15d-14(a).

32.1 Certification of Chief Executive Officer pursuant to Section 1350.

32.2 Certification of Chief Financial Officer pursuant to Section 1350.

101 The following financial information from our Company's Quarterly Report on Form 10-Q, for the period ended December 28, 2014, formatted in eXtensible Business Reporting Language: (i) Condensed Consolidated Balance Sheets, (ii) Condensed Consolidated Statements of Income, (iii) Condensed Consolidated Statement of Comprehensive Income, (iv) Condensed Consolidated Statements of Cash Flows, (v) Notes to Condensed Consolidated Financial Statements.*

* Pursuant to Rule 406T of Regulation S-T, the XBRL related information in Exhibit 101 to this Quarterly Report on Form 10-Q shall not be deemed to be filed for purposes of Section 18 of the Securities Exchange Act of 1934 (the Exchange Act) 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.

Table of Contents

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: January 30, 2015

TETRA TECH, INC.

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

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

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