TETRA TECH INC
Form 10-Q
August 05, 2011
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

ý	**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
	For the quarterly period ended July 3, 2011
	OR
o	**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
	For the transition period from __________ to __________

Commission File Number 0-19655

TETRA TECH, INC.

(Exact name of registrant as specified in its charter)

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

3475 East Foothill Boulevard, Pasadena, California 91107

(Address of principal executive offices) (Zip Code)

(626) 351-4664

(Registrant s telephone number, including area code)

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

Yes ý No o

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

Yes ý No o

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

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

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

Yes o No ý

As of August 1, 2011, 62,481,732 shares of the registrant s common stock were outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Tetra Tech, Inc.

Condensed Consolidated Balance Sheets

(unaudited - in thousands, except par value)

ASSETS		July 3, 2011		October 3, 2010
CURRENT ASSETS:				
Cash and cash equivalents	$	98,366	$	220,933
Accounts receivable net		669,131		566,642
Prepaid expenses and other current assets		53,022		49,889
Income taxes receivable		9,392		7,249
Total current assets		829,911		844,713
PROPERTY AND EQUIPMENT:				
Land and buildings		11,729		11,707
Equipment, furniture and fixtures		159,327		145,210
Leasehold improvements		23,888		18,104
Total		194,944		175,021
Accumulated depreciation and amortization		(114,393)		(95,638)
PROPERTY AND EQUIPMENT NET		80,551		79,383
INVESTMENTS IN AND ADVANCES TO UNCONSOLIDATED JOINT VENTURES		3,427		140
GOODWILL		564,126		394,422
INTANGIBLE ASSETS NET		71,703		45,995
OTHER ASSETS		22,109		17,036
TOTAL ASSETS	$	1,571,827	$	1,381,689
LIABILITIES AND STOCKHOLDERS EQUITY				
CURRENT LIABILITIES:				
Accounts payable	$	184,391	$	166,450
Accrued compensation		120,467		93,243
Billings in excess of costs on uncompleted contracts		83,907		79,401
Deferred income taxes		18,145		21,851
Current portion of long-term debt		2,830		5,002
Contingent earn-out liabilities		27,512		10,513
Other current liabilities		74,112		90,747
Total current liabilities		511,364		467,207
DEFERRED INCOME TAXES		27,663		12,506
LONG-TERM DEBT		112,744		122,510
OTHER LONG-TERM LIABILITIES		51,951		31,333
COMMITMENTS AND CONTINGENCIES				
STOCKHOLDERS EQUITY:				
Preferred stock Authorized, 2,000 shares of $0.01 par value; no shares issued and outstanding as of July 3, 2011 and October 3, 2010				
Common stock Authorized, 150,000 shares of $0.01 par value; issued and outstanding, 62,464 and 61,755 shares as of July 3, 2011 and October 3, 2010, respectively		625		618

Additional paid-in capital		389,634		368,865
Accumulated other comprehensive income		40,159		18,763
Retained earnings		423,526		359,887
Total Tetra Tech stockholders equity		853,944		748,133
Noncontrolling interests		14,161		
TOTAL STOCKHOLDERS EQUITY		868,105		748,133
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$	1,571,827	$	1,381,689

See accompanying Notes to Condensed Consolidated Financial Statements.

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Tetra Tech, Inc.

Condensed Consolidated Statements of Income

(unaudited in thousands, except per share data)

	Three Months Ended		Nine Months Ended	
	July 3, 2011	June 27, 2010	July 3, 2011	June 27, 2010
Revenue	$ 673,792	$ 562,365	$ 1,897,482	$ 1,573,850
Subcontractor costs	(193,288)	(192,237)	(581,093)	(534,295)
Other costs of revenue	(398,131)	(297,730)	(1,083,503)	(833,869)
Selling, general and administrative expenses	(42,965)	(39,692)	(129,897)	(118,337)
Operating income	39,408	32,706	102,989	87,349
Interest expense - net	(1,703)	(336)	(4,478)	(943)
Income before income tax expense	37,705	32,370	98,511	86,406
Income tax expense	(12,957)	(11,731)	(32,928)	(32,728)
Net income including noncontrolling interests	24,748	20,639	65,583	53,678
Net income attributable to noncontrolling interests	(909)		(1,944)	
Net income attributable to Tetra Tech	$ 23,839	$ 20,639	$ 63,639	$ 53,678
Earnings per share attributable to Tetra Tech:				
Basic	$ 0.38	$ 0.34	$ 1.03	$ 0.87
Diluted	$ 0.38	$ 0.33	$ 1.01	$ 0.86
Weighted-average common shares outstanding:				
Basic	62,203	61,560	61,967	61,380
Diluted	62,934	62,181	62,745	62,115

See accompanying Notes to Condensed Consolidated Financial Statements.

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Tetra Tech, Inc.

Condensed Consolidated Statements of Cash Flows

(unaudited in thousands)

	Nine Months Ended July 3, 2011	Nine Months Ended June 27, 2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income including noncontrolling interests	$ 65,583	$ 53,678
Adjustments to reconcile net income including noncontrolling interests to net cash from operating activities:		
Depreciation and amortization	41,562	24,113
Loss on settlement of foreign currency forward contract	293	28
Equity in earnings of unconsolidated joint ventures	(3,440)	(901)
Distributions of earnings from unconsolidated joint ventures	3,882	1,412
Stock-based compensation	7,807	7,679
Excess tax benefits from stock-based compensation	(104)	(755)
Deferred income taxes	(5,535)	11,771
Provision for doubtful accounts	2,557	6,105
Exchange gain	(425)	(254)
Gain on disposal of property and equipment	(310)	(897)
Changes in operating assets and liabilities, net of effects of acquisitions:		
Accounts receivable	(28,211)	(14,503)
Prepaid expenses and other assets	(10,521)	5,976
Accounts payable	(12,741)	2,737
Accrued compensation	25,615	(16,166)
Billings in excess of costs on uncompleted contracts	(2,632)	(17,294)
Other liabilities	6,799	2,175
Income taxes receivable/payable	8,220	(341)
Net cash provided by operating activities	98,399	64,563
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(13,582)	(15,855)
Payments for business acquisitions, net of cash acquired	(206,066)	(23,444)
Payment in settlement of foreign currency forward contract	(4,216)	(3,960)
Receipt in settlement of foreign currency forward contract	3,923	3,932
Investments in unconsolidated joint ventures	(530)	
Proceeds from sale of property and equipment	676	2,189
Net cash used in investing activities	(219,795)	(37,138)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on long-term debt	(42,641)	(824)
Proceeds from borrowings	33,308	
Net change overdrafts	755	
Distributions paid to noncontrolling interests	(1,507)	
Excess tax benefits from stock-based compensation	104	755
Net proceeds from issuance of common stock	8,012	3,165
Net cash (used in) provided by financing activities	(1,969)	3,096
EFFECT OF EXCHANGE RATE CHANGES ON CASH	798	588
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(122,567)	31,109
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	220,933	89,185
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 98,366	$ 120,294

SUPPLEMENTAL CASH FLOW INFORMATION:				
Cash paid during the period for:				
Interest	$	3,047	$	1,078
Income taxes, net of refunds received	$	29,158	$	21,595

See accompanying Notes to Condensed Consolidated Financial Statements.

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TETRA TECH, INC.

Notes to Condensed Consolidated Financial Statements

1. Basis of Presentation

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

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

Our condensed consolidated financial statements include the accounts of our wholly-owned subsidiaries, and joint ventures of which we are the primary beneficiary. For the joint ventures in which we do not have a controlling interest, but exert a significant influence, we apply the equity method of accounting (see Note 12 Joint Ventures for further discussion). All significant intercompany balances and transactions have been eliminated in consolidation. Certain prior year amounts have been reclassified to conform to the current year presentation. For the three and nine months ended July 3, 2011, Interest expense net on the condensed consolidated statements of income reflects $0.2 million and $0.5 million in interest income compared to $0.2 million and $0.6 million for the same periods last year, respectively.

2. Accounts Receivable Net

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

	July 3, 2011	October 3, 2010
	(in thousands)	
Billed	$ 372,771	$ 314,905
Unbilled	316,367	271,643
Contract retentions	13,890	13,020
Total accounts receivable gross	703,028	599,568
Allowance for doubtful accounts	(33,897)	(32,926)

Total accounts receivable net	$	669,131	$	566,642
Current billings in excess of costs on uncompleted contracts	$	83,907	$	79,401
Non-current billings in excess of costs on uncompleted contracts		6,194		5,820
Total billings in excess of costs on uncompleted contracts	$	90,101	$	85,221

Billed accounts receivable represent amounts billed to clients that have not been collected. Unbilled accounts receivable represent revenue recognized but not yet billed pursuant to contract terms or billed after the period end date. Substantially all unbilled receivables as of July 3, 2011 are expected to be billed and collected within twelve months. Unbilled accounts receivable include 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. Contract retentions represent amounts withheld by clients until certain conditions are met or the project is completed, which may be several months or years. The allowance for doubtful accounts is determined based on a review of client-specific accounts, and contract issues resulting from current events and economic circumstances. Billings in excess of costs on uncompleted contracts represent the amount of cash collected from clients and billings to clients on contracts in advance of

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revenue recognized. The majority of billings in excess of costs on uncompleted contracts will be earned within twelve months.

Billed accounts receivable related to U.S. federal government contracts were $96.0 million and $86.3 million as of July 3, 2011 and October 3, 2010, respectively. U.S. federal government unbilled receivables, net of progress payments, were $97.6 million and $102.0 million as of July 3, 2011 and October 3, 2010, respectively. The non-current billings in excess of costs on uncompleted contracts are reported as part of our "Other long-term liabilities" on our condensed consolidated balance sheets. Other than the U.S. federal government, no single client accounted for more than 10% of our accounts receivable as of July 3, 2011 and October 3, 2010.

3. Mergers and Acquisitions

On October 4, 2010, we acquired all of the outstanding capital stock of BPR, Inc. ("BPR"), a Canadian scientific and engineering services firm that provides multidisciplinary consulting and engineering support for water, energy, industrial plants, buildings and infrastructure projects. This acquisition further expands our geographic presence in eastern Canada, and enables us to provide clients with additional services throughout Canada. BPR is part of our Engineering and Consulting Services ("ECS") segment. The estimated fair value of the purchase price was approximately $186 million, of which the initial payment of $157 million was financed with borrowings under our revolving credit facility and available cash resources. In addition, the former owners may receive over a two-year period from the acquisition date contingent earn-out payments up to an aggregate maximum of Canadian dollars ("CAD") $40 million (equivalent to U.S. $41.7 million as of July 3, 2011) upon achievement of specified financial objectives. The estimated fair value of the contingent earn-out payments resulted in a discounted liability of $31.2 million, of which $15.5 million is reflected in "Contingent earn-out liabilities" and $15.7 million is included in "Other long-term liabilities" on our condensed consolidated balance sheet as of July 3, 2011. The contingent earn-out consideration is based on future operating income, and its fair value is estimated by management assessing the probability of the results being achieved in the future. The following table summarizes the estimated fair values of the assets acquired and liabilities assumed as of the date of acquisition:

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

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

In the second quarter of fiscal 2011, we acquired substantially all of the assets of a Canadian firm that enhances our service offerings in water treatment and tailings management for oil sand producers, which are included in our ECS segment. During the first nine months of fiscal 2010, we acquired three companies that enhanced our service offerings and expanded our geographic presence in the ECS and Remediation and Construction Management segments. The purchase price for two of these acquisitions consisted of cash payments. The purchase price for the remaining two acquisitions consisted of an initial cash payment and contingent earn-out payments based upon achievement of specified financial objectives. The estimated fair values of the contingent considerations were recorded as liabilities on our condensed consolidated balance sheets. No pro forma results are presented for the respective interim periods as the effect of these acquisitions was not considered material, individually or in aggregate, to our consolidated financial statements.

Subsequent Event. In the fourth quarter of fiscal 2011, we acquired substantially all of the assets of a mining engineering company located in Western Australia, using available cash resources. This acquisition enhances our technical expertise in the mining and minerals processing sector, expands our service offerings in Australia and serves as a gateway to new markets across Asia and Africa.

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4. Goodwill and Intangibles

The changes in the carrying value of goodwill by segment for the nine months ended July 3, 2011 were as follows:

	October 3, 2010	Goodwill Additions	Currency Translation Adjustments (in thousands)	Goodwill Adjustments	July 3, 2011
Engineering and consulting services	$ 244,616	$ 137,091	$ 16,446	$ 14,474	$ 412,627
Technical support services	68,661			1,193	69,854
Engineering and architecture services	17,210			500	17,710
Remediation and construction management	63,935				63,935
Total	$ 394,422	$ 137,091	$ 16,446	$ 16,167	$ 564,126

The goodwill additions are attributable to fiscal 2011 acquisitions described in Note 3, Mergers and Acquisitions and represent the value paid for the assembled workforce, the international geographic presence, and engineering and consulting expertise. Substantially all of the goodwill additions are not deductible for income tax purposes. The foreign currency translation adjustments relate to our Canadian operations. The goodwill adjustments reflect earn-out payments and accruals associated with acquisitions consummated prior to fiscal 2010, which are accounted for as goodwill adjustments under previous accounting rules. The purchase price allocations related to the fiscal 2011 acquisitions are preliminary, and subject to adjustment based on the valuation and final determination of net assets acquired. We do not believe that any adjustment will have a material effect on our consolidated results of operations.

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

		July 3, 2011		October 3, 2010	
	Weighted-Average Remaining Life (in Years)	Gross Amount	Accumulated Amortization ($ in thousands)	Gross Amount	Accumulated Amortization
Non-compete agreements	1.9	$ 5,407	$ (3,253)	$ 4,295	$ (2,177)
Client relations	5.8	70,352	(16,105)	41,020	(8,351)
Backlog	1.0	49,896	(36,803)	35,311	(24,329)
Technology and trade names	5.1	2,641	(432)	246	(20)
Total		$ 128,296	$ (56,593)	$ 80,872	$ (34,877)

For the nine months ended July 3, 2011, the increases in gross amounts are attributable to fiscal 2011 acquisitions described in Note 3, Mergers and Acquisitions and, to a lesser extent, foreign currency translation adjustments. For the three and nine months ended July 3, 2011, amortization expense for these intangible assets was $7.0 million and $20.7 million, compared to $2.9 million and $8.9 million for the same periods last year, respectively. Estimated amortization expense for the remainder of fiscal 2011 and the succeeding years is as follows:

		Amount (in thousands)
2011	$	7,007
2012		21,015
2013		10,577
2014		9,591
2015		9,376
Beyond		14,137
Total	$	71,703

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5. Stockholders Equity and Stock Compensation Plans

We recognize the fair value of our stock-based compensation awards as compensation expense on a straight-line basis over the requisite service period in which the award vests. For the three and nine months ended July 3, 2011, stock-based compensation expense was $2.5 million and $7.8 million, compared to $2.3 million and $7.7 million for the same periods last year, respectively. The majority of these amounts was included in Selling, general and administrative (SG&A) expenses in our condensed consolidated statements of income.

No stock options were granted in the third quarter of fiscal 2011. For the nine months ended July 3, 2011, we granted 1,060,849 stock options with exercise prices of $22.81 $23.48 per share and an estimated weighted-average fair value of $9.11 per share. In addition, we awarded 84,606 shares of restricted stock in the first quarter of fiscal 2011 to our directors and executive officers at the fair value of $23.48 per share on the award date. All of these shares are performance-based and vest over a three-year period. The number of shares that ultimately vest is based on the growth in our diluted earnings per share.

6. Earnings Per Share (EPS)

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

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

	Three Months Ended		Nine Months Ended	
	July 3, 2011	June 27, 2010	July 3, 2011	June 27, 2010
	(in thousands, except per share data)			
Net income attributable to Tetra Tech	$ 23,839	$ 20,639	$ 63,639	$ 53,678
Weighted-average common shares outstanding basic	62,203	61,560	61,967	61,380
Effect of dilutive stock options and unvested restricted stock	731	621	778	735
Weighted-average common stock outstanding diluted	62,934	62,181	62,745	62,115
Earnings per share attributable to Tetra Tech:				
Basic	$ 0.38	$ 0.34	$ 1.03	$ 0.87
Diluted	$ 0.38	$ 0.33	$ 1.01	$ 0.86

For the three and nine months ended July 3, 2011, 2.9 million and 2.7 million options were excluded from the calculation of dilutive potential common shares, compared to 2.1 million and 2.3 million options for the same periods last year, respectively. These options were not included in the computation of dilutive potential common shares because the assumed proceeds per share exceeded the average market price per share for that period. Therefore, their inclusion would have been anti-dilutive.

7. Income Taxes

For the first nine months of fiscal 2011, our effective tax rate was 33.4% compared to 37.9% for the same period last year. The lower effective tax rate was primarily the result of the extension of the research and experimentation credits (R&E credits) and the continued expansion of our foreign operations. In the first quarter of fiscal 2011, the Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010 was signed into law. The Act included a retroactive extension of R&E credits for amounts incurred from January 1, 2010 through December 31, 2011. As a result of this extension, a $1.2 million benefit from R&E credits for the last nine months of fiscal 2010 was included in the first quarter of fiscal 2011 tax expense. We completed R&E credit studies

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for fiscal 2008 and fiscal 2009 during the second quarter of fiscal 2011. The results of these studies did not have a material impact on the benefit previously recognized for the R&E credits.

8. Reportable Segments

Our reportable segments are as follows:

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

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

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

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

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

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

Reportable Segments

	ECS	TSS	EAS (in thousands)	RCM	Total
Three months ended July 3, 2011:					
Revenue	$ 288,103	$ 141,436	$ 77,983	$ 200,008	$ 707,530
Segment operating income	26,227	10,131	6,491	4,262	47,111
Depreciation expense	2,991	256	452	2,562	6,261
Three months ended June 27, 2010:					
Revenue	$ 184,635	$ 131,139	$ 76,688	$ 202,424	$ 594,886
Segment operating income	13,738	9,520	4,337	9,880	37,475
Depreciation expense	1,296	159	506	2,483	4,444
Nine months ended July 3, 2011:					
Revenue	$ 804,328	$ 425,435	$ 219,625	$ 534,564	$ 1,983,952
Segment operating income	67,569	30,748	16,398	12,534	127,249
Depreciation expense	8,470	797	1,405	7,478	18,150
Nine months ended June 27, 2010:					
Revenue	$ 508,997	$ 381,533	$ 211,404	$ 545,206	$ 1,647,140
Segment operating income	38,671	29,906	7,454	24,753	100,784
Depreciation expense	4,089	471	1,608	6,691	12,859

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Total assets by segment were as follows:

	July 3, 2011	October 3, 2010
	(in thousands)	
ECS	$ 922,151	$ 618,025
TSS	323,085	281,376
EAS	117,142	93,696
RCM	337,100	327,393
Total assets	$ 1,699,478	$ 1,320,490

Reconciliations

	Three Months Ended		Nine Months Ended	
	July 3, 2011	June 27, 2010	July 3, 2011	June 27, 2010
	(in thousands)			
Revenue				
Revenue from reportable segments	$ 707,530	$ 594,886	$ 1,983,952	$ 1,647,140
Elimination of inter-segment revenue	(33,738)	(32,521)	(86,470)	(73,290)
Total consolidated revenue	$ 673,792	$ 562,365	$ 1,897,482	$ 1,573,850
Operating Income				
Segment operating income	$ 47,111	$ 37,475	$ 127,249	$ 100,784
Amortization of intangibles	(7,024)	(2,851)	(20,747)	(8,852)
Other expense (1)	(679)	(1,918)	(3,513)	(4,583)
Total consolidated operating income	$ 39,408	$ 32,706	$ 102,989	$ 87,349
Depreciation Expense				
Depreciation expense from reportable segments	$ 6,261	$ 4,444	$ 18,150	$ 12,859
Other (2)	748	759	2,251	2,099
Total consolidated depreciation expense	$ 7,009	$ 5,203	$ 20,401	$ 14,958

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

(2) Other includes depreciation expense from corporate headquarters.

	July 3, 2011	October 3, 2010
	(in thousands)	
Assets		
Total assets of reportable segments	$ 1,699,478	$ 1,320,490
Assets not allocated to segments and intercompany eliminations	(127,651)	61,199
Total consolidated assets	$ 1,571,827	$ 1,381,689

Major Clients

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

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The following table represents our revenue by client sector:

	Three Months Ended		Nine Months Ended	
	July 3, 2011	June 27, 2010	July 3, 2011	June 27, 2010
	(in thousands)			
Client Sector				
Federal government (1)	$ 284,144	$ 296,566	$ 852,175	$ 845,800
State and local government	75,786	81,929	207,658	234,634
Commercial	157,103	130,729	404,310	360,695
International (2)	156,759	53,141	433,339	132,721
Total	$ 673,792	$ 562,365	$ 1,897,482	$ 1,573,850

(1) Includes revenue generated under U.S. government contracts performed outside the U.S.

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

9. Comprehensive Income

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

	Three Months Ended		Nine Months Ended	
	July 3, 2011	June 27, 2010	July 3, 2011	June 27, 2010
	(in thousands)			
Net income including noncontrolling interests	$ 24,748	$ 20,639	$ 65,583	$ 53,678
Other comprehensive income:				
Foreign currency translation adjustment	1,947	(987)	22,532	5,089
Foreign currency hedge	5	112	(320)	(242)
Comprehensive income including noncontrolling interests	26,700	19,764	87,795	58,525
Net income attributable to noncontrolling interests	(909)		(1,944)	
Foreign currency translation adjustment	(68)		(815)	
Comprehensive income attributable to noncontrolling interests	(977)		(2,759)	
Comprehensive income attributable to Tetra Tech	$ 25,723	$ 19,764	$ 85,036	$ 58,525

10. Debt

On March 28, 2011, we entered into a new credit agreement (Credit Agreement) and concurrently terminated our prior credit agreement. The Credit Agreement provides for a $460 million five-year revolving credit facility (Facility), which includes a $200 million sublimit for the issuance of standby letters of credit and a $100 million sublimit for multicurrency borrowings and letters of credit. At our election, the Facility may be increased from time to time by an amount up to $140 million in the aggregate, provided that no existing lender is required to commit to any such increased amount. As of July 3, 2011, we had $111.5 million in borrowings outstanding at a weighted-average interest rate of 1.92% per annum, $28.5 million in standby letters of credit and $320 million in availability under the Facility. We had $11.5 million in multicurrency borrowings and letters of credit under the Facility as of July 3, 2011.

Interest on borrowings under the Credit Agreement is payable, at our election, at either (a) a base rate (the highest of the U.S. federal funds rate plus 0.50% per annum, the bank s prime rate and the Eurocurrency rate plus 1.00%) plus a margin that ranges from 0.50% to 1.50% per annum, or (b) a Eurocurrency rate plus a margin that ranges from 1.50% to 2.50% per annum.

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The Credit Agreement contains certain financial and various other affirmative and negative covenants. They include, among others, a maximum consolidated leverage ratio of 2.5x (total funded debt/earnings before interest, tax, depreciation and amortization (EBITDA , as defined in the Credit Agreement)), and a minimum consolidated fixed charge coverage ratio of 1.25x (EBITDA minus capital expenditures/cash interest plus taxes plus principal payments). As of July 3, 2011, we were in compliance with these covenants with a consolidated leverage ratio of 1.04x, and a consolidated fixed charge coverage ratio of 2.02x.

The Facility is guaranteed by our material subsidiaries and certain additional designated subsidiaries. Borrowings under the Credit Agreement are collateralized by our accounts receivable, the stock of our subsidiaries and intercompany debt. As of July 3, 2011, we met all compliance requirements.

11. Fair Value Measurements

Derivative Instruments. In fiscal 2009, we entered into an intercompany promissory note with a wholly-owned Canadian subsidiary in connection with the acquisition of Wardrop Engineering, Inc. The intercompany note receivable is denominated in CAD and has a fixed rate of interest payable in Canadian dollars. In the first quarter of fiscal 2010, we entered into three foreign currency forward contracts to fix the U.S. dollar amount of interest income to be received over the next three annual periods. Each contract is for CAD $4.2 million (equivalent to U.S. $4.0 million at the date of inception) and one contract matures on each of January 27, 2010, January 27, 2011, and January 27, 2012. In the second quarter of fiscal 2010, we settled the first foreign currency forward contract for U.S. $3.9 million, and we entered into a new forward contract for CAD $4.2 million (equivalent to U.S. $3.9 million at the date of inception) that matures on January 28, 2013. In the second quarter of fiscal 2011, we settled the second foreign currency forward contract for U.S. $3.9 million. In the third quarter of fiscal 2011, we entered into a new forward contract for CAD $4.2 million (equivalent to U.S. $4.2 million at the date of inception) that matures on January 27, 2014. Our objective was to eliminate variability of our cash flows on the amount of interest income we receive on the promissory note from changes in foreign currency exchange rates for a three-year period. These contracts were designated as cash flow hedges. Accordingly, changes in the fair value of the contracts are recorded in Other comprehensive income . The fair value and the change in the fair value were not material for the three and nine-month periods of fiscal 2011 and 2010. No gains or losses were recognized in earnings as these contracts were deemed to be effective hedges.

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

12. Joint Ventures

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

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

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

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anticipated to be material. The majority of our joint ventures are pass-through entities for client invoicing purposes. As such, these are VIEs because the total equity investment is typically nominal and not sufficient to permit the entity to finance its activities without additional financial support.

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

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

Through the third quarter of fiscal 2011, there were no changes in the status of the VIEs and no changes to the primary beneficiary designation of each VIE. Accordingly, we determined that none of the unconsolidated joint ventures should be consolidated and none of the consolidated joint ventures should be de-consolidated.

Consolidated Joint Ventures

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

	July 3, 2011 (in thousands)
Cash	$ 4,056
Other current assets	20,828
Non-current assets	16,582
Total assets	$ 41,466
Accounts payable	$ 3,439
Other liabilities	9,700
Total liabilities	13,139

Total Tetra Tech equity		14,168
Noncontrolling interests		14,159
Total owners equity		28,327
Total liabilities and owners equity	$	41,466

The aggregate revenue of the consolidated joint ventures was $22.4 million and $60.8 million for the three and nine months ended July 3, 2011, respectively. The assets, liabilities and revenue of the consolidated joint ventures were immaterial for prior annual and interim periods as the largest consolidated joint ventures were acquired in connection with the BPR acquisition in the first quarter of fiscal 2011. The assets of our consolidated joint ventures are restricted for use only by those joint ventures and are not available for our general operations.

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Unconsolidated Joint Ventures

We account for the majority of our unconsolidated joint ventures using the equity method of accounting. Under this method, we recognize our proportionate share of the net earnings of these joint ventures as a single line item under Other costs of revenue in our condensed consolidated statements of income. For the three and nine months ended July 3, 2011, we reported $1.0 million and $3.4 million of equity in earnings of unconsolidated joint ventures, compared to $0.3 million and $0.9 million for the same periods last year, respectively. Our maximum exposure to loss as a result of our investments in unconsolidated VIEs is typically limited to the aggregate of the carrying value of the investment and future funding commitments. Future funding commitments for the unconsolidated VIEs are immaterial. The unconsolidated VIEs are, individually and in aggregate, immaterial to our consolidated financial statements.

As of July 3, 2011, the aggregate carrying values of the assets and liabilities of the unconsolidated VIEs were $28.1 million and $25.2 million, respectively. The carrying values of these assets and liabilities as of October 3, 2010 were immaterial.

13. Commitments and Contingencies

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

In May 2003, Innovative Technologies Corporation (ITC) filed a lawsuit in Montgomery County, Ohio against Advanced Management Technology, Inc. (AMT) and other defendants for misappropriation of trade secrets, among other claims. In June 2004, we purchased all the outstanding shares of AMT. As part of the purchase agreement, the former owners of AMT agreed to indemnify us for all costs and damages related to this lawsuit. In December 2007, the case went to trial and the jury assessed $5.8 million in compensatory damages against AMT. In addition, the jury assessed $17 million in punitive damages against AMT plus reasonable attorneys fees. In July 2008, the Common Pleas Court of Montgomery County denied AMT s motion for judgment notwithstanding the verdict and conditionally denied AMT s motion for a new trial. Further, the court remitted the verdict to $2.0 million in compensatory damages and $5.8 million in punitive damages. ITC accepted the remittitur, and AMT appealed. The appellate court remanded the matter to the trial court for ruling on ITC s motion for prejudgment interest and attorneys fees. In December 2009, the trial court assessed ITC $2.9 million in attorneys fees and costs, and denied ITC s motion for prejudgment interest. AMT appealed the trial court s decision assessing compensatory and punitive damages, and attorneys fees and costs. ITC cross-appealed the trial court s decision to remit the jury verdict and the trial court s denial of prejudgment interest. Final briefs were filed with the court of appeals and oral arguments were heard in December 2010. AMT has posted a bond, as required by the trial court, for $13.4 million. We believe that a reasonably possible range of exposure, including attorneys fees, is from $0 to approximately $14.5 million. As of July 3, 2011, we have recorded a liability representing our best estimate of a probable loss. Further, for the same amount, we have recorded a receivable from the former owners of AMT as we believe it is probable they will fully honor their indemnification agreement with us for any and all costs and damages related to this lawsuit.

14. Recent Accounting Pronouncements

In October 2009, the Financial Accounting Standards Board (FASB) issued updated accounting guidance that provides amendments to the criteria of Accounting Standards Codification Topic 605, Revenue Recognition , for separately recognizing consideration in multiple-deliverable arrangements. The amendments establish a selling price hierarchy for determining the selling price of a deliverable. We adopted this guidance on October 4, 2010 and it did not have a material impact on our consolidated financial statements.

In January 2010, the FASB issued an updated accounting guidance that amends the disclosure guidance with respect to fair value measurements. Specifically, the new guidance requires disclosure of amounts transferred in and out of Levels 1 and 2 fair value measurements, a reconciliation presented on a gross basis rather than a net

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basis of activity in Level 3 fair value measurements, greater disaggregation of the assets and liabilities for which fair value measurements are presented, and more robust disclosure of the valuation techniques and inputs used to measure Level 2 and 3 fair value measurements. This guidance is effective for us, with the exception of the new guidance concerning the Level 3 activity reconciliations. The adoption of the effective portion of the guidance had no impact on our consolidated financial statements. The disclosure requirements for certain Level 3 activities will become effective for fiscal years beginning after December 15, 2010. As we do not currently have any significant Level 3 fair value measurements, we do not expect the adoption to have a material impact on our consolidated financial statements.

In December 2010, the FASB issued updated accounting guidance to clarify that pro forma disclosures should be presented as if a business combination occurred at the beginning of the prior annual period for purposes of preparing both the current reporting period and the prior reporting period pro forma financial information. These disclosures should be accompanied by a narrative description about the nature and amount of material, nonrecurring pro forma adjustments. The new accounting guidance is effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. Early adoption is permitted. We will adopt the new disclosures in the first quarter of fiscal 2012.

In December 2010, the FASB issued updated accounting guidance to amend the criteria for performing Step 2 of the goodwill impairment test for reporting units with zero or negative carrying amounts and requires performing Step 2 if qualitative factors indicate that it is more likely than not that a goodwill impairment exists. The new accounting guidance is effective for fiscal years beginning after December 15, 2010. Early adoption is not permitted. We will adopt the new disclosures in the first quarter of fiscal 2012. We are currently evaluating the impact of this guidance, and we do not expect the adoption to have a material impact on our consolidated financial statements.

In May 2011, the FASB issued updated guidance to improve comparability of fair value measurements between GAAP and International Financial Reporting Standards. This update amends current fair value measurement and disclosure guidance to include increased transparency around valuation inputs and investment categorization. The updated guidance is effective for fiscal years and interim periods beginning after December 15, 2011. Early adoption is not permitted. We will adopt the updated guidance in the first quarter of fiscal 2013, and we do not expect the adoption to have a material impact on our consolidated financial statements.

In June 2011, the FASB issued new guidance on the presentation of comprehensive income. The new guidance allows an entity to present components of net income and other comprehensive income in either a single continuous statement of comprehensive income or in two separate but consecutive statements. The new guidance eliminates the current option to report other comprehensive income and its components in the statement of changes in equity. While the new guidance changes the presentation of comprehensive income, there are no changes to the components that are recognized in net income or other comprehensive income under current accounting guidance. This new guidance is effective for fiscal years and interim periods beginning after December 15, 2011 on a retrospective basis. We will adopt the updated guidance in the first quarter of fiscal 2013.

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

FORWARD-LOOKING STATEMENTS

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

GENERAL OVERVIEW

We are a leading provider of consulting, engineering, program management, construction management and technical services focusing on resource management, infrastructure and the environment. We typically begin at the earliest stage of a project by applying science to problems and developing solutions tailored to our clients needs and resources. Our solutions may span the entire life cycle of the project and include applied science, research and technology, engineering, design, construction management, construction, operations and maintenance, and information technology.

We are a full-service company with a global reach in the areas of water, the environment, energy, natural resources and infrastructure. We focus on both organic and acquisitive growth to expand our geographic reach, diversify our client base, and increase the breadth and depth of our service offerings to address existing and emerging markets. We currently have more than 12,600 employees worldwide, located primarily in North America.

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

	Three Months Ended		Nine Months Ended	
	July 3, 2011	**June 27, 2010**	**July 3, 2011**	**June 27, 2010**

Client Sector				
Federal government (1)	42.2%	52.7%	45.0%	53.8%
State and local government	11.2	14.6	10.9	14.9
Commercial	23.3	23.2	21.3	22.9
International (2)	23.3	9.5	22.8	8.4
Total	100.0%	100.0%	100.0%	100.0%

(1) Includes revenue generated under U.S. government contracts performed outside the U.S.

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

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We manage our business under the following four reportable segments:

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

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

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

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

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

	Three Months Ended		**Nine Months Ended**	
	July 3, 2011	**June 27, 2010**	**July 3, 2011**	**June 27, 2010**
Reportable Segment				
ECS	42.7%	32.8%	42.4%	32.4%
TSS	21.0	23.3	22.4	24.2
EAS	11.6	13.6	11.6	13.4
RCM	29.7	36.0	28.2	34.7
Inter-segment elimination	(5.0)	(5.7)	(4.6)	(4.7)
	100.0%	100.0%	100.0%	100.0%

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

	Three Months Ended		**Nine Months Ended**	
	July 3, 2011	**June 27, 2010**	**July 3, 2011**	**June 27, 2010**
Contract Type				
Fixed-price	43.2%	43.7%	39.4%	42.7%

Time-and-materials	37.0	31.6	38.4	33.5
Cost-plus	19.8	24.7	22.2	23.8
	100.0%	100.0%	100.0%	100.0%

Contract revenue and contract costs are recorded primarily 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. Additionally, we include a non-contract related portion of stock-based compensation and depreciation of property and equipment, as well as the amortization of identifiable intangible assets, in SG&A expenses. Most of these costs are unrelated to specific clients or projects and can vary as expenses are incurred to support corporate activities and initiatives.

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

ACQUISITIONS AND DIVESTITURES

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

On October 4, 2010, we acquired BPR, a Canadian scientific and engineering services firm that provides multidisciplinary consulting and engineering support for water, energy, industrial plants, buildings and infrastructure projects. This acquisition further expands our geographic presence in eastern Canada, and enables us to provide clients with additional services throughout Canada. In the second quarter of fiscal 2011, we acquired substantially all of the assets of another Canadian firm that enhances our service offerings in water treatment and tailings management for oil sands producers. Both firms are part of our ECS segment. During the first nine months of fiscal 2010, we acquired three companies, one of which enhanced our nuclear energy service offerings in the RCM segment and two of which enhanced our environmental service offerings in the ECS segment. For more information, see Note 3, Mergers and Acquisitions of the Notes to Condensed Consolidated Financial Statements .

For analytical purposes only, we categorize our revenue into two types: acquisitive and organic. Acquisitive revenue consists of revenue derived from acquired companies during the first twelve months following their respective acquisition dates. Organic revenue consists of our total revenue less any acquisitive revenue.

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 fiscal 2010 and during the first nine months of fiscal 2011.

OVERVIEW OF RESULTS AND BUSINESS TRENDS

General. In the third quarter of fiscal 2011, our operating results improved significantly compared to the year-ago quarter despite continuing challenges in the markets for our construction management services. We continued our focus on organic growth and the strategic acquisition of firms that enhance our service offerings and expand our geographic presence. Our revenue grew 19.8% compared to the year-ago quarter due to contributions from recent acquisitions and strength in mining and energy projects worldwide. This growth was partially offset by continued weakness in federal construction management and reduced revenue from state and local transportation infrastructure projects.

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We foresee the continuation of a slow and gradual economic recovery in the U.S. following the severe economic weakness experienced during the global financial crisis, and a faster rate of growth and stronger market demand for our services in our international markets. We expect that our revenue will grow significantly in fiscal 2011 compared to fiscal 2010 due to contributions from recent acquisitions and anticipated growth in our business. We recognize that the economic conditions that have severely impacted both the domestic and international economies over the past few years could adversely affect our future work for the U.S. federal government, state and local governments, and commercial and international clients.

Federal Government. Our U.S. federal government business declined 4.2% in the third quarter of fiscal 2011 compared to the year-ago quarter. This decline was primarily due to reduced revenues on back-end construction management projects for the U.S. Army Corps of Engineers (USACE). The decline was partially offset by revenue contribution from our international development services for the U.S. Agency for International Development (USAID) related to a recent acquisition, and from our front-end water, environmental, and infrastructure engineering and design services for other federal government clients. These clients included the various military branches of the U.S. Department of Defense (DoD), the International Boundary and Water Commission (IBWC), The National Science Foundation (NSF), the General Services Administration (GSA), the U.S. Department of Agriculture (DOA), and the Federal Aviation Administration (FAA). We also experienced increased workloads on DoD infrastructure design-build projects in Afghanistan. During periods of economic volatility, our U.S. federal government business has historically been the most stable and predictable. However, due to uncertainties surrounding federal budgets, we have continued to experience delays on new awards for certain large construction management projects in the U.S. and abroad. Because of these delays, revenue from our U.S. federal government business is expected to be relatively flat in fiscal 2011 compared to fiscal 2010.

State and Local Government. Our state and local government business declined 7.5% in the third quarter of fiscal 2011 compared to the year-ago quarter. The decline resulted primarily from reduced activity on a large transportation infrastructure project and a municipal landfill design project. We continue to experience weak economic conditions across our state and local government markets. Many state and local government agencies continue to face serious economic challenges, including budget deficits and difficult cost-cutting decisions. Simultaneously, states are facing major long-term infrastructure needs, including the need for maintenance, repair and upgrading of existing critical infrastructure and the need to build new facilities. The funding risks associated with our state and local government programs are partially mitigated by regulatory requirements driving some of these programs, such as regulatory-mandated consent decrees. As a result, some programs will generally progress despite budget pressures. Because we anticipate that many state and local government agencies will continue to face serious economic challenges, our state and local government business is expected to decline in fiscal 2011 compared to fiscal 2010.

Commercial. Our commercial business grew 20.2% in the third quarter of fiscal 2011 compared to the year-ago quarter. This growth was primarily attributable to increased revenue from energy, mining, environmental management, and building and facility design projects. Many of our largest commercial customers are returning to more typical environmental and infrastructure capital spending levels following a period of budgetary constraints during the global financial crisis. Therefore, although we expect that some economic weakness may continue in certain sectors of our commercial business, we are optimistic concerning the growth in commercial business due to increased spending by our largest commercial customers. Accordingly, we expect that our commercial business will grow significantly in fiscal 2011 compared to fiscal 2010.

International. Our international business grew 195.0% in the third quarter of fiscal 2011 compared to the year-ago quarter. This growth was driven by contributions from our recent Canadian acquisitions and strong demand for our water, environmental and infrastructure design services in the mining and energy markets. We expect that our international business will continue to grow significantly in fiscal 2011 compared to fiscal 2010 as a result of our recent acquisitions and continued strong demand for our services in the mining and energy markets worldwide.

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RESULTS OF OPERATIONS

Consolidated Results of Operations

	Three Months Ended				Nine Months Ended			
	July 3, 2011	June 27, 2010	Change $	%	July 3, 2011	June 27, 2010	Change $	%
	($ in thousands)							
Revenue	$ 673,792	$ 562,365	$ 111,427	19.8%	$ 1,897,482	$ 1,573,850	$ 323,632	20.6%
Subcontractor costs	(193,288)	(192,237)	(1,051)	(0.5)	(581,093)	(534,295)	(46,798)	(8.8)
Revenue, net of subcontractor costs (1)	480,504	370,128	110,376	29.8	1,316,389	1,039,555	276,834	26.6
Other costs of revenue	(398,131)	(297,730)	(100,401)	(33.7)	(1,083,503)	(833,869)	(249,634)	(29.9)
Selling, general and administrative expenses	(42,965)	(39,692)	(3,273)	(8.2)	(129,897)	(118,337)	(11,560)	(9.8)
Operating income	39,408	32,706	6,702	20.5	102,989	87,349	15,640	17.9
Interest expense - net	(1,703)	(336)	(1,367)	(406.8)	(4,478)	(943)	(3,535)	(374.9)
Income before income tax expense	37,705	32,370	5,335	16.5	98,511	86,406	12,105	14.0
Income tax expense	(12,957)	(11,731)	(1,226)	(10.5)	(32,928)	(32,728)	(200)	(0.6)
Net income including noncontrolling interests	24,748	20,639	4,109	19.9	65,583	53,678	11,905	22.2
Net income attributable to noncontrolling interests	(909)		(909)	100.0	(1,944)		(1,944)	100.0
Net income attributable to Tetra Tech	$ 23,839	$ 20,639	$ 3,200	15.5%	$ 63,639	$ 53,678	$ 9,961	18.6%

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

For the three and nine-month periods, both revenue and revenue, net of subcontractor costs, increased due to the contributions of $111.1 million and $291.4 million in revenue, and $93.8 million and $244.2 million in revenue, net of subcontractor costs, respectively, from recent acquisitions. Excluding the effect of acquisitions, we experienced higher demand for our water, environmental, infrastructure design and construction management services in the mining and energy markets worldwide. Additionally, the growth was driven by our front-end water, environmental, and infrastructure engineering and design services for certain U.S. federal government clients including the U.S. Environmental Protection Agency (EPA), FAA, NSF, IBWC, GSA, DOA, and various military branches of the DoD. The overall growth was partially offset by a decline in our federal government business due primarily to the wind-down of certain large construction management projects for the USACE and the U.S. Department of Energy (DOE), and delays on new awards for certain large construction management projects in the U.S. and abroad. Our state and local government sector also experienced a revenue decrease as a result of continuing weakness in the economy, and reduced activity on a large transportation infrastructure project and a municipal landfill design project. For both periods, revenue, net of subcontractor costs, grew at a higher rate than revenue due to increased self-performed work in the energy sector and revenue reduction related to construction management projects, which had higher subcontracting activities.

For both periods, operating income increased as a result of business growth. For the nine-month period, operating income benefitted from the recognition of government incentive award fees on a large environmental remediation program and favorable project close-outs related to energy and construction management projects compared to the year-ago periods. To a lesser extent, operating income increased due to favorable claim settlements for the nine-month period and lower bad debt expense on commercial projects for both periods. For the three and nine-month periods, we also recognized a gain of $1.1 million and $1.6 million, respectively, related to contingent earn-out liabilities associated with our fiscal 2010 and 2011 acquisitions. The operating income increases were partially offset by additional contract costs incurred for project overruns on several fixed-price construction projects for both periods, and a large energy project for the nine-month period. Further, we recorded an additional $4.2

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million and $11.9 million of amortization expense for intangible assets related to our recent acquisitions for the three and nine-month periods, respectively.

For both periods, net interest expense grew as a result of increased average borrowings on our Facility and additional imputed interest costs recognized for long-term contingent earn-out liabilities associated with our fiscal 2010 and 2011 acquisitions.

For both periods, income tax expense increased due to higher pre-tax income. For the nine-month period, our effective tax rate was 33.4% compared to 37.9% in the year-ago period. The lower effective tax rate resulted from the extension of R&E credits and our continued foreign expansion during fiscal 2011. There was a $1.2 million benefit from R&E credits for the last nine months of fiscal 2010 that was recorded in the first quarter of fiscal 2011.

Net income attributable to noncontrolling interests related primarily to the consolidated joint ventures associated with our Canadian acquisitions. Net income attributable to Tetra Tech grew for the reasons described above.

Segment Results of Operations

Engineering and Consulting Services

	Three Months Ended				Nine Months Ended			
	July 3, 2011	June 27, 2010	Change $	%	July 3, 2011	June 27, 2010	Change $	%
	($ in thousands)							
Revenue	$ 288,103	$ 184,635	$ 103,468	56.0%	$ 804,328	$ 508,997	$ 295,331	58.0%
Subcontractor costs	(48,367)	(49,508)	1,141	2.3	(166,949)	(132,386)	(34,53)	(26.1)
Revenue, net of subcontractor costs (1)	$ 239,736	$ 135,127	$ 104,609	77.4%	$ 637,379	$ 376,611	$ 260,768	69.2%
Operating income	$ 26,227	$ 13,738	$ 12,489	90.9%	$ 67,569	$ 38,671	$ 28,898	74.7%

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

For the three and nine-month periods, our recent Canadian acquisitions contributed $94.4 million and $245.9 million in revenue, and $86.9 million and $223.1 million in revenue, net of subcontractor costs, respectively. Excluding the effect of acquisitions, the growth was driven by increased demand for our water, environmental and infrastructure design services for mining clients worldwide. To a lesser extent, the growth resulted from increased activity on FAA, NSF, IBWC and other federal government projects. The overall growth was partially offset by a wind-down on certain DoD projects, reduced activity on a large municipal landfill design project, and weakness in the state and local government business.

For both periods, operating income increased due predominantly to revenue growth. For the three and nine-month periods, as a percentage of revenue, operating income was 9.1% and 8.4% compared to 7.4% and 7.6% for the year-ago periods, respectively. The percentages increased due to improved performance on project execution and higher profit margin on international projects.

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Technical Support Services

	Three Months Ended				Nine Months Ended			
	July 3, 2011	June 27, 2010	Change $	Change %	July 3, 2011	June 27, 2010	Change $	Change %
	($ in thousands)							
Revenue	$ 141,436	$ 131,139	$ 10,297	7.9%	$ 425,435	$ 381,533	$ 43,902	11.5%
Subcontractor costs	(56,454)	(50,441)	(6,013)	(11.9)	(173,472)	(139,861)	(33,611)	(24.0)
Revenue, net of subcontractor costs (1)	$ 84,982	$ 80,698	$ 4,284	5.3%	$ 251,963	$ 241,672	$ 10,291	4.3%
Operating income	$ 10,131	$ 9,520	$ 611	6.4%	$ 30,748	$ 29,906	$ 842	2.8%

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

For the three and nine-month periods, an acquisition in the fourth quarter of fiscal 2010 contributed $16.7 million and $45.5 million in revenue, and $6.9 million and $21.1 million in revenue, net of subcontractor costs, respectively. Excluding the effect of the acquisition, revenue declined due to reduced workload on DoD and USAID projects, partially offset by growth in the commercial, and state and local government sectors. Revenue, net of subcontractor costs, grew at a lower rate than revenue due to a change in contract mix on USAID projects, as well as a high level of subcontracting activities at the aforementioned acquired company for both periods, and on certain EPA programs for the nine-month period.

Operating income increased due to revenue growth for both periods and favorable project close-outs for the nine-month period. The increase for the nine-month period was partially offset by additional contract costs incurred for project overruns in the second quarter of fiscal 2011. As a percentage of revenue, operating income was flat for the three-month period and declined for the nine-month period, due to the aforementioned project overruns and a higher level of subcontracting activities compared to the year-ago periods.

Engineering and Architecture Services

	Three Months Ended				Nine Months Ended			
	July 3, 2011	June 27, 2010	Change $	Change %	July 3, 2011	June 27, 2010	Change $	Change %
	($ in thousands)							
Revenue	$ 77,983	$ 76,688	$ 1,295	1.7%	$ 219,625	$ 211,404	$ 8,221	3.9%
Subcontractor costs	(20,748)	(19,921)	(827)	(4.2)	(52,131)	(48,994)	(3,137)	(6.4)
Revenue, net of subcontractor costs (1)	$ 57,235	$ 56,767	$ 468	0.8%	$ 167,494	$ 162,410	$ 5,084	3.1%
Operating income	$ 6,491	$ 4,337	$ 2,154	49.7%	$ 16,398	$ 7,454	$ 8,944	120.0%

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

For both periods, revenue and revenue, net of subcontractor costs, grew as a result of increased demand for our building and facility design services from several large commercial clients, and increased workload on international development projects for the U.S. federal government.

For the three-month period, the growth was also driven by a few large water and transportation infrastructure projects for state and local government clients. The overall growth was partially offset by the wind-down of a few design projects overseas for both periods.

For both periods, operating income increased due to revenue growth, a reduction in facility costs that resulted from prior-year office consolidations, and lower provisions for losses on accounts receivable as a result of cash collections. For the nine-month period, operating income benefited from a favorable claim settlement and favorable project close-outs. In the second quarter of fiscal 2010, operating income was reduced by a $3.1 million provision for losses on accounts receivable on certain commercial development and infrastructure projects.

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Remediation and Construction Management

	Three Months Ended				Nine Months Ended			
	July 3, 2011	June 27, 2010	Change $	Change %	July 3, 2011	June 27, 2010	Change $	Change %
	($ in thousands)							
Revenue	$ 200,008	$ 202,424	$ (2,416)	(1.2)%	$ 534,564	$ 545,206	$ (10,642)	(2.0)%
Subcontractor costs	(101,457)	(104,888)	3,431	3.3	(275,010)	(286,345)	11,335	4.0
Revenue, net of subcontractor costs (1)	$ 98,551	$ 97,536	$ 1,015	1.0%	$ 259,554	$ 258,861	$ 693	0.3%
Operating income	$ 4,262	$ 9,880	$ (5,618)	(56.9)%	$ 12,534	$ 24,753	$ (12,219)	(49.4)%

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

For both periods, revenue declined due primarily to the wind-down of certain large construction management projects for the USACE, inclement weather in the Northeast, and reduced activity on DOE water and transportation infrastructure projects. The decline was partially mitigated by strength in our energy markets worldwide, and increased activity on mining and certain federal government projects for GSA, DOA and various military branches of the DoD. Despite the revenue decline for both periods, revenue, net of subcontractor costs, grew for the three-month period and was flat for the nine-month period because of increased self-performed work on energy projects and reduced revenue from construction management projects that had higher subcontracting activities.

Operating income declined due to the recognition of approximately $2 million and $17 million of cost overruns on several fixed-price construction and energy projects for the three and nine-month periods, respectively. Additionally, operating income was adversely impacted by the aforementioned revenue decline, and lower profit rates on certain U.S. federal government and commercial construction projects as a result of competitive pricing pressure. For the nine-month period, the decline was partially mitigated by the recognition of an additional $12 million related to government incentive award fees on a large environmental remediation program, and favorable project close-outs related to energy and construction management projects compared to the year-ago periods. To a lesser extent, for both periods, the decline was partially offset by lower severance costs and overhead costs in the current year after a reduction in headcount in the prior year associated with the revenue decline in the construction management business.

Financial Condition, Liquidity and Capital Resources

Capital Requirements. Our capital requirements are to fund working capital needs, capital expenditures and debt service requirements, as well as to fund acquisitions. We believe that our cash balances, operating cash flow and available borrowing under the Credit Agreement will be sufficient to meet our capital requirements for at least the next twelve months.

Operating Activities. For the nine-month period, net cash provided by operating activities was $98.4 million, an increase of $33.8 million compared to the year-ago period. The increase was driven by the timing of payments on employee-related compensation and additional advance payments received on contract work. The increase also resulted from the growth in net income and non-cash depreciation and amortization expenses related to our recent acquisitions. The increase was partially offset by the timing of cash collections on accounts receivable, a change in deferred income tax liabilities, and payments on accounts payable and prepaid expenses.

Investing Activities. For the nine-month period, net cash used in investing activities was $219.8 million, an increase of $182.7 million compared to the year-ago period. The increase was due primarily to fiscal 2011 Canadian acquisitions and contingent earn-out payments related to prior-year acquisitions.

Financing Activities. For the nine-month period, net cash used by financing activities was $2.0 million compared to net cash provided in the amount of $3.1 million for the year-ago period. The decrease in cash resulted from $9.3 million of net debt repayment in the current fiscal year, partially offset by $4.8 million increase in proceeds from the issuance of common stock upon the exercise of stock options.

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Debt Financing. On March 28, 2011, we entered into a new Credit Agreement and concurrently terminated our prior credit agreement. The Credit Agreement provides for a $460 million Facility that matures on March 28, 2016. The Credit Agreement includes a $200 million sublimit for the issuance of standby letters of credit and a $100 million sublimit for multicurrency borrowings and letters of credit. As of July 3, 2011, we had $111.5 million in borrowings under the Facility at a weighted-average interest rate of 1.92% per annum, $28.5 million in standby letters of credit and $320 million in availability under the Facility. We had $11.5 million in multicurrency borrowings and letters of credit under the Facility as of July 3, 2011.

The Credit Agreement contains certain financial and various other affirmative and negative covenants. They include, among others, a maximum consolidated leverage ratio of 2.5x (total funded debt/EBITDA), and a minimum consolidated fixed charge coverage ratio of 1.25x (EBITDA minus capital expenditures/cash interest plus taxes plus principal payments). As of July 3, 2011, we were in compliance with these covenants with a consolidated leverage ratio of 1.04x and a consolidated fixed charge coverage ratio of 2.02x. The Facility is guaranteed by our material subsidiaries and certain additional designated subsidiaries. Borrowings under the Credit Agreement are collateralized by our accounts receivable, the stock of our subsidiaries and intercompany debt.

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

Off-Balance Sheet Arrangements

Variable Interest Entities. In the normal course of business, we form joint ventures, including partnerships and partially-owned limited liability companies, with third parties primarily to bid on and execute specific projects. We analyzed all of our joint ventures to determine whether they are VIEs. If a joint venture is determined to be a VIE, we assess whether we are the primary beneficiary and need to consolidate that joint venture. As of July 3, 2011, none of our unconsolidated joint ventures had any debt other than operating payables and accruals. For further discussion of our VIEs, see Note 12, Joint Ventures of the Notes to Condensed Consolidated Financial Statements .

Critical Accounting Policies

Our critical accounting policies are disclosed in our Annual Report on Form 10-K for the fiscal year ended October 3, 2010. To date, there have been no material changes in our critical accounting policies as reported in our 2010 Annual Report on Form 10-K.

New Accounting Pronouncements

For information regarding recent accounting pronouncements, see the 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.

We are exposed to interest rate risk under our credit agreement. We may borrow on our Facility, at our option, at either (a) a base rate (the highest of the U.S. federal funds rate plus 0.50% per annum, the bank s prime rate or the Eurocurrency rate plus 1.00%) plus a margin that ranges from 0.50% to 1.50% per annum, or (b) a Eurocurrency rate plus a margin that ranges from 1.50% to 2.50% per annum. Borrowings at the base rate have no designated term and may be repaid without penalty any time prior to the Facility s maturity date. Borrowings at a Eurodollar rate have a term no less than 30 days and no greater than 90 days. Typically, at the end of such term, such borrowings may be rolled over at our discretion into either a borrowing at the base rate or a borrowing at a Eurodollar rate with similar terms, not to exceed the maturity date of the Facility. The Facility matures on March 28, 2016, or earlier at our discretion upon payment in full of loans and other obligations. As of July 3, 2011, we had $111.5 million in borrowings outstanding under the Facility at a weighted-average interest rate of 1.92% per annum.

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Most of our transactions are in U.S. dollars; however, some of our subsidiaries conduct business in foreign currencies, primarily the Canadian dollar. Therefore, we are subject to currency exposure and volatility because of currency fluctuations. We attempt to minimize our exposure to these fluctuations by matching revenue and expenses in the same currency for our contracts. For the first nine months of fiscal 2011 and 2010, our foreign currency gains and losses were immaterial.

We have foreign currency exchange rate exposure in our stockholders equity primarily as a result of the currency translation related to our subsidiaries in Canada where the local currency is the functional currency. To the extent the U.S. dollar strengthens against the Canadian dollar, the translation of these foreign currency denominated transactions will result in the reduced revenue, operating expenses, assets and liabilities. Similarly, our revenue, operating expenses, assets and liabilities will increase if the U.S. dollar weakens against the Canadian dollar. For the first nine months of fiscal 2011 and 2010, 22.8% and 8.4% of our consolidated revenue, respectively, was generated by our international business, and such revenue was primarily denominated in Canadian dollars. For the first nine months of fiscal 2011 and 2010, the effect of foreign exchange rate translation on our condensed consolidated balance sheets was a net gain of $22.5 million and $5.1 million, respectively. These gains were recognized as an adjustment to stockholders equity through other comprehensive income.

In the first quarter of fiscal 2010, we entered into three foreign currency forward contracts to manage foreign currency exposure related to interest income on an intercompany note denominated in CAD. Each contract is for CAD $4.2 million (equivalent to U.S. $4.0 million at the date of inception) and one contract matures on each of January 27, 2010, January 27, 2011, and January 27, 2012. In the second quarter of fiscal 2010, we settled the first foreign currency forward contract for U.S. $3.9 million, and we entered into a new forward contract for CAD $4.2 million (equivalent to U.S. $3.9 million at the date of inception) that matures on January 28, 2013. In the second quarter of fiscal 2011, we settled the second foreign currency forward contract for U.S. $3.9 million. In the third quarter of fiscal 2011, we entered into a new forward contract for CAD $4.2 million (equivalent to U.S. $4.2 million at the date of inception) that matures on January 27, 2014. For more information, see Note 11, Fair Value Measurements of the Notes to Condensed Consolidated Financial Statements .

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

Item 4. Controls and Procedures

Evaluation of disclosure controls and procedures and changes in internal control over financial reporting. As of July 3, 2011, we carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures. Based on our management s evaluation (with the participation of our principal executive officer and principal financial officer), our principal executive officer and principal financial officer have concluded that, as of the end of the period covered by this Report, our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act), were effective.

Changes in internal control over financial reporting. There was no change in our internal control over financial reporting during our third quarter of fiscal 2011 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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

In May 2003, ITC filed a lawsuit in Montgomery County, Ohio against AMT and other defendants for misappropriation of trade secrets, among other claims. In June 2004, we purchased all the outstanding shares of AMT. As part of the purchase agreement, the former owners of AMT agreed to indemnify us for all costs and damages related to this lawsuit. In December 2007, the case went to trial and the jury assessed $5.8 million in compensatory damages against AMT. In addition, the jury assessed $17 million in punitive damages against AMT plus reasonable attorneys fees. In July 2008, the Common Pleas Court of Montgomery County denied AMT s motion for judgment notwithstanding the verdict and conditionally denied AMT s motion for a new trial. Further, the court remitted the verdict to $2.0 million in compensatory damages and $5.8 million in punitive damages. ITC accepted the remittitur, and AMT appealed. The appellate court remanded the matter to the trial court for ruling on ITC s motion for prejudgment interest and attorneys fees. In December 2009, the trial court assessed ITC $2.9 million in attorneys fees and costs, and denied ITC s motion for prejudgment interest. AMT appealed the trial court s decision assessing compensatory and punitive damages, and attorneys fees and costs. ITC cross-appealed the trial court s decision to remit the jury verdict and the trial court s denial of prejudgment interest. Final briefs were filed with the court of appeals and oral arguments were heard in December 2010. AMT has posted a bond, as required by the trial court, for $13.4 million. We believe that a reasonably possible range of exposure, including attorneys fees, is from $0 to approximately $14.5 million. As of July 3, 2011, we have recorded a liability representing our best estimate of a probable loss. Further, for the same amount, we have recorded a receivable from the former owners of AMT as we believe it is probable they will fully honor their indemnification agreement with us for any and all costs and damages related to this lawsuit.

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Item 1A. Risk Factors

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

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

General worldwide economic conditions have experienced a downturn due to the reduction of available credit, slower economic activity, concerns about inflation and deflation, increased energy and commodity costs, decreased consumer confidence, reduced corporate profits and capital spending, adverse business conditions, and, in the U.S., delays and uncertainties related to federal budgets. These conditions make it extremely difficult for our clients and our vendors to accurately forecast and plan future business activities and could cause businesses to slow spending on services, and they have also made it very difficult for us to predict the short-term and long-term impacts on our business. We cannot predict the timing, strength or duration of any economic slowdown or subsequent economic recovery worldwide or in our industry. If the economy or markets in which we operate deteriorate from the level experienced in fiscal 2010 and the first nine months of fiscal 2011, 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 federal, state and local government clients;
- Integration of acquired companies;
- Changes in contingent consideration related to acquisition earn-outs;
- Divestiture or discontinuance of operating units;
- Employee hiring, utilization and turnover rates;
- Loss of key employees;
- The number and significance of client contracts commenced and completed during a quarter;
- Creditworthiness and solvency of clients;
- The ability of our clients to terminate contracts without penalties;
- Delays incurred in connection with a contract;
- The size, scope and payment terms of contracts;
- The timing of expenses incurred for corporate initiatives;

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- 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;

- How well we execute our strategy and operating plans; and

- Changes in tax laws or regulations or accounting rules.

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

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

Demand for services from our state and local government and commercial clients is cyclical and vulnerable to economic downturns, which may result in clients delaying, curtailing or canceling proposed and existing projects. Our business traditionally lags the overall recovery in the economy; therefore, our business may not recover immediately when the economy improves. If economic growth slows, state or local government fiscal conditions worsen, or client spending declines further, then our revenue, profits and overall financial condition may deteriorate. Our state and local government clients may face budget deficits that prohibit them from funding new or existing projects. In addition, our existing and potential clients may either postpone entering into new contracts or request price concessions. Difficult financing and economic conditions may cause some of our clients to demand better pricing terms or delay payments for services we perform, thereby increasing the average number of days our receivables are outstanding and the potential of increased credit losses of uncollectible invoices. Further, these conditions may result in the inability of some of our clients to pay us for services that we have already performed. If we are not able to reduce our costs quickly enough to respond to the revenue decline from these clients, our operating results may be adversely affected. Accordingly, these factors affect our ability to forecast our future revenue and earnings from business areas that may be adversely impacted by market conditions.

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

For the three and nine months ended July 3, 2011, we generated 23.3% and 21.3%, respectively, of our revenue from 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.

We derive a majority of our revenue from government agencies, and any disruption in government funding or in our relationship with those agencies could adversely affect our business.

For the three and nine months ended July 3, 2011, we generated 53.4% and 55.9%, respectively, of our revenue from contracts with U.S. federal, state and local government agencies. U.S. federal government agencies are among our most significant clients. For the third quarter of fiscal 2011, we generated 42.2% of our revenue from the following agencies: 20.0% from DoD agencies, 10.7% from USAID and 11.5% from other U.S. federal government agencies. For the nine-month period, we generated 45.0% of our revenue from the following agencies:

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21.9% from DoD agencies, 11.3% from USAID and 11.8% from other U.S. federal government agencies. A significant amount of this revenue is derived under multi-year contracts, many of which are appropriated on an annual basis. As a result, at the beginning of a project, the related contract may be only partially funded, and additional funding is normally committed only as appropriations are made in each subsequent year. These appropriations, and the timing of payment of appropriated amounts, may be influenced by numerous factors as noted below. Our backlog includes only the projects that have funding appropriated.

The demand for our 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 government programs, and upon our ability to obtain contracts and perform well under these programs. There are several factors that could materially affect our government contracting business, including the following:

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

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

A significant shift in U.S. defense spending could harm our operations and significantly reduce our profits and revenue.

For the three and nine months ended July 3, 2011, we generated 20.0% and 21.9%, respectively, of our revenue from the DoD agencies. Past increases in spending for defense-related programs and outsourcing of U.S. federal government jobs to the private sector are not expected to be sustained on a long-term basis. Future levels of expenditures and authorizations for defense-related programs may decrease, remain constant or shift to other programs in areas in which we do not currently provide services. As a result, a general decline in U.S. defense spending or a change in budgetary priorities could reduce our profits and revenue.

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

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

As a 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 (ARRA), the Services Contract Act and DoD security regulations, as well as many other rules and regulations. In addition, we must also comply with other government regulations related to employment practices, environmental protection, health and safety, tax, accounting and anti-fraud measures, as well as many others regulations in order to maintain our government contractor status. These laws and regulations affect how we do business with our clients and, in some instances, impose additional costs on our business operations. Although we take precautions to prevent and deter fraud, misconduct and non-compliance, we face the risk that our employees or outside partners may engage in misconduct, fraud or other improper activities. Government agencies, such as the Defense Contract Audit Agency (DCAA), routinely audit and investigate government contractors. These government agencies review and audit a government contractor s performance under its contracts and cost structure, and evaluate compliance with applicable laws, regulations and standards. In addition, during the course of its audits, the DCAA may question our incurred project costs. If the DCAA believes we have accounted for such costs in a manner inconsistent with the requirements for FAR or CAS, the DCAA auditor may recommend to our U.S. government corporate administrative contracting officer to disallow such costs. Historically, we have not experienced significant disallowed costs as a result of government audits. However, we can provide no assurance that the DCAA or other government audits will not result in material disallowance for incurred costs in the future. In addition, government contracts are subject to a variety of other requirements relating to the formation, administration, performance and accounting for these contracts. We may also be subject to *qui tam* litigation brought by private individuals on behalf of the government under the Federal Civil False Claims Act, which could include claims for treble damages. 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 government contractor status could reduce our profits and revenue significantly.

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

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

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contracts during regulated procurement processes could harm our operations and significantly reduce or eliminate our profits.

Each year, client funding for some of our 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 government contracts may directly or indirectly rely on government appropriations or public-supported financing such as the ARRA. However, ARRA-funded contracts have not been awarded for environmental projects as quickly as we had expected, and it is possible that ARRA funding will never be allocated to projects that represent opportunities for us to the extent that we anticipate, if at all. 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 state and local municipal bonds may be only partially raised to support existing projects. Public funds and the timing of payment of these funds may be influenced by, among other things, the state of the economy, competing political priorities, curtailments in the use of government contracting firms, increases in raw material costs, delays associated with insufficient numbers of government staff to oversee contracts, budget constraints, the timing and amount of tax receipts and the overall level of government expenditures. If adequate public funding is not available or is delayed, then our profits and revenue could decline.

Our government contracts may give government agencies the right to modify, delay, curtail, renegotiate or terminate existing contracts at their convenience at any time prior to their completion, and if we do not replace these contracts, we may suffer a decline in our profits and revenue.

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 government client to modify, delay, curtail, renegotiate or terminate our contracts at their convenience may result in a decline in our profits and revenue.

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

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

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

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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. With limited exceptions, we do not have employment agreements with any of these individuals. 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.

The market for qualified scientists and engineers is competitive and we may not be able to attract and retain such professionals. In addition, it may be difficult to attract and retain qualified individuals in the timeframe demanded by our clients. For example, some of our government contracts may require us to employ only individuals who have particular government security clearance levels. In an effort to attract key employees, we often grant them stock options, and a reduction in our stock price could impact our ability to retain these professionals. Our failure to attract and retain key individuals could impair our ability to provide services to our clients and conduct our business effectively.

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

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

- The application of the percentage-of-completion method of accounting and revenue recognition on contracts, change orders and contract claims including related unbilled accounts receivable;
- Unbilled accounts receivable include 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 and client claims and recoveries of costs from subcontractors, vendors and others;
- Provisions for income taxes, R&E credits and related valuation allowances;
- Value of goodwill and recoverability of other intangible assets;
- Valuations of assets acquired and liabilities assumed in connection with business combinations;
- Estimated earn-out payments due in connection with business combinations;
- Valuation of employee benefit plans;
- Valuation of stock-based compensation expense; and
- Accruals for estimated liabilities, including litigation and insurance reserves.

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

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;

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- Our ability to forecast demand for our services and thereby maintain an appropriate headcount in each of our geographies and workforces;

- Our ability to manage attrition;

- Our need to devote time and resources to training, business development, professional development and other non-chargeable activities; and

- Our ability to match the skill sets of our employees to the needs of the marketplace.

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

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

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

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

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.

Under our 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. These risks include underestimation of costs, problems with new technologies, unforeseen costs or difficulties, delays beyond our control, price increases for materials, and economic and other changes that may occur during the contract period. Consequently, we realize a profit on fixed-price contracts only if we can control our costs and prevent cost over-runs on our contracts. Under our time-and-materials contracts, we are paid for labor at negotiated hourly billing rates and also paid for other expenses. Profitability on these contracts is driven by billable headcount and cost control. Many of our time-and-materials contracts are subject to maximum contract values and, accordingly, revenue relating to these contracts is recognized as if these contracts were fixed-price contracts. Under our cost-plus contracts, some of which are subject to contract ceiling amounts, we are reimbursed for allowable costs and fees, which may be fixed or performance-based. If our costs exceed the contract ceiling or are not allowable under the provisions of the contract or any applicable regulations, we may not be able to obtain reimbursement for all of the costs we incur.

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

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revenue and cost at completion is complicated and subject to many variables. Changes in underlying assumptions, circumstances or estimates may also adversely affect future period financial performance. If we are unable to accurately estimate the overall revenue or costs on a contract, then we may experience a lower profit or incur a loss on the contract.

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

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

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

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

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

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

Our inability to successfully integrate future acquisitions could impede us from realizing all of the benefits of those acquisitions and could severely weaken our business operations. The integration process may disrupt our business and, if implemented ineffectively, may preclude realization of the full benefits expected by us and could harm our results of operations. In addition, the overall integration of the combining companies may result in unanticipated problems, expenses, liabilities, and competitive responses, and may cause our stock price to decline. The difficulties of integrating an acquisition include, among others:

- Unanticipated issues in integrating information, communications and other systems;
- Unanticipated incompatibility of logistics, marketing and administration methods;
- Maintaining employee morale and retaining key employees;

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- Integrating the business cultures of both companies;
- Preserving important strategic customer relationships;
- Consolidating corporate and administrative infrastructures and eliminating duplicative operations; and
- Coordinating geographically separate organizations.

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

Further, acquisitions may also cause us to:

- Issue common stock that would dilute our current stockholders ownership percentage;
- Use a substantial portion of our cash resources;
- Increase our interest expense, leverage and debt service requirements if we incur additional debt to pay for an acquisition;
- Assume liabilities, including environmental liabilities, for which we do not have indemnification from the former owners. Further, indemnification obligations may be subject to dispute or concerns regarding the creditworthiness of the former owners;
- Record goodwill and non-amortizable intangible assets that are subject to impairment testing on a regular basis and potential impairment charges;
- Experience volatility in earnings due to changes in contingent consideration related to acquisition earn-out liability estimates;

- Incur amortization expenses related to certain intangible assets;

- Lose existing or potential contracts as a result of conflict of interest issues;

- Incur large and immediate write-offs; or

- Become subject to litigation.

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

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

Because we have historically acquired a significant number of companies, goodwill and other intangible assets have represented a substantial portion of our assets. As of July 3, 2011, our goodwill was $564.1 million and other intangible assets were $71.7 million. We are required to perform a goodwill and indefinite-lived intangible asset impairment test for potential impairment at least on an annual basis. The goodwill impairment test requires us to determine the fair value of our reporting units, which are the components one level below our four reportable segments. In determining fair value, we make significant judgments and estimates, including assumptions about our strategic plans with regard to our operations. We also analyze current economic indicators and market valuations to help determine fair value. To the extent economic conditions that would impact the future operations of our reporting units change, our goodwill may be deemed to be impaired, and we would be required to record a non-cash charge that could result in a material adverse effect on our financial position or results of operations.

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

Our expected future growth presents numerous managerial, administrative, operational and other challenges. Our ability to manage the growth of our operations will require us to continue to improve our

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management information systems and our other internal systems and controls. In addition, our growth will increase our need to attract, develop, motivate and retain both our management and professional employees. The inability of our management to effectively manage our growth or the inability of our employees to achieve anticipated performance could have a material adverse effect on our business.

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

Our backlog as of July 3, 2011 was $1.9 billion. We include in backlog only those contracts for which funding has been provided and work authorizations have been received. We cannot guarantee that the revenue projected in our backlog will be realized or, if realized, will result in profits. In addition, project cancellations or scope adjustments may occur, from time to time, with respect to contracts reflected in our backlog. For example, certain of our contracts with the U.S. federal government and other clients are terminable at the discretion of the client, with or without cause. These types of backlog reductions could adversely affect our revenue and margins. Accordingly, our backlog as of any particular date is an uncertain indicator of our future earnings.

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

For the three and nine months ended July 3, 2011, we generated 23.3% and 22.8%, respectively, of our revenue from our foreign operations, primarily in Canada, and from international clients for work that is performed by our domestic operations. International business is subject to a variety of risks, including:

- Lack of developed legal systems to enforce contractual rights;
- Greater risk of uncollectible accounts and longer collection cycles;
- Currency fluctuations;
- The potential for greater physical security risks, which may cause us to leave a country quickly;
- Logistical and communication challenges;
- Potentially adverse changes in laws and regulatory practices;

- Changes in labor conditions;

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

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

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

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

We routinely enter into subcontracts and, occasionally, teaming arrangements and other contractual arrangements so that we can jointly bid and perform on a particular project. Success under these arrangements depends in large part on whether our business partners fulfill their contractual obligations satisfactorily. If any of our business partners fail to satisfactorily perform their contractual obligations as a result of financial or other difficulties, we may be required to incur additional costs and provide additional services in order to make up for our business partners shortfall. If we are unable to adequately address our business partners   performance issues, then

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our client could terminate the joint project, exposing us to legal liability, loss of reputation and reduced profit or loss on the project.

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

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

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

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

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

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

Our results could be adversely affected by an inability to access our $460 million revolving credit facility. Unfavorable financial or economic conditions could impact certain issuers willingness or ability to fund our revolving credit facility. In addition, increases in interest rates or credit spreads, volatility in financial markets or the interest rate environment, significant political or economic events, defaults of significant issuers and other market and economic factors may negatively impact the general level of debt issuance, the debt issuance plans of certain categories of borrowers, the types of credit-sensitive products being offered, and/or a sustained period of market decline or weakness could have a material adverse effect on us.

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

Our credit agreement 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.

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

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

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

The value of our common stock could be volatile.

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

- Quarter-to-quarter variations in our financial results, including revenue, profits, days sales outstanding, backlog, and other measures of financial performance or financial condition;

- Our announcements or our competitors announcements of significant events, including acquisitions;

- Resolution of threatened or pending litigation;

- Changes in investors and analysts perceptions of our business or any of our competitors businesses;

- Investors and analysts assessments of reports prepared or conclusions reached by third parties;

- Changes in environmental legislation;

- Investors perceptions of our performance of services in countries in which the U.S. military is engaged, including Iraq and Afghanistan;

- Broader market fluctuations; and

- General economic or political conditions.

Additionally, volatility or a lack of positive performance in our stock price may adversely affect our ability to retain key employees, many of whom are granted stock options and shares of restricted stock, the value of which is dependent on the performance of our stock price.

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

We engage in consulting, engineering, program management, construction and technical services that can result in substantial injury or damages that may expose us to legal proceedings, investigations and disputes. For example, in the ordinary course of our business, we may be involved in legal disputes regarding personal injury claims, employee or labor disputes, professional liability claims, and general commercial disputes involving project cost overruns and liquidated damages as well as other claims. In addition, in the ordinary course of our business, we frequently make professional judgments and recommendations about environmental and engineering conditions of project sites for our clients. We may be deemed to be responsible for these judgments and recommendations if they are later determined to be inaccurate. Any unfavorable legal ruling against us could result in substantial monetary damages or even criminal violations. We maintain insurance coverage as part of our overall legal and risk management strategy to minimize our potential liabilities; however, insurance coverage contains exclusions and

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other limitations that may not cover our potential liabilities. Generally, our insurance program covers workers compensation and employer s liability, general liability, automobile liability, professional errors and omissions liability, property, and contractor s pollution liability (in addition to other policies for specific projects). Our insurance program includes deductibles or self-insured retentions for each covered claim. In addition, our insurance policies contain exclusions that insurance providers may use to deny or restrict coverage. Excess liability and professional liability insurance policies provide for coverages on a claims-made basis, covering only claims actually made and reported during the policy period currently in effect. If we sustain liabilities that exceed or that are excluded from our insurance coverage or for which we are not insured, it could have a material adverse impact on our results of operations and financial condition, including our profits and revenue.

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

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

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

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

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

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

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

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

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

Our safety program is a fundamental element of our overall approach to risk management, and the implementation of the safety program is a significant issue in our dealings with our clients. We maintain an enterprise-wide group of health and safety professionals to help ensure that the services we provide are delivered safely and in accordance with standard work processes. Unsafe job sites and office environments have the potential to increase employee turnover, increase the cost of a project to our clients, expose us to types and levels of risk that are fundamentally unacceptable, and raise our operating costs. The implementation of our safety processes and procedures are monitored by various agencies and rating bureaus, and may be evaluated by certain clients in cases in which safety requirements have been established in our contracts. If we fail to meet these requirements or do not properly implement and comply with our safety program, there could be a material adverse effect on our business, operating results or financial condition.

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

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

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

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

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

Force majeure or extraordinary events beyond the control of the contracting parties, such as natural and man-made disasters, as well as terrorist actions, could negatively impact the economies in which we operate by

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

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

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

We rely on third-party internal and outsourced software to run our critical accounting, project management and financial information systems. As a result, any sudden loss, disruption or unexpected costs to maintain these systems could significantly increase our operational expense and disrupt the management of our business operations.

We rely on third-party software to run our critical accounting, project management and financial information systems. We also depend on our software vendors to provide long-term software maintenance support for our information systems. Software vendors may decide to discontinue further development, integration or long-term software maintenance support for our information systems, in which case we may need to abandon one or more of our current information systems and migrate some or all of our accounting, project management and financial information to other systems, thus increasing our operational expense as well as disrupting the management of our business operations.

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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 July 3, 2011, formatted in eXtensible Business Reporting Language: (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Income, (iii) Consolidated Statements of Cash Flows, (iv) Notes to Consolidated Financial Statements.*

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

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SIGNATURES

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

Dated: August 5, 2011	TETRA TECH, INC.	
	By:	/s/ Dan L. Batrack Dan L. Batrack Chairman, Chief Executive Officer and President (Principal Executive Officer)
	By:	/s/ Steven M. Burdick Steven M. Burdick Chief Financial Officer and Treasurer (Principal Financial Officer)
	By:	/s/ Brian N. Carter Brian N. Carter Vice President, Controller (Principal Accounting Officer)