

TETRA TECH INC
Form 10-Q
May 01, 2009
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 29, 2009

OR

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

For the transition period from _____ to _____

Commission File Number 0-19655

TETRA TECH, INC.

(Exact name of registrant as specified in its charter)

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Delaware
(State or other jurisdiction of
incorporation or organization)

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

3475 East Foothill Boulevard, Pasadena, California 91107

(Address of principal executive office and 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 periods that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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

Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

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

Yes No

As of April 27, 2009, 60,222,957 shares of the registrant's common stock were outstanding.

Table of Contents

TETRA TECH, INC.

INDEX

| | PAGE NO. |
|-------------------|---|
| <u>PART I.</u> | <u>FINANCIAL INFORMATION</u> |
| <u>Item 1.</u> | <u>Financial Statements</u> |
| | <u>Condensed Consolidated Balance Sheets</u> 3 |
| | <u>Condensed Consolidated Statements of Income</u> 4 |
| | <u>Condensed Consolidated Statements of Cash Flows</u> 5 |
| | <u>Notes to Condensed Consolidated Financial Statements</u> 6 |
| <u>Item 2.</u> | <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> 16 |
| <u>Item 3.</u> | <u>Quantitative and Qualitative Disclosures About Market Risk</u> 28 |
| <u>Item 4.</u> | <u>Controls and Procedures</u> 28 |
| <u>PART II</u> | <u>OTHER INFORMATION</u> 29 |
| <u>Item 1.</u> | <u>Legal Proceedings</u> 29 |
| <u>Item 1A.</u> | <u>Risk Factors</u> 30 |
| <u>Item 4.</u> | <u>Submission of Matters to a Vote of Security Holders</u> 41 |
| <u>Item 6.</u> | <u>Exhibits</u> 42 |
| <u>SIGNATURES</u> | 43 |

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

| | March 29, 2009 | September 28, 2008 |
|--|---------------------|-----------------------|
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$ 42,216 | \$ 50,902 |
| Accounts receivable - net | 560,157 | 625,786 |
| Prepaid expenses and other current assets | 50,004 | 36,774 |
| Income taxes receivable | 46,524 | 4,275 |
| Deferred income taxes | | 2,316 |
| Total current assets | 698,901 | 720,053 |
| PROPERTY AND EQUIPMENT: | | |
| Land and buildings | 7,597 | 7,588 |
| Equipment, furniture and fixtures | 120,879 | 112,780 |
| Leasehold improvements | 13,448 | 10,804 |
| Total | 141,924 | 131,172 |
| Accumulated depreciation and amortization | (74,076) | (69,784) |
| PROPERTY AND EQUIPMENT - NET | 67,848 | 61,388 |
| DEFERRED INCOME TAXES | | 6,498 |
| INCOME TAXES RECEIVABLE | | 14,953 |
| GOODWILL | 298,194 | 221,545 |
| INTANGIBLE ASSETS - NET | 28,981 | 14,609 |
| OTHER ASSETS | 14,031 | 15,081 |
| ASSETS OF DISCONTINUED OPERATION | 1,415 | 2,418 |
| TOTAL ASSETS | \$ 1,109,370 | \$ 1,056,545 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| CURRENT LIABILITIES: | | |
| Accounts payable | \$ 181,830 | \$ 223,304 |
| Accrued compensation | 74,683 | 101,699 |
| Billings in excess of costs on uncompleted contracts | 98,605 | 100,336 |
| Deferred income taxes | 17,650 | |
| Current portion of long-term obligations | 4,333 | 3,926 |
| Other current liabilities | 66,826 | 58,634 |
| Total current liabilities | 443,927 | 487,899 |

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| | | |
|---|--------------|--------------|
| DEFERRED INCOME TAXES | 885 | |
| LONG-TERM OBLIGATIONS | 99,983 | 53,292 |
| OTHER LONG-TERM LIABILITIES | 7,685 | 3,840 |
| COMMITMENTS AND CONTINGENCIES | | |
| STOCKHOLDERS EQUITY: | | |
| Preferred stock authorized, 2,000 shares of \$0.01 par value; no shares issued and outstanding as of March 29, 2009 and September 28, 2008 | | |
| Common stock authorized, 150,000 shares of \$0.01 par value; issued and outstanding, 60,219 and 59,875 shares as of March 29, 2009 and September 28, 2008, respectively | 602 | 599 |
| Additional paid-in capital | 324,468 | 314,860 |
| Accumulated other comprehensive income | 258 | 15 |
| Retained earnings | 231,562 | 196,040 |
| TOTAL STOCKHOLDERS EQUITY | 556,890 | 511,514 |
| TOTAL LIABILITIES AND STOCKHOLDERS EQUITY | \$ 1,109,370 | \$ 1,056,545 |

See accompanying Notes to Condensed Consolidated Financial Statements.

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

| | Three Months Ended | | Six Months Ended | |
|--|--------------------|-------------------|-------------------|-------------------|
| | March 29, 2009 | March 30, 2008 | March 29, 2009 | March 30, 2008 |
| Revenue | \$ 522,305 | \$ 461,386 | \$ 1,160,988 | \$ 931,773 |
| Subcontractor costs | (190,091) | (174,035) | (498,748) | (367,261) |
| Revenue, net of subcontractor costs | 332,214 | 287,351 | 662,240 | 564,512 |
| Other contract costs | (265,893) | (229,583) | (531,578) | (450,495) |
| Gross profit | 66,321 | 57,768 | 130,662 | 114,017 |
| Selling, general and administrative expenses | (38,491) | (32,939) | (74,216) | (66,477) |
| Income from operations | 27,830 | 24,829 | 56,446 | 47,540 |
| Interest expense net | (852) | (1,456) | (1,768) | (2,116) |
| Income before income tax expense | 26,978 | 23,373 | 54,678 | 45,424 |
| Income tax expense | (7,764) | (9,700) | (19,156) | (18,851) |
| Net income | \$ 19,214 | \$ 13,673 | \$ 35,522 | \$ 26,573 |
| Earnings per share: | | | | |
| Basic | \$ 0.32 | \$ 0.23 | \$ 0.59 | \$ 0.45 |
| Diluted | \$ 0.32 | \$ 0.23 | \$ 0.59 | \$ 0.45 |
| Weighted-average common shares outstanding: | | | | |
| Basic | 60,014 | 58,601 | 59,832 | 58,412 |
| Diluted | 60,771 | 59,084 | 60,480 | 59,079 |

See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents

Tetra Tech, Inc.

Condensed Consolidated Statements of Cash Flows

(unaudited in thousands)

| | Six Months Ended | |
|---|-------------------|-------------------|
| | March 29, 2009 | March 30, 2008 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income | \$ 35,522 | \$ 26,573 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 12,485 | 8,374 |
| Stock-based compensation | 4,557 | 3,923 |
| Excess tax benefits from stock-based compensation | (96) | (266) |
| Deferred income taxes | 2,989 | 8,345 |
| Provision for losses on contracts and related receivables | 11,219 | 4,579 |
| Exchange loss (gain) | 117 | (239) |
| Loss (gain) on disposal of property and equipment | 24 | (1,182) |
| Changes in operating assets and liabilities, net of effects of acquisitions: | | |
| Accounts receivable | 86,673 | (583) |
| Prepaid expenses and other assets | (4,503) | (1,688) |
| Accounts payable | (57,081) | (19,143) |
| Accrued compensation | (27,016) | (9,659) |
| Billings in excess of costs on uncompleted contracts | (12,212) | 20,577 |
| Other liabilities | 572 | 2,162 |
| Income taxes receivable/payable | (6,634) | (15,483) |
| Net cash provided by operating activities | 46,616 | 26,290 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Capital expenditures | (9,791) | (10,221) |
| Payments for business acquisitions, net of cash acquired | (94,688) | (53,951) |
| Proceeds from sale of discontinued operations | 192 | 1,005 |
| Proceeds from sale of property and equipment | 122 | 1,721 |
| Net cash used in investing activities | (104,165) | (61,446) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Payments on long-term obligations | (69,365) | (31,275) |
| Proceeds from borrowings under long-term obligations | 116,000 | 15,000 |
| Excess tax benefits from stock-based compensation | 96 | 266 |
| Net proceeds from issuance of common stock | 2,056 | 2,444 |
| Net cash provided by (used in) financing activities | 48,787 | (13,565) |
| EFFECT OF EXCHANGE RATE CHANGES ON CASH | 76 | |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | (8,686) | (48,721) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD | 50,902 | 76,741 |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | \$ 42,216 | \$ 28,020 |
| SUPPLEMENTAL CASH FLOW INFORMATION: | | |
| Cash paid during the period for: | | |

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| | | | | |
|---------------------------------------|----|--------|----|--------|
| Interest | \$ | 1,431 | \$ | 2,445 |
| Income taxes, net of refunds received | \$ | 22,683 | \$ | 21,330 |

See accompanying Notes to Condensed Consolidated Financial Statements.

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

The accompanying condensed consolidated balance sheet as of March 29, 2009, the condensed consolidated statements of income for the three and six months ended March 29, 2009 and March 30, 2008, and the condensed consolidated statements of cash flows for the six months ended March 29, 2009 and March 30, 2008 of Tetra Tech, Inc. (we, us or our) are unaudited, and, in the opinion of management, include all adjustments necessary for a fair statement of the financial position, results of operations and cash flows for the periods presented. The consolidated balance sheet as of September 28, 2008 has been derived from the audited financial statements at that date but does not include all the information and footnotes required by U.S. generally accepted accounting principles (GAAP) for complete financial statements.

The condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended September 28, 2008. The results of operations for the three and six months ended March 29, 2009 are not necessarily indicative of the results to be expected for the fiscal year ending September 27, 2009. Certain prior year amounts have been reclassified to conform to the current year presentation. In the first quarter of fiscal 2009, we began reporting under four reportable segments with reclassification of prior year segment results to conform to the new basis of presentation. Refer to Note 7, Reportable Segments for additional information.

Our international operating units have functional currencies that are different than our reporting currency. Their functional currencies are typically based upon the currencies of the primary country in which they operate. Translation of assets and liabilities to U.S. dollars is based on exchange rates at the balance sheet date. Translation of revenue and expenses to U.S. dollars is based on the average rate during the period. Translation gains or losses are reported as a component of Accumulated other comprehensive income. Gains or losses from foreign currency transactions are included in results of operations, with the exception of inter-company foreign transactions that represent a long-term investment, which are recorded in Accumulated other comprehensive income on our condensed consolidated balance sheet as of March 29, 2009.

2. Accounts Receivable Net

Net accounts receivable consisted of the following:

| | March 29, 2009 | September 28, 2008 |
|----------|-------------------|-----------------------|
| | (in thousands) | |
| Billed | \$ 301,648 | \$ 379,948 |
| Unbilled | 264,398 | 246,715 |

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| | | |
|--|------------|------------|
| Contract retentions | 22,919 | 20,649 |
| Total accounts receivable gross | 588,965 | 647,312 |
| Allowance for doubtful accounts | (28,808) | (21,526) |
| Total accounts receivable net | \$ 560,157 | \$ 625,786 |
| Billings in excess of costs on uncompleted contracts | \$ 98,605 | \$ 100,336 |

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 March 29, 2009 are expected to be billed and collected within 12 months. Contract retentions represent amounts withheld by clients until certain conditions are met or the project is completed, which may be several months or years. The allowance for doubtful accounts was determined based on a review of customer-specific accounts, bankruptcy filings by clients, and contract issues resulting from current events and economic circumstances.

Table of Contents

Billed accounts receivable related to federal government contracts were \$104.7 million and \$100.2 million as of March 29, 2009 and September 28, 2008, respectively. The federal government unbilled receivables, net of progress payments, were \$78.4 million and \$88.6 million as of March 29, 2009 and September 28, 2008, respectively. The federal government and one commercial client each accounted for more than 10% of our accounts receivable as of March 29, 2009 and September 28, 2008.

3. Goodwill and Intangibles

In the first quarter of fiscal 2008, we acquired ARD, Inc. (ARD), which provides applied research, planning, design and implementation services focused on a range of water, energy, environmental and institutional issues. ARD manages large, complex international development projects for its clients, predominantly the U.S. Agency for International Development (USAID). This acquisition has continued our international expansion as it has increased our professional workforce in new geographic areas and technical specialties around the world. ARD is part of our technical support services (TSS) segment. The purchase price consisted of \$41.5 million in cash payments. In the second quarter of fiscal 2008, we made other acquisitions that have enhanced our service offerings and expanded our geographic reach in our engineering and architecture services (EAS) segment and environmental consulting services (ECS) segment.

In the second quarter of fiscal 2009, we acquired Wardrop Engineering, Inc. (Wardrop), a Canadian firm that specializes in resource management, energy and infrastructure design and is included in our environmental consulting services segment. This acquisition significantly expands our worldwide presence, adding 13 offices throughout Canada and offices in the United Kingdom and India. During the first half of fiscal 2009, we made other acquisitions that expand our service offerings to USAID in the TSS segment, and to the federal government and commercial clients in the ECS segment. The initial purchase prices for these acquisitions, which are subject to adjustment, were financed with available cash resources and approximately \$80 million of borrowings under our revolving credit facility. No pro forma results are presented for the respective interim periods as the effect of these acquisitions was not material, individually or in the aggregate, to our condensed consolidated financial statements.

The changes in the carrying value of goodwill by segment for the six months ended March 29, 2009 were as follows:

| | September 28, 2008 | Goodwill Additions | Goodwill Adjustments | March 29, 2009 |
|---|-----------------------|-----------------------|-------------------------|-------------------|
| | (in thousands) | | | |
| Environmental consulting services | \$ 99,096 | \$ 70,303 | \$ 2,542 | \$ 171,941 |
| Technical support services | 53,552 | 3,704 | | 57,256 |
| Engineering and architecture services | 14,854 | | 100 | 14,954 |
| Remediation and construction management | 54,043 | | | 54,043 |
| Total | \$ 221,545 | \$ 74,007 | \$ 2,642 | \$ 298,194 |

The goodwill additions are attributable to the fiscal 2009 acquisitions described above. Substantially all of the goodwill additions are not deductible for income tax purposes. The goodwill adjustments reflect earn-out payments, agreed upon net asset adjustments, and the final purchase price allocations associated with prior acquisitions. The purchase price allocation related to the Wardrop acquisition is preliminary, and subject to adjustment based on the valuation and final determination of the net assets acquired.

Table of Contents

The gross amount and accumulated amortization of our acquired identifiable intangible assets with finite useful lives as of March 29, 2009 and September 28, 2008, included in Intangible assets - net on the condensed consolidated balance sheets, were as follows:

| | March 29, 2009 | | September 28, 2008 | |
|------------------------|----------------|--------------------------|--------------------|--------------------------|
| | Gross Amount | Accumulated Amortization | Gross Amount | Accumulated Amortization |
| | | | | |
| | | (in thousands) | | |
| Non-compete agreements | \$ 3,168 | \$ (641) | \$ 1,472 | \$ (368) |
| Customer relations | 17,137 | (1,867) | 5,746 | (897) |
| Backlog | 24,733 | (13,549) | 19,310 | (10,654) |
| Total | \$ 45,038 | \$ (16,057) | \$ 26,528 | \$ (11,919) |

For the six months ended March 29, 2009, \$1.7 million, \$11.4 million and \$5.4 million were assigned to non-compete agreements, customer relations and backlog, respectively, related to the acquisitions described above. For the three months ended March 29, 2009 and March 30, 2008, amortization expense for acquired identifiable intangible assets with finite useful lives was \$2.4 million and \$1.1 million, respectively. For the six months ended March 29, 2009 and March 30, 2008, amortization expense was \$4.1 million and \$2.5 million, respectively. Estimated amortization expense for the remainder of fiscal 2009 and the succeeding years is as follows:

| | Amount |
|------|----------------|
| | (in thousands) |
| 2009 | \$ 5,069 |
| 2010 | 8,406 |
| 2011 | 6,288 |
| 2012 | 3,415 |
| 2013 | 2,035 |
| 2014 | 1,644 |
| 2015 | 1,613 |
| 2016 | 511 |

4. Stockholders Equity and Stock Compensation Plans

We account for stock-based compensation in accordance with Statement of Financial Accounting Standards (SFAS) No. 123(R) (SFAS 123R), *Share-Based Payment (revised 2004)*. Under the fair value recognition provisions of this statement, stock-based compensation cost is measured at the grant date based on the value of the award granted, and recognized over the period in which the award vests. For the three and six months ended March 29, 2009, stock-based compensation expense was \$2.5 million and \$4.6 million, compared to \$2.2 million and \$3.9 million for the same periods last year, respectively. These amounts were primarily included in Selling, general and administrative (SG&A) expenses in our condensed consolidated statements of income. In the second quarter of fiscal 2009, we granted 49,000 stock options with exercise prices ranging from \$20.34 to \$22.40 per share and an estimated weighted-average fair value of \$9.32 per share. For the six months ended March 29, 2009, we granted 1,032,200 stock options with exercise prices ranging from \$16.98 to \$22.40 per share and an estimated weighted-average fair value of \$7.58 per share.

5. 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.

Table of Contents

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

| | Three Months Ended | | Six Months Ended | |
|--|---------------------------------------|-------------------|-------------------|-------------------|
| | March 29, 2009 | March 30, 2008 | March 29, 2009 | March 30, 2008 |
| | (in thousands, except per share data) | | | |
| Numerator: | | | | |
| Net income | \$ 19,214 | \$ 13,673 | \$ 35,522 | \$ 26,573 |
| Denominator for basic earnings per share: | | | | |
| Denominator for basic earnings per share | 60,014 | 58,601 | 59,832 | 58,412 |
| Denominator for diluted earnings per share: | | | | |
| Denominator for basic earnings per share | 60,014 | 58,601 | 59,832 | 58,412 |
| Potential common shares stock options | 757 | 483 | 648 | 667 |
| Denominator for diluted earnings per share | 60,771 | 59,084 | 60,480 | 59,079 |
| Earnings per share: | | | | |
| Basic | \$ 0.32 | \$ 0.23 | \$ 0.59 | \$ 0.45 |
| Diluted | \$ 0.32 | \$ 0.23 | \$ 0.59 | \$ 0.45 |

For the three and six months ended March 29, 2009, 2.4 million and 2.6 million common stock options were excluded from the calculation of dilutive potential common shares, compared to 3.5 million and 4.0 million options for the same periods last year. 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.

6. Income Taxes

In 2002, we filed amended tax returns for fiscal years 1997 through 2000 to claim research and experimentation credits (R&E Credits) and to claim refunds due under an approved tax accounting method change for revenue recognition. At the time the refund claims were filed, we were under examination by the Internal Revenue Service (IRS) for those years. The claimed refunds were held pending completion of the IRS examination. In the second quarter of fiscal 2009, we received notification from the IRS that our appeals settlement was approved for fiscal years 1997 through 2001. In the third quarter of fiscal 2009, we received the cash refund of \$39.8 million from the IRS settlement, which included interest. The amount of the settlement exceeded the amount of the receivable previously recognized in our financial statements. We have recorded a benefit of \$3.3 million in income tax expense in the second quarter of fiscal 2009 to reflect the settlement adjustment and an adjustment to certain unrecognized tax benefits (including related interest) for the fiscal years subsequent to the settlement. These adjustments reduced our effective tax rate from 41.1% for the first quarter of fiscal 2009 to 28.8% and to 35.0% for the three and six months ended March 29, 2009, respectively.

As a result of the settlement described above, we adjusted certain unrecognized tax benefits and reclassified various balance sheet amounts to reflect our tax position as of March 29, 2009. The total adjustment to unrecognized tax benefits was a net decrease of \$27.7 million, resulting in a balance of \$11.2 million as of March 29, 2009. Included in this balance were approximately \$5 million of tax benefits that, if recognized, would affect our income tax provisions. Our current deferred income tax liability of \$17.7 million as of March 29, 2009 increased from September 28, 2008 primarily because of the recognition of previously unrecognized tax benefits related to our tax accounting method for revenue recognition. The current tax receivable of \$46.5 million as of March 29, 2009 includes the \$39.8 million receivable from the IRS associated with the settled years.

We remain in the appeals process with the IRS for fiscal years 2002 through 2004 related to R&E Credits and our tax accounting method for revenue recognition. We are also under examination by the California Franchise Tax Board (FTB) for fiscal years 2001 through 2003 related to R&E Credits. Management believes that it is reasonably possible we will reach a resolution of these audits within the next 12 months. If the resolution is more favorable than expected, the change in unrecognized tax benefits could be significant. However, if the resolution is less favorable than expected, there may be a material increase in our income tax expense in the period in which the determination is made.

Table of Contents

We have initiated and are conducting studies for the tax years subsequent to fiscal 2004 to determine if we are entitled to claim federal and state R&E Credits for those years. We expect to substantially complete the studies in the second half of fiscal 2009 and will consider filing amended tax returns to claim any credits. Due to the complexities of the R&E studies, we do not yet have sufficient information to reasonably estimate the income tax benefit of any unclaimed R&E Credits for tax years subsequent to fiscal 2004.

7. Reportable Segments

In the first quarter of fiscal 2009, we began reporting under four new reportable segments with reclassification of the prior year segment results to conform to the new basis of presentation. Each of the new reportable segments is comprised of similar activities that focus on the services it provides, the markets it serves, the distribution method of its services, its contracting mechanisms, the organization and execution of its projects, the education and discipline of its workforce, and the metrics by which its client projects and staff are measured. In addition, each of our operating groups, which are also our reportable segments, is managed by its own president, who has responsibility for the segment's business units. Each president directly reports to our Chief Executive Officer, who is our chief operating decision maker (CODM). The CODM regularly reviews the four reportable segments, allocates resources to these segments and assesses each segment's performance. The reportable segments are as follows:

Environmental Consulting Services (ECS). ECS provides front-end science and consulting services and project management skills in the areas of water resources, groundwater services, watershed management, mining and geotechnical sciences, environmental management, and information technology and modeling consulting.

Technical Support Services (TSS). TSS advises clients, studies, designs and implements projects, and conducts research in the areas of remedial and developmental planning, regulatory consulting, climate change and carbon management services, disaster management, systems test and support services, and program management for complex federal government and international development projects.

Engineering and Architecture Services (EAS). EAS provides engineering, architecture, interior and exterior design, Leadership in Energy and Environmental Design (LEED), and program administration services for projects that include water and wastewater conveyance and treatment, building construction, land development and transportation services.

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 focused on federal construction, environmental remediation including unexploded ordnance (UXO) and wetland restoration, and energy projects including wind, nuclear engineering and other alternative energies, and communications development and construction.

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Management evaluates the performance of these reportable segments based upon their respective income from operations 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 inter-company balances and transactions are eliminated in consolidation.

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Table of Contents

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

Reportable Segments:

| | ECS | TSS | EAS (in thousands) | RCM | Total |
|---|------------|------------|-----------------------|------------|--------------|
| Three months ended March 29, 2009: | | | | | |
| Revenue | \$ 142,288 | \$ 127,178 | \$ 79,756 | \$ 196,550 | \$ 545,772 |
| Revenue, net of subcontractor costs | 106,117 | 78,549 | 62,149 | 85,399 | 332,214 |
| Gross profit | 18,336 | 16,193 | 12,892 | 18,900 | 66,321 |
| Segment income from operations | 9,337 | 10,025 | 3,994 | 8,467 | 31,823 |
| Depreciation expense | 1,008 | 178 | 551 | 1,955 | 3,692 |
| Three months ended March 30, 2008: | | | | | |
| Revenue | \$ 114,425 | \$ 99,288 | \$ 79,693 | \$ 190,028 | \$ 483,434 |
| Revenue, net of subcontractor costs | 82,827 | 66,600 | 65,637 | 72,287 | 287,351 |
| Gross profit | 14,798 | 12,605 | 12,928 | 17,437 | 57,768 |
| Segment income from operations | 7,991 | 7,181 | 5,658 | 6,391 | 27,221 |
| Depreciation expense | 598 | 234 | 552 | 1,084 | 2,468 |
| Six months ended March 29, 2009: | | | | | |
| Revenue | \$ 271,544 | \$ 253,055 | \$ 164,412 | \$ 513,765 | \$ 1,202,776 |
| Revenue, net of subcontractor costs | 193,867 | 155,039 | 126,444 | 186,890 | 662,240 |
| Gross profit | 33,955 | 31,123 | 25,758 | 39,826 | 130,662 |
| Segment income from operations | 18,064 | 18,731 | 8,295 | 17,981 | 63,071 |
| Depreciation expense | 1,668 | 353 | 1,101 | 3,802 | 6,924 |
| Six months ended March 30, 2008: | | | | | |
| Revenue | \$ 224,632 | \$ 199,104 | \$ 154,451 | \$ 389,641 | \$ 967,828 |
| Revenue, net of subcontractor costs | 159,098 | 130,470 | 127,609 | 147,335 | 564,512 |
| Gross profit | 29,633 | 24,015 | 25,366 | 35,003 | 114,017 |
| Segment income from operations | 16,167 | 13,659 | 9,868 | 12,585 | 52,279 |
| Depreciation expense | 1,084 | 480 | 1,075 | 2,372 | 5,011 |

Total assets by segment were as follows:

| | March 29, 2009 | September 28, 2008 (in thousands) |
|--------------|-------------------|--------------------------------------|
| ECS | \$ 422,831 | \$ 314,331 |
| TSS | 221,010 | 205,981 |
| EAS | 95,580 | 92,886 |
| RCM | 344,644 | 368,452 |
| Total assets | \$ 1,084,065 | \$ 981,650 |

Table of Contents

Reconciliations:

| | Three Months Ended | | Six Months Ended | |
|---|--------------------|-------------------|-------------------|-------------------|
| | March 29, 2009 | March 30, 2008 | March 29, 2009 | March 30, 2008 |
| (in thousands) | | | | |
| Revenue | | | | |
| Revenue from reportable segments | \$ 545,772 | \$ 483,434 | \$ 1,202,776 | \$ 967,828 |
| Elimination of inter-segment revenue | (23,467) | (22,048) | (41,788) | (36,055) |
| Total consolidated revenue | \$ 522,305 | \$ 461,386 | \$ 1,160,988 | \$ 931,773 |
| Income from operations | | | | |
| Segment income from operations | \$ 31,823 | \$ 27,221 | \$ 63,071 | \$ 52,279 |
| Other expense (1) | (1,578) | (1,268) | (2,491) | (2,263) |
| Amortization of intangibles | (2,415) | (1,124) | (4,134) | (2,476) |
| Total consolidated income from operations | \$ 27,830 | \$ 24,829 | \$ 56,446 | \$ 47,540 |

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

| | March 29, 2009 | September 28, 2008 |
|---|-------------------|-----------------------|
| (in thousands) | | |
| Assets | | |
| Total assets of reportable segments | \$ 1,084,065 | \$ 981,650 |
| Other assets not allocated to segments and eliminations | 23,890 | 72,477 |
| Total assets from discontinued operations | 1,415 | 2,418 |
| Total assets | \$ 1,109,370 | \$ 1,056,545 |

Major Clients:

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

The following table presents revenue by client sector:

| Client Sector | Three Months Ended | | Six Months Ended | |
|--------------------|--------------------|-------------------|-------------------|-------------------|
| | March 29, 2009 | March 30, 2008 | March 29, 2009 | March 30, 2008 |
| (in thousands) | | | | |
| Federal government | \$ 271,265 | \$ 252,908 | \$ 555,592 | \$ 517,112 |

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| | | | | |
|----------------------------|------------|------------|--------------|------------|
| State and local government | 66,831 | 66,800 | 137,892 | 149,368 |
| Commercial | 157,644 | 138,109 | 433,706 | 259,740 |
| International (1) | 26,565 | 3,569 | 33,798 | 5,553 |
| Total | \$ 522,305 | \$ 461,386 | \$ 1,160,988 | \$ 931,773 |

(1) Includes revenue generated from our international clients. Revenue related to projects performed in foreign countries for U.S. government and U.S. commercial clients was reported as part of our federal government and commercial client sectors, respectively.

Table of Contents**8. Pension Plan**

In connection with the Wardrop acquisition, we assumed the assets and obligations under Wardrop's defined benefit pension plan, which primarily covers a group of active and inactive employees and a limited number of retirees. No new employees are eligible to participate in this plan. Pursuant to the Wardrop purchase agreement, Wardrop agreed to terminate this plan by the end of fiscal 2009. Further, an escrow account was established under the purchase agreement to fully fund the defined benefit pension settlement liability and all post-closing expenses. We assumed the initial net liability of approximately \$5.7 million (net of plan assets of approximately \$11.3 million) as of the acquisition date. In the second quarter of fiscal 2009, Wardrop purchased insurance annuities for existing pensioners and inactive employees, and settled the obligations with these participants for approximately \$12.4 million. This amount was paid with plan assets and a portion of funds in the purchase agreement escrow account. The remaining liability for active employees is estimated to be approximately \$4.5 million, which is reported as part of the Other current liabilities on our condensed consolidated balance sheet as of March 29, 2009. There is a corresponding asset related to the escrow account that is reported as part of Prepaid expenses and other current assets on our condensed consolidated balance sheet as of March 29, 2009. The net periodic benefit expense for the second quarter of fiscal 2009 was immaterial.

9. Comprehensive Income

Comprehensive income is comprised of net income and other comprehensive income, which includes translation gains and losses from foreign subsidiaries with functional currencies different than our reporting currency. The following summarizes our comprehensive income:

| | Three Months Ended | | Six Months Ended | |
|-----------------------------------|--------------------|-------------------|-------------------|-------------------|
| | March 29, 2009 | March 30, 2008 | March 29, 2009 | March 30, 2008 |
| | (in thousands) | | | |
| Net income | \$ 19,214 | \$ 13,673 | \$ 35,522 | \$ 26,573 |
| Other comprehensive income (loss) | 293 | (54) | 242 | (27) |
| Total comprehensive income | \$ 19,507 | \$ 13,619 | \$ 35,764 | \$ 26,546 |

10. 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 on our financial position, results of operations or cash flows, management acknowledges the uncertainty surrounding the ultimate resolution of these matters.

In May 2003, Innovative Technologies Corporation (ITC) filed a lawsuit in Montgomery County, Ohio against Advanced Management Technology, Inc. (AMT) and other defendants for misappropriation of trade secrets, among other claims. In June 2004, we purchased all the outstanding shares of AMT. As part of the purchase agreement, the former owners of AMT agreed to indemnify us for all costs and damages related to this lawsuit. In December 2007, the case went to trial and the jury awarded \$5.8 million in compensatory damages against AMT. In

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In addition, the jury awarded \$17 million in punitive damages against AMT plus reasonable attorneys fees. The court required AMT to post a \$1 million bond which has been done. 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. The trial court has not yet ruled on ITC's motion. We expect that appeals will follow the court's ruling. We believe that a reasonably possible range of exposure, including our attorneys fees, is from \$0 to approximately \$14.5 million. As of March 29, 2009, 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.

Table of Contents

In the fourth quarter of 2008, a domestic real estate investment trust (the REIT) that owns and rents apartments filed suit against us and a former employee in the United States District Court for the Eastern District of Virginia. The suit alleged that employees at one of our operating divisions in Colorado participated in a scheme to defraud the REIT in connection with contracts for environmental clean-up work between us and the REIT. On March 30, 2009, the parties definitively settled their dispute and agreed that their claims against each other will be dismissed. The impact to our results of operations for the three months ended March 29, 2009 was not material.

11. Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standard Board (FASB) issued SFAS No. 157, *Fair Value Measurements* (SFAS 157), which defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. This statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. In February 2008, FASB issued FASB Staff Position (FSP) No. FAS 157-2, *Effective Dates of FASB Statement No. 157*, which deferred the effective date of SFAS 157 for all nonrecurring fair value measurements of nonfinancial assets and liabilities until fiscal years beginning after November 15, 2008. In October 2008, the FASB also issued FSP No. FAS 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active*, which clarifies the application of SFAS 157 in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market of that financial asset is not active. The FSP observes that revisions resulting from a change in valuation technique or its application should be accounted for as a change in accounting estimate, and any effects on fair-value measurement would be recognized in the period of adoption. Our adoption of SFAS 157 on September 29, 2008 was limited to financial assets and liabilities and had no impact on our condensed consolidated financial statements in the first half of fiscal 2009. We are currently evaluating the anticipated effect of this statement on the non-financial assets and non-financial liabilities in our consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities – Including an Amendment of FASB Statement No. 115* (SFAS 159). SFAS 159 provides companies with an option to measure, at specified election dates, many financial instruments and certain other items at fair value that are not currently measured at fair value. A company that adopts SFAS 159 will report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. SFAS 159 also establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. SFAS 159 became effective for us as of the beginning of our fiscal year 2009. We did not elect the fair value option for any financial assets or liabilities during the first quarter of fiscal 2009.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations* (SFAS 141R). SFAS 141R establishes the principles and requirements for how an acquirer (i) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree; (ii) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and (iii) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS 141R makes significant changes to existing accounting practices for acquisitions, including the requirement to expense transaction costs and to reflect the fair value of contingent purchase price adjustments at the date of acquisition. In April 2009, the FASB issued SFAS No. 141R-1, *Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies*, (SFAS 141R-1). SFAS 141R-1 amends and clarifies SFAS 141R, to require that an acquirer recognizes at fair value, at the acquisition date, an asset acquired or a liability assumed in a business combination that arises from a contingency if the acquisition-date fair value of that asset or liability can be determined during the measurement period. If the acquisition-date fair value of such an asset acquired or liability assumed cannot be determined, the acquirer should apply the provisions of SFAS No. 5, *Accounting for Contingencies*, to determine whether the contingency should be recognized at the acquisition date or after it. SFAS 141R and SFAS 141R-1 is effective for assets or liabilities arising from contingencies in business combinations for which the acquisition date is after the beginning of the first annual reporting period beginning after December 15, 2008. We will implement the new standard effective in fiscal 2010. For any acquisitions completed after our fiscal 2009, we expect SFAS 141R-1 will have an impact on our consolidated financial statements; however, the nature and magnitude of the specific effects will depend upon the nature, terms and size of the acquisitions we consummate.

Table of Contents

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements – an Amendment of ARB No. 51* (SFAS 160). SFAS 160 establishes accounting and reporting standards that require (i) noncontrolling interests to be reported as a component of equity; (ii) changes in a parent's ownership interest while the parent retains its controlling interest to be accounted for as equity transactions; and (iii) any retained noncontrolling equity investment upon the deconsolidation of a subsidiary to be initially measured at fair value. We do not currently have any less than wholly-owned consolidated subsidiaries. SFAS 160 is to be applied prospectively at the beginning of the first annual reporting period on or after December 15, 2008. We will implement the new standard effective in fiscal 2010. We do not believe that the adoption of SFAS 160 will have a material effect on our consolidated financial statements.

In December 2007, Emerging Issues Task Force (EITF) 07-01, *Accounting for Collaborative Arrangements* (EITF 07-01), was issued to prescribe the accounting for collaborations. It requires certain transactions between collaborators to be recorded in the income statement on either a gross or net basis when certain characteristics exist in the collaboration relationship. EITF 07-01 is effective in fiscal 2010 for all of our collaborations. We do not believe that the adoption of EITF 07-01 will have a material effect on our consolidated financial statements.

In April 2008, the FASB issued FSP No. 142-3, *Determination of the Useful Life of Intangible Assets* (FSP 142-3). FSP 142-3 revises the factors that should be considered in developing renewal or extension assumptions determining the useful life of a recognized intangible asset under SFAS No. 142, *Goodwill and Other Intangible Assets*. FSP 142-3 will be effective for fiscal years beginning after December 15, 2008. We will implement the new standard effective in fiscal 2010. We are currently assessing the effect of FSP 142-3 on our consolidated financial statements.

In June 2008, the FASB issued FSP No. EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities* (FSP EITF 03-6-1). FSP EITF 03-6-1 states that unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and must be included in the computation of earnings per share pursuant to the two-class method. FSP EITF 03-6-1, which is applied retrospectively, is effective for us in fiscal 2010. We are currently assessing the effect of FSP EITF 03-6-1 on our consolidated financial statements.

Table of Contents

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

FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q, including 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. 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 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, as well as under the heading 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 any forward-looking statements for any reason.

OVERVIEW

We are a leading provider of consulting, engineering, program management, construction and technical services focusing on resource management, infrastructure and the environment. We serve our clients by providing cost-effective and innovative solutions to fundamental needs for water, environmental and energy services. 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.

Since our initial public offering in December 1991, we have increased the size and scope of our business, expanded our service offerings, and diversified our client base and the markets we serve through internal growth and strategic acquisitions. Today we are a full-service company with a global reach in the areas of water programs, environmental management and remediation, energy and supporting infrastructure. We continue to focus on organic and acquisitive growth to expand our geographic reach and increase the breadth and depth of our service offerings to address existing and emerging markets. As of March 2009, we had approximately 10,000 employees worldwide, located primarily in North America.

We derive revenue 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 services to a diverse base of federal and state and local government agencies, as well as commercial and international clients. The following table presents the approximate percentage of our revenue, net of subcontractor costs, by client sector:

Table of Contents

| Client Sector | Three Months Ended | | Six Months Ended | |
|----------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| | March 29, 2009 | March 30, 2008 | March 29, 2009 | March 30, 2008 |
| Federal government | 47.5% | 46.6% | 45.2% | 46.2% |
| State and local government | 14.8 | 16.2 | 15.0 | 18.2 |
| Commercial | 30.1 | 36.1 | 35.1 | 34.8 |
| International (1) | 7.6 | 1.1 | 4.7 | 0.8 |
| | 100.0% | 100.0% | 100.0% | 100.0% |

(1) Includes revenue generated from our international clients. Revenue related to projects performed in foreign countries for U.S. government and U.S. commercial clients was reported as part of our federal government and commercial client sectors, respectively.

In the first quarter of fiscal 2009, we began reporting under four new reportable segments with reclassification of the prior year segment results to conform to the new basis of presentation. Each of the new reportable segments is comprised of similar activities that focus on the services it provides, the markets it serves, the distribution method of its services, its contracting mechanisms, the organization and execution of its projects, the education and discipline of its workforce, and the metrics by which its client projects and staff are measured. In addition, each of our operating groups, which are also our reportable segments, is managed by its own president, who has responsibility for the segment's business units. Each president directly reports to our Chief Executive Officer, who is our CODM. The CODM regularly reviews the four reportable segments, allocates resources to these segments and assesses each segment's performance. The reportable segments are as follows:

Environmental Consulting Services. ECS provides front-end science and consulting services and project management skills in the areas of water resources, groundwater services, watershed management, mining and geotechnical sciences, environmental management, and information technology and modeling consulting.

Technical Support Services. TSS advises clients, studies, designs and implements projects, and conducts research in the areas of remedial and developmental planning, regulatory consulting, climate change and carbon management services, disaster management, systems test and support services, and program management for complex federal government and international development projects.

Engineering and Architecture Services. EAS provides engineering, architecture, interior and exterior design, LEED, and program administration services for projects that include water and wastewater conveyance and treatment, building construction, land development and transportation services.

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

construction.

The following table represents the approximate percentage of our revenue, net of subcontractor costs, by reportable segment:

| Reportable Segment | Three Months Ended | | Six Months Ended | |
|--------------------|--------------------|-------------------|-------------------|-------------------|
| | March 29, 2009 | March 30, 2008 | March 29, 2009 | March 30, 2008 |
| ECS | 31.9% | 28.8% | 29.3% | 28.2% |
| TSS | 23.7 | 23.2 | 23.4 | 23.1 |
| EAS | 18.7 | 22.8 | 19.1 | 22.6 |
| RCM | 25.7 | 25.2 | 28.2 | 26.1 |
| | 100.0% | 100.0% | 100.0% | 100.0% |

Table of Contents

Our services are provided under three principal types of contracts: fixed-price, time-and-materials and cost-plus. The following table presents the approximate percentage of our revenue, net of subcontractor costs, by contract type:

| Contract Type | Three Months Ended | | Six Months Ended | |
|--------------------|--------------------|-------------------|-------------------|-------------------|
| | March 29, 2009 | March 30, 2008 | March 29, 2009 | March 30, 2008 |
| Fixed-price | 34.4% | 33.8% | 36.4% | 35.3% |
| Time-and-materials | 42.4 | 43.5 | 41.9 | 42.6 |
| Cost-plus | 23.2 | 22.7 | 21.7 | 22.1 |
| | 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 that contract costs incurred bear to total estimated 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.

In the course of providing our services, we routinely subcontract services and, under certain USAID programs, issue grants. Generally, these subcontractor costs and grants are passed through to our clients and, in accordance with industry practice and GAAP, are included in revenue when it is our responsibility to procure and manage these activities under a contract. The grants are reported as part of our Subcontractor costs on our condensed consolidated statements of income. Because subcontractor services can change significantly from project to project and from period to period, changes in revenue may not be indicative of our business trends. Accordingly, we also report revenue less the cost of subcontractor services, and our discussion and analysis of financial condition and results of operations uses revenue, net of subcontractor costs, as a point of reference.

For analytical purposes only, we categorize our revenue into two types: acquisitive and organic. Acquisitive revenue consists of revenue derived from newly acquired companies that are reported individually as separate operating units during the first 12 months following their respective acquisition dates. Organic revenue consists of our total revenue less any acquisitive revenue.

Our 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. In addition, we include the non-contract related portion of stock-based compensation, depreciation of property and equipment, and the full amount of amortization of identifiable intangible assets, in SG&A expenses. Most of these costs are unrelated to a specific client or project and can vary as expenses are incurred to support corporate activities and initiatives.

Our revenue, expenses and operating results may fluctuate significantly from quarter to quarter as a result of numerous factors, including:

- 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;
- Seasonality of the spending cycle of our public sector clients, notably the U.S. government, the spending patterns of our commercial sector clients, and weather conditions;
- Budget constraints experienced by our federal, state and local government clients;
- Acquisitions or integration of acquired companies;
- Divestiture or discontinuance of operating units;

Table of Contents

- Employee hiring, utilization and turnover rates;
- 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;
- Contract negotiations on change orders and collections of related accounts receivable;
- The timing of expenses incurred for corporate initiatives;
- Reductions in the prices of services offered by our competitors;
- Threatened or pending litigation;
- The impairment of our goodwill or identifiable intangible assets; and
- Changes in accounting rules.

We experience seasonal trends in our business. Our revenue is typically lower in the first half of the 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 result in higher billable hours. In addition, our revenue is typically higher in the fourth fiscal quarter due to the federal government's fiscal year-end spending.

BUSINESS TREND ANALYSIS

General. Overall, we continued to deliver strong financial results in the second quarter of fiscal 2009, which reflected improvement compared to the same quarter last year. Our performance was driven by our continuing focus on long-term value creation through the execution of our growth strategy. We invested in business development activities to grow our business organically and made strategic acquisitions to enhance our service offerings and further expand our geographical presence. In addition, we continued to implement and enforce project management policies and programs that focus on contract execution and risk management controls. We also focused on cost control and the strategic management of our portfolio of businesses.

Due to the general weakness in the economy, we anticipate that our revenue will grow moderately in fiscal 2009. In addition, we expect that the federal government's stimulus plan contained in the recently enacted American Recovery and Reinvestment Act of 2009 (ARRA), which is intended to create jobs, jump-start the economy and loosen the credit markets, will provide us with additional business opportunities. However, because the timing and magnitude of any potential benefit to our business from the ARRA are uncertain, contributions from the ARRA have not been factored into our outlook or guidance. Furthermore, we expect a continuing period of considerable weakness in the economy even if government stimulus efforts succeed. As such, we recognize that the current economic forces that have severely impacted both the domestic and international economies could affect our future work for the U.S. federal government, state and local government, commercial and international businesses, which constituted approximately 52%, 13%, 30% and 5% of our revenue in the second quarter of fiscal 2009, respectively.

Table of Contents

Federal Government. In the second quarter of fiscal 2009, our federal government business grew compared to the same quarter last year. This growth was driven primarily by USAID, the U.S. Department of Energy (DOE), and domestic U.S. Department of Defense (DoD) projects. However, the wind-down of our Iraq-related projects for the DoD largely offset this growth. During periods of economic volatility, our federal government business has historically been the most stable and predictable. Due to the DoD s current funding practices on projects in Iraq and the changing geopolitical landscape in Iraq and the United States, our revenue from federal government projects is anticipated to be flat in fiscal 2009. We have also experienced some delays in existing and near-term projects due to the diversion of attention to ARRA project planning efforts at some federal contracting offices.

State and Local Government. In the second quarter of fiscal 2009, our state and local government business was flat compared to the same quarter last year. This flatness resulted primarily from the economic conditions described below, offset by increased activity on water and environmental projects in several states. Many state and local government agencies are continuing to face challenging economic conditions, including budget deficits, declining tax revenues and difficult cost-cutting decisions. Simultaneously, states are facing major long-term infrastructure needs, including the 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 the regulatory requirements driving some of these programs, such as regulatory-mandated consent decrees, as well as demographic shifts and increasing demand for water and wastewater services. As a result, some programs will generally progress despite budget pressures, and we anticipate that infrastructure projects, especially those focused on the need for demand-driven water resource requirements, will be initiated and funded in fiscal 2009. However, due to the economic weakness across most states, we expect that our state and local government revenue will decline moderately in fiscal 2009. We will remain vigilant in monitoring and evaluating state and local government budgets, and will continue to assess any potential impact on our state and local government business, including the potential uncertainty of our clients ability to sell their infrastructure bonds and/or fund their ongoing operating requirements.

Commercial. In the second quarter of fiscal 2009, our commercial business experienced strong growth compared to the same quarter last year. This growth was driven by increased demand for our wind and other alternative energy services, as well as water programs. To a lesser extent, our growth was attributable to environmental engineering and development projects. We anticipate that our commercial business will experience strong growth in fiscal 2009 compared to fiscal 2008 due to our backlog for wind and other alternative energy services, as well as water programs. We also anticipate some growth in the transmission requirements for renewable energy sources. However, we may experience lower revenue than anticipated if planned alternative energy projects are delayed or cancelled due to declining energy prices or other reasons. Additionally, due to the current economic conditions, we will most likely experience project delays and reduced workload related to our real estate development and mining and industrial sectors during the remainder of fiscal 2009.

International. In the second quarter of fiscal 2009, we expanded our international presence through the acquisition of Wardrop, which specializes in resource management, energy and infrastructure design for commercial clients throughout Canada and elsewhere worldwide. As a result of this acquisition, we anticipate that our international business will experience significant growth in fiscal 2009 compared to fiscal 2008. However, as with the U.S. commercial business, global economic weakness could result in lower revenue than anticipated if planned mining or

energy projects are delayed or cancelled due to declining commodity or energy prices.

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 both privately held companies and subsidiaries of publicly held 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

Table of Contents

intend to use both cash and 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. Because we typically acquire service businesses with limited tangible assets, our acquisitions generally result in recognition of goodwill and other identifiable intangible assets.

In the second quarter of fiscal 2009, we acquired Wardrop, a Canadian firm that specializes in resource management, energy and infrastructure design and is included in our ECS segment. This acquisition significantly expands our worldwide presence, adding 13 offices throughout Canada and offices in the United Kingdom and India. During the first half of fiscal 2009, we made other acquisitions in the TSS segment that expand our service offerings to USAID, and in the ECS segment that broaden our energy services to the federal government and commercial clients.

RESULTS OF OPERATIONS

Overall, our results for the second quarter of fiscal 2009 improved compared to the same quarter last year due to our focus on organic growth and the strategic pursuit of acquisitions that enhance our service offerings and expand our geographical presence. Our business continued to experience revenue growth organically and from acquisitions. The organic growth was driven primarily by demand in our commercial business for wind energy and water programs. Our federal government business also grew due primarily to increased activity on BRAC and USAID contracts, largely offset by the wind-down and completion of reconstruction and UXO projects in Iraq.

Consolidated Results

| | March 29, 2009 | Three Months Ended March 30, 2008 | Change \$ | % | March 29, 2009 | Six Months Ended March 30, 2008 | Change \$ | % |
|--|-------------------|---|--------------|--------|-------------------|---------------------------------------|--------------|--------|
| | (\$ in thousands) | | | | | | | |
| Revenue | \$ 522,305 | \$ 461,386 | \$ 60,919 | 13.2% | \$ 1,160,988 | \$ 931,773 | \$ 229,215 | 24.6% |
| Subcontractor costs | (190,091) | (174,035) | (16,056) | (9.2) | (498,748) | (367,261) | (131,487) | (35.8) |
| Revenue, net of subcontractor costs | 332,214 | 287,351 | 44,863 | 15.6 | 662,240 | 564,512 | 97,728 | 17.3 |
| Other contract costs | (265,893) | (229,583) | (36,310) | (15.8) | (531,578) | (450,495) | (81,083) | (18.0) |
| Gross profit | 66,321 | 57,768 | 8,553 | 14.8 | 130,662 | 114,017 | 16,645 | 14.6 |
| Selling, general and administrative expenses | (38,491) | (32,939) | (5,552) | (16.9) | (74,216) | (66,477) | (7,739) | (11.6) |
| Income from operations | 27,830 | 24,829 | 3,001 | 12.1 | 56,446 | 47,540 | 8,906 | 18.7 |
| Interest expense net | (852) | (1,456) | 604 | 41.5 | (1,768) | (2,116) | 348 | 16.4 |
| Income before income tax expense | 26,978 | 23,373 | 3,605 | 15.4 | 54,678 | 45,424 | 9,254 | 20.4 |
| Income tax expense | (7,764) | (9,700) | 1,936 | 20.0 | (19,156) | (18,851) | (305) | (1.6) |
| Net income | \$ 19,214 | \$ 13,673 | \$ 5,541 | 40.5% | \$ 35,522 | \$ 26,573 | \$ 8,949 | 33.7% |

Table of Contents

The following table presents the percentage relationship of certain items to revenue, net of subcontractor costs:

| | Three Months Ended | | Six Months Ended | |
|--|--------------------|-------------------|-------------------|-------------------|
| | March 29, 2009 | March 30, 2008 | March 29, 2009 | March 30, 2008 |
| Revenue, net of subcontractor costs | 100.0% | 100.0% | 100.0% | 100.0% |
| Other contract costs | (80.0) | (79.9) | (80.3) | (79.8) |
| Gross profit | 20.0 | 20.1 | 19.7 | 20.2 |
| Selling, general and administrative expenses | (11.6) | (11.5) | (11.2) | (11.8) |
| Income from operations | 8.4 | 8.6 | 8.5 | 8.4 |
| Interest expense net | (0.3) | (0.5) | (0.2) | (0.4) |
| Income before income tax expense | 8.1 | 8.1 | 8.3 | 8.0 |
| Income tax expense | (2.3) | (3.3) | (2.9) | (3.3) |
| Net income | 5.8% | 4.8% | 5.4% | 4.7% |

For the three and six months ended March 29, 2009, revenue increased \$60.9 million, or 13.2%, and \$229.2 million, or 24.6%, compared to the same periods last year, respectively. For both periods, we experienced revenue growth in our commercial business due primarily to demand for our wind energy and water programs, our international business resulting from our Wardrop acquisition, and our federal government business driven primarily by increased activity on BRAC and USAID programs, largely offset by the wind-down and completion of Iraq-related projects. For the six-month period, the growth was partially offset by revenue declines from our state and local government clients due to budget and spending constraints as well as the completion of several large contracts.

For the three and six months ended March 29, 2009, revenue, net of subcontractor costs, increased \$44.9 million, or 15.6%, and \$97.7 million, or 17.3%, compared to the same periods last year, respectively, for the reasons described above. The growth rates deviated from our revenue growth due to contract mix as subcontractor services can change significantly from project to project and from period to period. More specifically, the level of our subcontracting activities declined for the three-month period due to the wind-down and completion of Iraq-related contracts, which were subcontracted in large part to local Iraqis. Overall, our subcontracting activities remain high due to wind energy and BRAC programs. Further, our program management activities on federal government contracts typically result in higher levels of subcontracting activities that are partially driven by government-mandated small business set-aside requirements.

For the three and six months ended March 29, 2009, other contract costs increased \$36.3 million, or 15.8%, and \$81.1 million, or 18.0%, compared to the same periods last year, respectively. The cost increase tracked our increase in revenue, net of subcontractor costs. For the three and six months ended March 29, 2009, as a percentage of revenue, net of subcontractor costs, other contract costs were 80.0% and 80.3%, compared to 79.9% and 79.8% for the same periods last year, respectively. The slight percentage increase resulted from increased costs related to regulatory and project delays, subcontractor issues and project start-up costs. In addition, we recorded provisions for losses on accounts receivable in certain commercial markets due to the continuing economic slowdown.

For the three and six months ended March 29, 2009, gross profit increased \$8.6 million, or 14.8%, and \$16.6 million, or 14.6%, compared to the same periods last year, respectively, for the reasons described above. For the three and six months ended March 29, 2009, as a percentage of revenue, net of subcontractor costs, gross profit was 20.0% and 19.7%, compared to 20.1% and 20.2% for the same periods last year, respectively. The percentage decrease resulted from the cost increases noted above, partially mitigated by favorable claim settlements and higher profit margins on certain wind energy, water, telecommunication and international development projects.

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For the three and six months ended March 29, 2009, SG&A expenses increased \$5.6 million, or 16.9%, and \$7.7 million, or 11.6%, compared to the same periods last year, respectively. The increase resulted from our business growth, including the additional amortization expense of intangible assets related to our recent acquisitions and higher business development activities. For the three and six months ended March 29, 2009, as a percentage of revenue, net of subcontractor costs, SG&A expenses were 11.6% and 11.2%, compared to 11.5% and 11.8% for the same periods last year, respectively.

Table of Contents

For the three and six months ended March 29, 2009, net interest expense decreased \$0.6 million, or 41.5%, and \$0.3 million, or 16.4%, compared to the same periods last year, respectively. The decrease resulted from lower interest expense on our borrowings due to lower interest rates, partially offset by lower interest income from short-term cash investments also due to lower interest rates.

For the three and six months ended March 29, 2009, income tax expense decreased \$1.9 million, or 20.0%, and increased \$0.3 million, or 1.6%, compared to the same periods last year, respectively. Our effective tax rates were 35.0% and 41.5% for the first half of fiscal years 2009 and 2008, respectively. The lower effective tax rate resulted from a tax settlement with the IRS related to R&E Credits and an approved tax accounting method change for revenue recognition.

Additional Information by Reportable Segment

Environmental Consulting Services

| | March 29, 2009 | Three Months Ended March 30, 2008 | Change \$ | % | March 29, 2009 | Six Months Ended March 30, 2008 | Change \$ | % |
|-------------------------------------|-------------------|---|--------------|--------|-------------------|---------------------------------------|--------------|--------|
| | (\$ in thousands) | | | | | | | |
| Revenue, net of subcontractor costs | \$ 106,117 | \$ 82,827 | \$ 23,290 | 28.1% | \$ 193,867 | \$ 159,098 | \$ 34,769 | 21.9% |
| Other contract costs | (87,781) | (68,029) | (19,752) | (29.0) | (159,912) | (129,465) | (30,447) | (23.5) |
| Gross profit | \$ 18,336 | \$ 14,798 | \$ 3,538 | 23.9% | \$ 33,955 | \$ 29,633 | \$ 4,322 | 14.6% |

The following table presents the percentage relationship of certain items to revenue, net of subcontractor costs:

| | Three Months Ended | | Six Months Ended | |
|-------------------------------------|--------------------|-------------------|-------------------|-------------------|
| | March 29, 2009 | March 30, 2008 | March 29, 2009 | March 30, 2008 |
| Revenue, net of subcontractor costs | 100.0% | 100.0% | 100.0% | 100.0% |
| Other contract costs | (82.7) | (82.1) | (82.5) | (81.4) |
| Gross profit | 17.3% | 17.9% | 17.5% | 18.6% |

For the three and six months ended March 29, 2009, revenue, net of subcontractor costs, increased \$23.3 million, or 28.1%, and \$34.8 million, or 21.9%, compared to the same periods last year, respectively. For both periods, the growth was primarily driven by our strategic acquisitions, particularly the international business associated with the Wardrop acquisition. For the three-month period, this segment also experienced organic growth in the federal and state and local government businesses, offset by a decline in the commercial business. For the six-month period, the organic growth was driven by increased funding on state and local projects and increased project execution on several large environmental engineering and development projects for our commercial clients. This growth was partially offset by a revenue decline in the federal government business due to the completion of a few large contracts.

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For the three and six months ended March 29, 2009, other contract costs increased \$19.8 million, or 29.0%, and \$30.4 million, or 23.5%, compared to the same periods last year, respectively. The cost increase substantially corresponded to the increase in revenue, net of subcontractor costs. For the three and six months ended March 29, 2009, as a percentage of revenue, net of subcontractor costs, other contract costs were 82.7% and 82.5% compared to 82.1% and 81.4% for the same periods last year, respectively. The percentage increase resulted from increased costs on certain fixed-price projects caused by inclement weather, regulatory delays and subcontractor issues.

For the three and six months ended March 29, 2009, gross profit increased \$3.5 million, or 23.9%, and \$4.3 million, or 14.6%, compared to the same periods last year for the reasons described above. In addition, due to the economic slowdown, gross profit rates on our commercial work have decreased. For the three and six months ended March 29, 2009, as a percentage of revenue, net of subcontractor costs, gross profit was 17.3% and 17.5%, compared to the 17.9% and 18.6% for the same periods last year, respectively.

Table of Contents*Technical Support Services*

| | March 29, 2009 | Three Months Ended March 30, 2008 | Change \$ | % | March 29, 2009 | Six Months Ended March 30, 2008 | Change \$ | % |
|-------------------------------------|-------------------|---|--------------|--------|-------------------|---------------------------------------|--------------|--------|
| | (\$ in thousands) | | | | | | | |
| Revenue, net of subcontractor costs | \$ 78,549 | \$ 66,600 | \$ 11,949 | 17.9% | \$ 155,039 | \$ 130,470 | \$ 24,569 | 18.8% |
| Other contract costs | (62,356) | (53,995) | (8,361) | (15.5) | (123,916) | (106,455) | (17,461) | (16.4) |
| Gross profit | \$ 16,193 | \$ 12,605 | \$ 3,588 | 28.5% | \$ 31,123 | \$ 24,015 | \$ 7,108 | 29.6% |

The following table presents the percentage relationship of certain items to revenue, net of subcontractor costs:

| | March 29, 2009 | Three Months Ended March 30, 2008 | March 29, 2009 | Six Months Ended March 30, 2008 |
|-------------------------------------|-------------------|---|-------------------|---------------------------------------|
| Revenue, net of subcontractor costs | 100.0% | 100.0% | 100.0% | 100.0% |
| Other contract costs | (79.4) | (81.1) | (79.9) | (81.6) |
| Gross profit | 20.6% | 18.9% | 20.1% | 18.4% |

For the three and six months ended March 29, 2009, revenue, net of subcontractor costs, increased \$11.9 million, or 17.9%, and \$24.6 million, or 18.8%, compared to the same periods last year, respectively. Approximately half of this growth was contributed by our strategic acquisitions. Our federal government business, in which we experienced increased demand from the DoD and USAID, contributed the balance.

For the three and six months ended March 29, 2009, other contract costs increased \$8.4 million, or 15.5%, and \$17.5 million, or 16.4%, compared to the same periods last year, respectively. The increase resulted primarily from additional costs incurred to support revenue, net of subcontractor costs. However, for the three and six months ended March 29, 2009, as a percentage of revenue, net of subcontractor costs, other contract costs decreased to 79.4% from 81.1%, and 79.9% from 81.6% for the same periods last year, respectively. The percentage decreases resulted from improved project performance on fixed-price contracts.

For the three and six months ended March 29, 2009, gross profit increased \$3.6 million, or 28.5%, and \$7.1 million, or 29.6%, compared to the same quarter last year for the reasons described above. For the three and six months ended March 29, 2009, as a percentage of revenue, net of subcontractor costs, gross profit was 20.6% and 20.1%, compared to 18.9% and 18.4% for the same periods last year, respectively.

Engineering and Architecture Services

| March 29, | Three Months Ended March 30, | Change | March 29, | Six Months Ended March 30, | Change |
|-----------|---------------------------------|--------|-----------|-------------------------------|--------|
|-----------|---------------------------------|--------|-----------|-------------------------------|--------|

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| | 2009 | 2008 | \$ | % | 2009 | 2008 | \$ | % |
|-------------------------------------|-------------------|-----------|------------|--------|------------|------------|------------|--------|
| | (\$ in thousands) | | | | | | | |
| Revenue, net of subcontractor costs | \$ 62,149 | \$ 65,637 | \$ (3,488) | (5.3)% | \$ 126,444 | \$ 127,609 | \$ (1,165) | (0.9)% |
| Other contract costs | (49,257) | (52,709) | 3,452 | 6.5 | (100,686) | (102,243) | 1,557 | 1.5 |
| Gross profit | \$ 12,892 | \$ 12,928 | \$ (36) | (0.3)% | \$ 25,758 | \$ 25,366 | \$ 392 | 1.5% |

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Table of Contents

The following table presents the percentage relationship of certain items to revenue, net of subcontractor costs:

| | Three Months Ended | | Six Months Ended | |
|-------------------------------------|--------------------|-------------------|-------------------|-------------------|
| | March 29, 2009 | March 30, 2008 | March 29, 2009 | March 30, 2008 |
| Revenue, net of subcontractor costs | 100.0% | 100.0% | 100.0% | 100.0% |
| Other contract costs | (79.3) | (80.3) | (79.6) | (80.1) |
| Gross profit | 20.7% | 19.7% | 20.4% | 19.9% |

For the three and six months ended March 29, 2009, revenue, net of subcontractor costs, decreased \$3.5 million, or 5.3%, and \$1.2 million, or 0.9%, compared to the same periods last year, respectively. This segment experienced a revenue decline in its commercial business due to the slowdown in the real estate development and industrial markets. To a lesser extent, revenue from the state and local government business decreased due to budget and spending constraints. These revenue declines were largely mitigated by our fiscal 2008 acquisitions and demand for engineering design services overseas from international clients and increased project activity with the DoD.

For the three and six months ended March 29, 2009, other contract costs decreased \$3.5 million, or 6.5%, and \$1.6 million, or 1.5%, compared to the same periods last year, respectively. The decreases resulted primarily from reduced overhead, labor and other employee-related expenses, which corresponded to revenue declines in this segment. The decreases were partially offset by higher provisions for accounts receivable on certain commercial projects due to the continuing economic downturn. For the three and six months ended March 29, 2009, as a percentage of revenue, net of subcontractor costs, other contract costs were 79.3% and 79.6%, compared to 80.3% and 80.1% for the same periods last year, respectively.

For the three and six months ended March 29, 2009, gross profit decreased \$0.4 million, or 0.3%, and increased \$0.4 million, or 1.5%, compared to the same periods last year, respectively, for the reasons described above. For the three and six months ended March 29, 2009, as a percentage of revenue, net of subcontractor costs, gross profit was 20.7% and 20.4%, compared to 19.7% and 19.9% for the same periods last year, respectively.

Remediation and Construction Management

| | March 29, 2009 | Three Months Ended | | | March 29, 2009 | Six Months Ended | | |
|-------------------------------------|-------------------|--------------------|-----------|--------|-------------------|-------------------|-----------|--------|
| | | March 30, 2008 | \$ | Change | | March 30, 2008 | \$ | Change |
| | | | | % | | | | % |
| | | | | | (\$ in thousands) | | | |
| Revenue, net of subcontractor costs | \$ 85,399 | \$ 72,287 | \$ 13,112 | 18.1% | \$ 186,890 | \$ 147,335 | \$ 39,555 | 26.8% |
| Other contract costs | (66,499) | (54,850) | (11,649) | (21.2) | (147,064) | (112,332) | (34,732) | (30.9) |
| Gross profit | \$ 18,900 | \$ 17,437 | \$ 1,463 | 8.4% | \$ 39,826 | \$ 35,003 | \$ 4,823 | 13.8% |

The following table presents the percentage relationship of certain items to revenue, net of subcontractor costs:

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| | Three Months Ended | | Six Months Ended | |
|-------------------------------------|--------------------|-------------------|-------------------|-------------------|
| | March 29, 2009 | March 30, 2008 | March 29, 2009 | March 30, 2008 |
| Revenue, net of subcontractor costs | 100.0% | 100.0% | 100.0% | 100.0% |
| Other contract costs | (77.9) | (75.9) | (78.7) | (76.2) |
| Gross profit | 22.1% | 24.1% | 21.3% | 23.8% |

For the three and six months ended March 29, 2009, revenue, net of subcontractor costs, increased \$13.1 million, or 18.1%, and \$39.6 million, or 26.8%, compared to the same periods last year, respectively. For both periods, this segment experienced strong growth in its commercial business, which was driven by demand for wind energy and water programs. The federal government business also grew due to increased activity on BRAC and DOE contracts, largely offset by the wind-down and completion of Iraq-related projects. This segment's growth

Table of Contents

was partially offset by its revenue decline in the state and local government business as a result of budget constraints and the completion of certain large contracts, as well as the conclusion of a fiber-to-the-premise contract in the second quarter of fiscal 2008.

For the three and six months ended March 29, 2009, other contract costs increased \$11.6 million, or 21.2%, and \$34.7 million, or 30.9%, compared to the same periods last year, respectively. For both periods, the dollar increases largely supported the growth in revenue, net of subcontractor costs. We also incurred additional project start-up costs related to an alternative energy program. For the six-month period, we recognized additional contract costs caused by inclement weather, subcontractor issues and scheduling delays. Further, in the first half of fiscal 2008, we recognized one-time gains related to project equipment disposals following certain contract close-outs and favorable claim settlements. As a result, for the three and six months ended March 29, 2009, other contract costs, as a percentage of revenue, net of subcontractor costs, increased to 77.9% from 75.9%, and to 78.7% from 76.2% for the same periods last year, respectively.

For the three and six months ended March 29, 2009, gross profit increased \$1.5 million, or 8.4%, and \$4.8 million, or 13.8%, compared to the same periods last year, respectively. For the three and six months ended March 29, 2009, as a percentage of revenue, net of subcontractor costs, gross profit was 22.1% and 21.3%, compared to 24.1% and 23.8% for the same periods last year, respectively. The percentage decreases resulted from the cost increases noted above, partially mitigated by a favorable claim settlement on our Iraq-related projects and higher margins on certain commercial wind energy, water and telecommunications projects.

Liquidity and Capital Resources

The following discussion generally reflects the impact of both continuing and discontinued operations unless otherwise noted.

Capital Requirements. Our capital requirements are to fund working capital needs, capital expenditures, and debt services requirements, as well as to fund acquisitions. It is anticipated that operating cash flow, together with available borrowings under the credit agreement described below, will be sufficient to meet our capital requirements for the next 12 months.

Working Capital. As of March 29, 2009, our working capital increased \$22.8 million, or 9.8%, compared to last fiscal year-end. The increase was primarily attributable to the recognition of a \$39.8 million receivable from the IRS in the second quarter of fiscal 2009. This increase was partially offset by an increase in our current deferred income tax liability due to the recognition of previously unrecognized tax benefits. As of March 29, 2009, our cash and cash equivalents decreased \$8.7 million, or 17.1%, compared to last fiscal year-end. The cash balance as of March 29, 2009 includes \$1.0 million of restricted cash to guarantee foreign leases and a letter of credit.

Operating Activities. For the first half of fiscal 2009, our net cash provided by operating activities was \$46.6 million, an increase of \$20.3 million, or 77.3%, compared to the same period last year. The increase in cash inflows resulted from substantial cash collections on certain large fixed-price contracts and an increase in net income and its

adjustments for non-cash items. The overall increase was partially offset by payments related to subcontractor accruals and year-end employee compensation, and the liability reduction related to advance payments received on contract work as a result of contract execution.

Investing Activities. For the first half of fiscal 2009, our net cash used in investing activities was \$104.2 million, an increase of \$42.7 million, or 69.5%, compared to the same period last year. In fiscal 2009, we used more cash to pay for business acquisitions, particularly for Wardrop. For the first half of fiscal 2009, our capital expenditures were \$9.8 million, a decrease of \$0.4 million, or 4.2%, compared to the same period last year. We replaced obsolete equipment and satisfied requirements for new equipment for project execution.

Financing Activities. For the first half of fiscal 2009, our net cash provided by financing activities was \$48.8 million, an increase of \$62.4 million, or 459.7%, compared to \$13.6 million net cash used in financing activities for the same period last year. Our borrowings, net of payments, were approximately \$62.9 million higher in the first half of fiscal 2009 compared to the same period last year due to our recent business acquisitions.

Table of Contents

Debt Financing. In March 2007, we entered into an Amended and Restated Credit Agreement (*Credit Agreement*). Under the Credit Agreement, our revolving credit facility (*Facility*) was increased from \$150.0 million to \$300.0 million, and the term of the agreement was extended for five years through March 30, 2012. As part of the Facility, we may request financial letters of credit up to an aggregate sum of \$50.0 million and standby letters of credit up to the full amount of the Facility. Other than the increased capacity under the Facility and improved pricing rate structure, the terms and conditions relating to the Facility are substantially similar to those of the prior Facility. In May 2008 and January 2009, we entered into amendments to the Credit Agreement solely to provide additional flexibility and to clarify certain administrative matters with respect to potential future acquisitions. There was no change to the overall size of the Facility. As of March 29, 2009, we had \$92.0 million in outstanding borrowings, \$31.9 million in standby letters of credit and \$176.1 million in availability under the Facility.

The Credit Agreement requires us to comply with various financial and operating covenants. Specifically, (i) the maximum consolidated leverage ratio (defined as the ratio of funded debt to rolling four-quarter adjusted earnings before interest, tax, depreciation and amortization (*EBITDA*) is 2.5x for each quarter, and (ii) the minimum fixed charge coverage ratio (defined as the ratio of rolling four-quarter EBITDA minus capital expenditures to interest expense plus taxes and principal payments) is 1.25x for each quarter. As of March 29, 2009, our consolidated leverage ratio was 0.97x, and our fixed charge coverage ratio was 2.55x. Further, the Credit Agreement contains other restrictions, including but not limited to, the creation of liens and the payment of dividends on our capital stock (other than stock dividends). Borrowings under the Credit Agreement are collateralized by our accounts receivable, the stock of our significant subsidiaries and our cash, deposit accounts, investment property and financial assets. As of March 29, 2009, we met all compliance requirements, and we expect to be in compliance over the next 12 months.

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. However, the current weak general economic conditions may impact our client base, our clients' creditworthiness and our ability to collect cash to meet our operating needs.

Tax Claims. We remain in the appeals process with the IRS for fiscal years 2002 through 2004 related to R&E Credits and our tax accounting method for revenue recognition. We are also under examination by the FTB for fiscal years 2001 through 2003 related to R&E Credits. Management believes that it is reasonably possible we will reach a resolution of these audits within the next 12 months. If the resolution is more favorable than expected, the change in unrecognized tax benefits could be significant. However, if the resolution is less favorable than expected, there may be a material increase in our income tax expense in the period in which the determination is made. We have initiated and are conducting studies for the tax years subsequent to fiscal 2004 to determine if we are entitled to claim federal and state R&E Credits for those years. We expect to substantially complete the studies in the second half of fiscal 2009 and will consider filing amended tax returns to claim any credits. Due to the complexities of the R&E studies, we do not yet have sufficient information to reasonably estimate the income tax benefit of any unclaimed R&E Credits for tax years subsequent to fiscal 2004.

Critical Accounting Policies

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Our critical accounting policies are disclosed in our Annual Report on Form 10-K for the fiscal year ended September 28, 2008. To date, there have been no material changes in our critical accounting policies as reported in our 2008 Annual Report on Form 10-K.

New Accounting Pronouncements

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

Financial Market Risks

We currently utilize no derivative financial instruments that expose us to significant market risk. 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 greater of the U.S. federal funds rate plus 0.50% per annum or the bank's reference rate) plus a

Table of Contents

margin which ranges from 0.0% to 1.25% per annum, or (b) a Eurodollar rate plus a margin that ranges from 1.0% to 2.25% 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 30, 2012 or earlier at our discretion upon payment in full of loans and other obligations.

We anticipate repaying \$4.3 million of our outstanding indebtedness in the next 12 months, of which \$2.3 million relates to the guaranteed earn-out payment associated with certain acquisitions and \$2.0 million relates to other debt. Assuming we do repay the remaining \$2.0 million ratably during the next 12 months and hold \$92.0 million in borrowing under the Facility for the next 12 months, our annual interest expense would increase or decrease by \$0.9 million when our average interest rate increases or decreases by 1% per annum. There can be no assurance that we will, or will be able to, repay our debt in the prescribed manner. In addition, we could incur additional debt under the Facility to meet our operating needs or to finance future acquisitions.

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 March 29, 2009, 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 second quarter of fiscal 2009 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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

In May 2003, ITC filed a lawsuit in Montgomery County, Ohio against AMT and other defendants for misappropriation of trade secrets, among other claims. In June 2004, we purchased all the outstanding shares of AMT. As part of the purchase agreement, the former owners of AMT agreed to indemnify us for all costs and damages related to this lawsuit. In December 2007, the case went to trial and the jury awarded \$5.8 million in compensatory damages against AMT. In addition, the jury awarded \$17 million in punitive damages against AMT plus reasonable attorneys fees. The court required AMT to post a \$1 million bond which has been done. 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. The trial court has not yet ruled on ITC's motion. We expect that appeals will follow the court's ruling. We believe that a reasonably possible range of exposure, including our attorneys fees, is from \$0 to approximately \$14.5 million. As of March 29, 2009, 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.

In the fourth quarter of 2008, a REIT that owns and rents apartments filed suit against us and a former employee in the United States District Court for the Eastern District of Virginia. The suit alleged that employees at one of our operating divisions in Colorado participated in a scheme to defraud the REIT in connection with contracts for environmental clean-up work between us and the REIT. On March 30, 2009, the parties definitively settled their dispute and agreed that their claims against each other will be dismissed. The impact to our results of operations for the three months ended March 29, 2009 was not material.

Table of Contents

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 recently experienced a downturn due to the lack of available credit, slower economic activity, concerns about inflation and deflation, increased energy costs, decreased consumer confidence, reduced corporate profits and capital spending, and adverse business conditions. These conditions make it extremely difficult for our customers, our vendors and us to accurately forecast and plan future business activities and could cause businesses to slow spending on services. 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 do not continue at the level experienced in fiscal 2008, our business, financial condition and results of operations may be materially and adversely affected.

Our annual revenue, expenses and operating results may fluctuate significantly

Our annual revenue, expenses and operating results may fluctuate significantly because of numerous factors, including:

- 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;

- Seasonality of the spending cycle of our public sector clients, notably the U.S. government, the spending patterns of our commercial sector clients, and weather conditions;

- Budget constraints experienced by our federal, state and local government clients;

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- Acquisitions or the integration of acquired companies;
- Divestiture or discontinuance of operating units;
- Employee hiring, utilization and turnover rates;
- 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;
- Contract negotiations on change orders and collections of related accounts receivable;
- The timing of expenses incurred for corporate initiatives;
- Reductions in the prices of services offered by our competitors;
- Threatened or pending litigation;
- The impairment of goodwill or identifiable intangible assets; and

- Changes in accounting rules.

Variations in any of these factors could cause significant fluctuations in our operating results from period to period, result in a net loss, and could have a negative effect on our stock price.

Table of Contents

Demand for our state and local government services is cyclical and vulnerable to economic downturns; if the economy weakens, then our revenues, profits and our financial condition may deteriorate

Demand for our state and local government services 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 the economy weakens, then our revenues, 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. 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 revenues and earnings from business areas that may be adversely impacted by market conditions.

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

In the second quarter of fiscal 2009, we generated 62.3% of our revenue, net of subcontractor costs, from contracts with federal, state and local government agencies. U.S. federal government agencies are among our most significant clients. We generated 47.5% of our revenue, net of subcontractor costs, in the second quarter of 2009 from the following agencies: 28.0% from the DoD, 9.0% from USAID and 10.5% from other U.S. federal 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 of the use of government contracting firms;
- Delays associated with a lack of a sufficient number 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

Table of Contents

- 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 future revenues

Revenue under contracts with the DoD represented 28.0% of our revenue, net of subcontractor costs, in the second quarter of fiscal 2009. In the second quarter of fiscal 2009, we experienced a revenue decline for project management reconstruction and UXO services in Iraq compared to the same period last year. While spending authorization for defense-related programs has increased significantly in recent years due to greater homeland security and foreign military commitments, as well as the trend to outsource U.S. federal government jobs to the private sector, these spending levels may not be sustainable, particularly with the Iraq-related work. For example, the DoD budget declined in the late 1980s and the early 1990s, resulting in DoD program delays and cancellations. Future levels of expenditures and authorizations for these programs may decrease, remain constant or shift to other programs in areas in which we do not currently provide service. As a result, a general decline in U.S. defense spending or a change in budgetary priorities could harm our operations and significantly reduce our future revenues.

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 revenues

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 revenues.

As a government contractor, we are subject to a number of procurement laws, regulations and government audits; a violation of any such laws and regulations could result in sanctions, contract termination, forfeiture of profit, harm to our reputation or loss of our status as an eligible government contractor

We must comply with and are affected by 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 Regulations (FAR), the Truth in Negotiations Act, Cost Accounting Standards (CAS) and DoD security regulations, as well as many other rules and regulations. 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 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 our U.S. government corporate administrative contracting officer to disallow such costs.

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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. 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.

Because we depend on federal, state and local governments for a significant portion of our revenue, our inability to win or renew government contracts during regulated procurement processes could harm our operations and significantly reduce or eliminate our profits

Table of Contents

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

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

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 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 or terminate our contracts at their convenience may result in a decline in revenues.

Our failure to properly manage projects may result in additional costs or claims

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. If we miscalculate the resources or time we need to complete a project with capped or fixed fees, or the resources or time we need to meet contractual milestones, our operating results could be adversely affected. 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. Prior to fiscal 2006, we experienced significant project cost overruns on the performance of fixed-price construction work, other than that associated with our U.S. federal government projects. Although we have implemented procedures intended to address these issues, no assurance can be given that we will not experience project management issues in the future.

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

As primarily a professional and technical services company, we are labor-intensive and therefore our ability to attract, retain and expand our senior management and our professional and technical staff is an important factor in determining our future success. 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.

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The market for the 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 with the expertise and 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 actual results could differ from the estimates and assumptions that we use to prepare our financial statements, which may significantly reduce or eliminate our profits

Table of Contents

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, revenues and expenses, as well as disclosures of contingent assets and liabilities. Areas requiring significant estimates by our management include:

- The application of the percentage-of-completion method of accounting and revenue recognition on contracts, changes orders and contract claims;

- Provisions for uncollectible receivables and customer claims and recoveries of costs from subcontractors, vendors and others;

- Provisions for income taxes 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;

- Valuation of employee benefit plans;

- Valuation of stock-based compensation expense; and

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

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

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

We account for most of our contracts on the percentage-of-completion method of accounting. 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 effect of revisions to revenue and estimated costs, including the achievement of award and other fees, is recorded when the amounts are known and can be reasonably estimated. Such revisions could occur in any period and their effects could be material. 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

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. Under our time-and-materials contracts, we are paid for labor at negotiated hourly billing rates and 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 such costs.

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

Table of Contents

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 that 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 governmental approval, we may not be able to pursue particular projects, which could adversely affect our profitability.

There are risks associated with our acquisition strategy that could adversely impact our business and operating results

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;

- We may not be able to retain key employees of an acquired company which could negatively impact that company's future performance;
- We may fail to successfully integrate or manage these acquired companies due to differences in business backgrounds or corporate cultures;
- If we fail to successfully integrate any acquired company, our reputation could be damaged. This could make it more difficult to market our services or to acquire additional companies in the future; 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, result 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.

Further, acquisitions may also cause us to:

- Issue common stock that would dilute our current stockholders' ownership percentage;
- 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 that will be subject to impairment testing and potential impairment charges;

Table of Contents

- Incur amortization expenses related to certain intangible assets;
- Lose existing or potential contracts as a result of conflict of interest issues;
- Incur large and immediate write-offs; or
- Become subject to litigation.

Finally, acquired companies that derive a significant portion of their revenue from the U.S. federal government and 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 March 29, 2009, our goodwill was \$298.2 million and other intangible assets were \$29.0 million. We are required to perform a goodwill and intangible asset impairment test for potential impairment at least on an annual basis. This process requires us to make significant judgments and estimates, including assumptions about our strategic plans with regard to our operations, as well as the interpretation of current economic indicators and market valuations. 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 an impairment charge could result in a material adverse effect on our financial position or results of operations.

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

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

Adverse resolution of an IRS or other tax authority examination process may harm our financial results

We remain in the appeals process with the IRS for fiscal years 2002 through 2004 related to R&E Credits and our tax accounting method for revenue recognition. We are also under examination by the FTB for fiscal years 2001 through 2003 related to R&E Credits. Management believes that it is reasonably possible we will reach a resolution of these audits within the next 12 months. If the resolution is more favorable than expected, the change in unrecognized tax benefits could be significant. However, if the resolution is less favorable than expected, there may be a material increase in our income tax expense in the period in which the determination is made. We have initiated and are conducting studies for the tax years subsequent to fiscal 2004 to determine if we are entitled to claim federal and state R&E Credits for those years. We expect to substantially complete the studies in the second half of fiscal 2009 and will consider filing amended tax returns to claim any credits. Due to the complexities of the R&E studies, we do not yet have sufficient information to reasonably estimate the income tax benefit of any unclaimed R&E Credits for tax years subsequent to fiscal 2004.

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

Our backlog as of March 29, 2009 was \$1.7 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.

Table of Contents

Our international operations expose us to risks such as different business cultures, laws and regulations

During the second quarter of fiscal 2009, we generated 7.6% of our revenue, net of subcontractor costs, from international clients. The different business cultures associated with international operations may not be fully appreciated before we sign an agreement, and thereby expose us to risk. Likewise, prior to signing a contract, we need to understand international laws and regulations, such as foreign tax and labor laws, and U.S. laws and regulations applicable to companies engaging in business outside of the United States, such as the Foreign Corrupt Practices Act. For these reasons, pricing and executing international contracts is more difficult and carries more risk than pricing and executing domestic contracts. Our experience has also shown that it is typically more difficult to collect on international work that has been performed and billed.

Our international operations expose us to foreign currency risk

A majority of our transactions are in U.S. dollars; however, a few foreign subsidiaries conduct businesses in various foreign currencies. Therefore, we are subject to currency exposures and volatility because of currency fluctuations, inflation changes and economic conditions in these countries. We currently have no foreign currency hedges. We attempt to minimize our exposure to foreign currency fluctuations by matching our revenues and expenses in the same currency for our contracts. For the three months ended March 29, 2009 and March 30, 2008, we had \$0.3 million of foreign currency translation gain, net of tax, and \$0.1 million of foreign currency translation loss, net of tax, respectively. For the six months ended March 29, 2009 and March 30, 2008, we had \$0.2 million of foreign currency translation gain, net of tax, and \$.03 million of foreign currency translation loss, net of tax, respectively.

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

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

In conducting our business, we depend on other contractors and subcontractors. If these parties 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, customer 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 whom 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 existing environmental laws, regulations and programs could reduce demand for our environmental services, which could cause our revenue to decline

A significant amount of our resource management business is generated either directly or indirectly as a result of existing U.S. federal and state laws, regulations and programs related to pollution and environmental protection. Accordingly, a relaxation or repeal of these laws and regulations, or changes in governmental policies regarding the

Table of Contents

funding, implementation or enforcement of these programs, could result in a decline in demand for environmental services that may have a material adverse effect on our revenue.

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

In the second quarter of fiscal 2009, we generated 30.1% of our revenue, net of subcontractor costs, from commercial clients. We rely upon the financial stability and creditworthiness of these 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. Periodically, we have experienced bad debt losses.

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

Our results could be adversely affected by a reduction in the volume of debt securities issued in domestic and/or global capital markets or an inability to access our \$300 million revolving credit facility. Unfavorable financial or economic conditions that either reduce investor demand for debt securities or reduce issuers' willingness or ability to issue such securities could reduce the number and dollar volume of debt issuance as well as 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. Our results could also be adversely affected because of public statements or actions by market participants, government officials and others who may be advocates of increased regulation, regulatory scrutiny or litigation.

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.

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

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 our 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, thereby causing a material adverse effect on our business, financial condition and results of operations.

Table of Contents

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.

Our services expose us to significant risks of liability and it may be difficult to obtain or maintain adequate insurance coverage

The value of our common stock could be volatile

Our services involve significant risks of professional and other liabilities that may substantially exceed the fees we derive from our services. Our business activities could expose us to potential liability under various environmental laws and under workplace health and safety regulations. In addition, we sometimes assume liability by contract under indemnification agreements. We cannot predict the magnitude of such potential liabilities.

We obtain insurance from third parties to cover our potential risks and liabilities. It is possible that we may not be able to obtain adequate insurance to meet our needs, may have to pay an excessive amount for the insurance coverage we want, or may not be able to acquire any insurance for certain types of business risks.

Our liability for damages due to legal proceedings may harm our operating results or financial condition

We are a party to lawsuits in the normal course of business. Various legal proceedings are currently pending against us and certain of our subsidiaries alleging, among other things, breach of contract or tort in connection with the performance of professional services. We cannot predict the outcome of these proceedings with certainty. In some actions, parties are seeking damages that exceed our insurance coverage or for which we are not insured. If we sustain damages that exceed our insurance coverage or that are not covered by insurance, there could be a material adverse effect on our business, operating results or financial condition.

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

Many of our 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 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

Table of Contents

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 revenues and business prospects.

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 or acts of terrorism. For example, we currently have employees working in Afghanistan and Iraq. As a result, we may be subject to costs related to employee death or injury, repatriation or other unforeseen circumstances.

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.

Force majeure events, including natural disasters and terrorists' 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 events, including natural disasters, and terrorist attacks, could negatively impact the economies in which we operate by causing the closure of offices, interrupting active client 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

Table of Contents

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.

If we do not successfully complete the implementation of our enterprise resource planning (ERP) system, our cash flows may be impaired and we may incur further costs to integrate or upgrade our systems; any sudden loss, disruption or unexpected costs to maintain our ERP system or other third-party software could significantly increase our operational expense and disrupt the management of our business operations

In fiscal 2004, we began implementation of a new company-wide ERP system, principally for accounting and project management. During fiscal 2009, we converted a few operating units to our ERP system, and we plan to complete the conversion process in fiscal 2011. In the event we do not complete the project successfully, we may experience difficulty in reporting certain revenue and costs data in an accurate and timely manner. During the ERP implementation process, we have experienced reduced cash flows due to temporary delays in issuing invoices to our clients, which have adversely affected the timely collection of cash. Further, it is possible that the cost of completing this project could exceed our current projections and negatively impact future operating results.

In addition, we rely on third-party 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, which may increase our operational expense as well as disrupt the management of our business operation.

Item 4. Submission of Matters to a Vote of Security Holders

On February 26, 2009, we held our annual meeting of stockholders for the following purposes:

- (1) To elect seven members to our Board of Directors;
- (2) To approve our Restated Certificate of Incorporation;
- (3) To approve the amendment of our 2005 Equity Incentive Plan;
- (4) To approve our Executive Compensation Plan;
- (5) To ratify the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm for fiscal 2009; and
- (6) To act upon such other matters as may properly come before the meeting or any adjournments or postponements thereof.

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The votes cast in connection with such matters were as follows:

Election of Directors:

| Name | For | Withheld |
|----------------------|------------|-----------------|
| Dan L. Batrack | 49,523,640 | 2,691,664 |
| Hugh M. Grant | 50,334,998 | 1,880,326 |
| Patrick C. Haden | 49,284,561 | 2,930,763 |
| J. Christopher Lewis | 49,325,974 | 2,889,350 |
| Albert E. Smith | 49,636,613 | 2,578,711 |
| J. Kenneth Thompson | 50,220,905 | 1,994,419 |
| Richard H. Truly | 50,346,226 | 1,869,098 |

Table of Contents

Approval of Restated Certificate of Incorporation:

| For | Against | Abstain |
|------------|-----------|---------|
| 45,714,518 | 6,478,008 | 22,797 |

Approval of Amendment of 2005 Equity Incentive Plan:

| For | Against | Abstain |
|------------|-----------|---------|
| 38,650,208 | 4,697,221 | 34,056 |

Approval of Executive Compensation Plan:

| For | Against | Abstain |
|------------|-----------|---------|
| 40,913,938 | 2,432,090 | 35,457 |

Appointment of PricewaterhouseCoopers LLP:

| For | Against | Abstain |
|------------|---------|---------|
| 51,839,234 | 316,548 | 89,542 |

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

Table of Contents

SIGNATURES

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

Dated: May 1, 2009

TETRA TECH, INC.

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

By: /s/ David W. King
David W. King
Chief Financial Officer and Treasurer
(Principal Financial Officer)