

TETRA TECH INC
Form 10-Q
July 29, 2016
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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 June 26, 2016

OR

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

For the transition period from _____ to _____

Commission File Number 0-19655

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TETRA TECH, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

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

3475 East Foothill Boulevard, Pasadena, California 91107

(Address of principal executive offices) (Zip Code)

(626) 351-4664

(Registrant's telephone number, including area code)

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

Yes No

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

Yes No

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

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

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

Yes No

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As of July 25, 2016, 57,429,561 shares of the registrant's common stock were outstanding.

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

ASSETS	June 26, 2016	September 27, 2015
Current assets:		
Cash and cash equivalents	\$ 153,918	\$ 135,326
Accounts receivable net	700,846	636,030
Prepaid expenses and other current assets	51,957	42,125
Income taxes receivable	25,875	10,294
Total current assets	932,596	823,775
Property and equipment net	71,588	64,906
Investments in and advances to unconsolidated joint ventures	1,869	1,886
Goodwill	727,773	601,379
Intangible assets net	51,991	40,332
Other long-term assets	28,512	26,964
Total assets	\$ 1,814,329	\$ 1,559,242
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	\$ 155,083	\$ 150,284
Accrued compensation	117,867	103,866
Billings in excess of costs on uncompleted contracts	93,401	93,989
Deferred income taxes	24,797	20,787
Current portion of long-term debt	15,498	11,904
Estimated contingent earn-out liabilities	5,590	609
Other current liabilities	101,340	69,003
Total current liabilities	513,576	450,442
Deferred income taxes	35,876	34,759
Long-term debt	349,210	180,972
Long-term estimated contingent earn-out liabilities	6,176	3,560
Other long-term liabilities	45,620	32,711
Commitments and contingencies (Note 15)		
Equity:		

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Preferred stock Authorized, 2,000 shares of \$0.01 par value; no shares issued and outstanding at June 26, 2016, and September 27, 2015

Common stock Authorized, 150,000 shares of \$0.01 par value; issued and outstanding, 57,546 and 59,381 shares at June 26, 2016, and September 27, 2015, respectively

Additional paid-in capital	575	594
Accumulated other comprehensive loss	276,242	326,593
Retained earnings	(124,038)	(143,171)
Tetra Tech stockholders' equity	710,409	672,309
Noncontrolling interests	863,188	856,325
Total equity	683	473
Total liabilities and equity	863,871	856,798
	\$ 1,814,329	\$ 1,559,242

See Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended		Nine Months Ended	
	June 26, 2016	June 28, 2015	June 26, 2016	June 28, 2015
Revenue	\$ 666,869	\$ 575,108	\$ 1,854,961	\$ 1,720,927
Subcontractor costs	(168,235)	(153,209)	(456,606)	(429,194)
Other costs of revenue	(413,551)	(340,181)	(1,165,323)	(1,061,419)
Gross profit	85,083	81,718	233,032	230,314
Selling, general and administrative expenses	(44,993)	(40,997)	(124,626)	(125,695)
Acquisition and integration expenses	(1,005)		(16,916)	
Contingent consideration fair value adjustments			(2,823)	3,113
Operating income	39,085	40,721	88,667	107,732
Interest expense, net	(2,590)	(2,026)	(8,501)	(5,621)
Income before income tax expense	36,495	38,695	80,166	102,111
Income tax expense	(10,805)	(12,443)	(27,497)	(31,202)
Net income including noncontrolling interests	25,690	26,252	52,669	70,909
Net (income) loss from noncontrolling interests	4	(46)	9	(111)
Net income attributable to Tetra Tech	\$ 25,694	\$ 26,206	\$ 52,678	\$ 70,798
Earnings per share attributable to Tetra Tech:				
Basic	\$ 0.44	\$ 0.44	\$ 0.90	\$ 1.16
Diluted	\$ 0.44	\$ 0.43	\$ 0.89	\$ 1.14
Weighted-average common shares outstanding:				
Basic	57,796	60,207	58,483	61,293
Diluted	58,616	60,792	59,228	61,887
Cash dividends paid per share	\$ 0.09	\$ 0.08	\$ 0.25	\$ 0.22

See Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended		Nine Months Ended	
	June 26, 2016	June 28, 2015	June 26, 2016	June 28, 2015
Net income including noncontrolling interests	\$ 25,690	\$ 26,252	\$ 52,669	\$ 70,909
Other comprehensive income, net of tax :				
Foreign currency translation adjustments	9,044	11,676	19,149	(56,514)
(Loss) gain on cash flow hedge valuations	(524)	621	(11)	(1,376)
Other comprehensive income (loss), net of tax	8,520	12,297	19,138	(57,890)
Comprehensive income including noncontrolling interests	34,210	38,549	71,807	13,019
Net loss (income) attributable to noncontrolling interests	4	(46)	9	(111)
Foreign currency translation adjustments, net of tax	8	14	(5)	118
Comprehensive income (loss) attributable to noncontrolling interests	12	(32)	4	7
Comprehensive income attributable to Tetra Tech	\$ 34,222	\$ 38,517	\$ 71,811	\$ 13,026

See Notes to Condensed Consolidated Financial Statements.

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Tetra Tech, Inc.

Condensed Consolidated Statements of Cash Flows

(unaudited in thousands)

	Nine Months Ended	
	June 26, 2016	June 28, 2015
Cash flows from operating activities:		
Net income including noncontrolling interests	\$ 52,669	\$ 70,909
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	33,835	34,300
Equity in income of unconsolidated joint ventures	(1,557)	(3,097)
Distributions of earnings from unconsolidated joint ventures	2,305	3,045
Stock-based compensation	9,299	8,093
Excess tax benefits from stock-based compensation	(576)	(170)
Deferred income taxes	7,313	(9,826)
Provision for doubtful accounts	9,488	(1,866)
Fair value adjustments to contingent consideration	2,823	(3,113)
Gain on disposal of property and equipment	(777)	(5,295)
Lease termination costs and related asset impairment	2,946	
Changes in operating assets and liabilities, net of effects of business acquisitions:		
Accounts receivable	19,107	78,110
Prepaid expenses and other assets	(4,791)	6,023
Accounts payable	(2,566)	(36,733)
Accrued compensation	(2,035)	1,448
Billings in excess of costs on uncompleted contracts	(8,370)	(11,363)
Other liabilities	(14,976)	(21,497)
Income taxes receivable/payable	(14,335)	25,130
Net cash provided by operating activities	89,802	134,098
Cash flows from investing activities:		
Capital expenditures	(10,107)	(20,262)
Payments for business acquisitions, net of cash acquired	(81,256)	(11,750)
Changes in restricted cash	(3,384)	
Proceeds from sale of property and equipment	3,291	10,039
Investments in unconsolidated joint ventures	(768)	
Net cash used in investing activities	(92,224)	(21,973)
Cash flows from financing activities:		
Payments on long-term debt	(102,213)	(32,631)
Proceeds from borrowings	200,000	64,794
Payments of earn-out liabilities	(1,001)	(3,199)
Debt pre-payment costs	(1,935)	(1,457)
Excess tax benefits from stock-based compensation	576	170
Repurchases of common stock	(75,000)	(75,500)
Dividends paid	(14,578)	(13,440)
Net proceeds from issuance of common stock	12,679	5,621
Net cash provided by (used in) financing activities	18,528	(55,642)

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Effect of foreign exchange rate changes on cash	2,486	(3,679)
Net increase in cash and cash equivalents	18,592	52,804
Cash and cash equivalents at beginning of period	135,326	122,379
Cash and cash equivalents at end of period	\$ 153,918	\$ 175,183
Supplemental information:		
Cash paid during the period for:		
Interest	\$ 9,089	\$ 5,084
Income taxes, net of refunds received of \$3.0 million and \$4.4 million	\$ 29,405	\$ 15,679

See Notes to Condensed Consolidated Financial Statements.

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

The accompanying unaudited condensed consolidated financial statements and related notes of Tetra Tech, Inc. (we, us or our) have been prepared in accordance with generally accepted accounting principles in the United States of America (GAAP) for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. They do not include all of the information and footnotes required by GAAP for complete financial statements and, therefore, should be read in conjunction with the audited consolidated financial statements and related notes contained in our Annual Report on Form 10-K for the fiscal year ended September 27, 2015.

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

We report our water resources, water and wastewater treatment, environment and infrastructure engineering activities in our Water, Environment and Infrastructure (WEI) reportable segment. Our Resource Management and Energy (RME) reportable segment includes our natural resources, energy, international development, waste management, remediation and utilities services. We report the results of the wind-down of our non-core construction activities in the Remediation and Construction Management (RCM) reportable segment. In the first quarter of fiscal 2016, we re-aligned certain operating units within our reportable segments to improve organizational effectiveness by better aligning operations with similar clients and projects. Specifically, we re-aligned certain operations that previously provided natural resources services, primarily mining-related, in the RME reportable segment to the WEI reportable segment. Due to the downturn in the mining industry in recent years, we determined that these operations could be better utilized by supporting infrastructure engineering activities in our WEI reportable segment. Although these activities had revenue of \$42.7 million in the first nine months of fiscal 2015, they were approximately break-even in operating income in that period. Prior year amounts for reportable segments have been revised to conform to the current year presentation. As a result of the re-alignment of segment results, WEI 's revenue for the first nine months of fiscal 2015 increased 6.1% and its operating income margin decreased 6.9% compared to the results before the re-alignment. Correspondingly, RME 's revenue for the first nine months of fiscal 2015 declined by 4.6% and its operating income margin increased 5.7% (see Note 10, Reportable Segments for further discussion).

2. Accounts Receivable Net

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

	June 26, 2016	September 27, 2015
	(in thousands)	
Billed	\$ 367,632	\$ 331,364

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Unbilled	338,207	311,823
Contract retentions	34,680	24,333
Total accounts receivable gross	740,519	667,520
Allowance for doubtful accounts	(39,673)	(31,490)
Total accounts receivable net	\$ 700,846	\$ 636,030
Billings in excess of costs on uncompleted contracts	\$ 93,401	\$ 93,989

Billed accounts receivable represent amounts billed to clients that have not been collected. Unbilled accounts receivable represent revenue recognized but not yet billed pursuant to contract terms or billed after the period end date. Most of our unbilled receivables at June 26, 2016 are expected to be billed and collected within 12 months. Contract retentions represent amounts withheld by clients until certain conditions are met or the project is completed, which may be several months or years. The allowance for doubtful accounts represents amounts that are expected to become uncollectible or unrealizable in the future. We determine an estimated allowance for uncollectible accounts based on management's consideration of trends in the actual and forecasted credit quality of our clients, including delinquency and payment history; type of client, such as a government agency or a commercial sector client; and general economic and particular industry conditions that may affect a client's ability to pay. Billings in excess of costs on uncompleted contracts represent the amount of cash collected from clients and billings to clients on contracts in advance of revenue recognized. The majority of billings in excess of costs on uncompleted contracts will be earned within 12 months.

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

Total accounts receivable at June 26, 2016 and September 27, 2015 included approximately \$43 million and \$53 million, respectively, related to claims, including requests for equitable adjustment, on contracts that provide for price redetermination. During the first nine months of fiscal 2016 (all in the first quarter), we collected \$13.4 million to settle claims of \$8.8 million, which resulted in gains in operating income of \$4.6 million in the RCM reportable segment. We regularly evaluate all unsettled claim amounts and record appropriate adjustments to operating earnings when it is probable that the claim will result in a different contract value than the amount previously estimated. In the first nine months of fiscal 2016 (all in the first quarter), we also recognized reductions to operating income in our RCM segment and a related increase in the allowance for doubtful accounts of \$7.9 million as a result of our updated assessment of the collectability of certain accounts receivable, of which \$4.6 million related to unsettled claims. In last year's third quarter, we settled two claims related to completed transportation projects in the RCM segment totaling \$31 million for cash proceeds of \$29 million, and, as a result, recognized reduced revenue and operating income of \$2.0 million. In the first nine months of fiscal 2015, we recorded net losses of \$1.8 million related to claims.

Billed accounts receivable related to U.S. federal government contracts were \$50.7 million and \$61.9 million at June 26, 2016 and September 27, 2015, respectively. U.S. federal government unbilled receivables were \$82.9 million and \$74.2 million at June 26, 2016 and September 27, 2015, respectively. Other than the U.S. federal government, no single client accounted for more than 10% of our accounts receivable at June 26, 2016 and September 27, 2015.

We recognize revenue for most of our contracts using the percentage-of-completion method, primarily utilizing the cost-to-cost approach, to estimate the progress towards completion in order to determine the amount of revenue and profit to recognize. Changes in those estimates could result in the recognition of cumulative catch-up adjustments to the contract's inception-to-date revenue, costs and profit in the period in which such changes are made. As a result, we recognized net unfavorable operating income adjustments during both the third quarter and first nine months of fiscal 2016 of \$2.3 million (all in the RCM segment) compared to net unfavorable operating income adjustments of \$0.1 million and \$5.8 million in the comparable periods of last year. Changes in revenue and cost estimates could also result in a projected loss that would be recorded immediately in earnings. As of June 26, 2016 and September 27, 2015, our balance sheet included a liability for anticipated losses of \$5.4 million and \$10.5 million, respectively. The estimated cost to complete the related contracts as of June 26, 2016 was \$34.6 million.

3. Mergers and Acquisitions

On January 18, 2016, we acquired control of Coffey International Limited (Coffey), headquartered in Sydney, Australia. Coffey had approximately 3,300 staff delivering technical and engineering solutions in international development and geoscience. Coffey significantly expands our geographic presence, particularly in Australia and Asia Pacific, and is part of our RME segment. In addition to Australia, Coffey's international development business has operations supporting federal government agencies in the U.S. and the United Kingdom.

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The fair value of the purchase price for Coffey was \$76.1 million, in addition to \$65.1 million of assumed debt, which consisted of secured bank term debt of \$37.1 million and unsecured corporate bond obligations of \$28.0 million. All debt was paid in full in the second quarter of fiscal 2016 subsequent to the acquisition.

In the second quarter of fiscal 2016, we also acquired INDUS Corporation (INDUS), headquartered in Vienna, Virginia. INDUS is an information technology solutions firm focused on water data analytics, geospatial analysis, secure infrastructure, and software applications management for U.S. federal government customers, and is included in our WEI segment. The fair value of the purchase price for INDUS was \$17.8 million. Of this amount, \$13.1 million was paid to the sellers and \$4.7 million was the estimated fair value of contingent earn-out obligations, with a maximum of \$8.0 million, based upon the achievement of specified operating income targets in each of the two years following the acquisition.

The following table summarizes the estimated fair values of assets acquired and liabilities assumed as of the respective acquisition dates for our acquisitions completed in fiscal 2016 (\$ in thousands):

Accounts receivable	\$	82,736
Other current assets		7,846
Property and equipment		14,723
Goodwill		110,831
Backlog and customer relationship intangible assets		26,188
Other assets		6,142
Current liabilities		(81,018)
Borrowings		(65,086)
Other long-term liabilities		(7,945)
Noncontrolling interests		(500)
Net assets acquired	\$	93,917

Backlog and customer relationship intangible assets represent the fair value of existing contracts and the underlying customer relationships and have lives ranging from 1 to 5 years (weighted average of approximately 3 years). The purchase price allocation is preliminary and subject to adjustment based upon the final determination of the net assets acquired and information necessary to perform the final valuation. We have not yet completed our final assessment of the fair values of purchased receivables, intangible assets, tax balances, contingent liabilities or acquired contracts. The final purchase price allocations may result in adjustments to certain assets and liabilities, including the residual amount allocated to goodwill. Goodwill recognized largely results from a substantial and technically qualified assembled workforce, which does not qualify for separate recognition, as well as expected future synergies from combining operations.

The table below presents summarized unaudited consolidated pro forma operating results including the related acquisition, integration and debt pre-payment charges, assuming we had acquired Coffey and INDUS at the beginning of fiscal 2015. These pro-forma operating results are presented for illustrative purposes only and are not indicative of the operating results that would have been achieved had the related events occurred at the beginning of fiscal 2015.

		Pro-Forma			
		Three Months Ended		Nine Months Ended	
	June 26, 2016	June 28, 2015		June 26, 2016	June 28, 2015

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(in thousands, except per share data)

Revenue	\$	666,869	\$	691,637	\$	1,986,149	\$	2,068,236
Operating income		40,090		23,803		102,855		71,469
Net income attributable to Tetra Tech		26,397		8,883		65,923		30,856
Earnings per share attributable to Tetra Tech:								
Basic	\$	0.46	\$	0.15	\$	1.12	\$	0.50
Diluted	\$	0.45	\$	0.15	\$	1.11	\$	0.49

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Since their respective acquisition dates, Coffey and INDUS together contributed \$116.9 million and \$205.1 million in revenue, and \$6.4 million and \$8.3 million in operating income for the three and nine months ended June 26, 2016, respectively. Amortization of intangible assets since their respective acquisition dates was \$2.1 million and \$3.7 million for the three and nine months ended June 26, 2016, respectively.

Acquisition and integration expenses in the accompanying condensed consolidated statements of income are comprised of the following:

	Three Months Ended June 26, 2016		Nine Months Ended June 26, 2016
	(in thousands)		
Severance including change in control payments	\$ 1,005	\$	8,285
Professional services			5,685
Real estate-related			2,946
Total	\$ 1,005	\$	16,916

As of June 26, 2016, all of the acquisition and integration expenses incurred to date have been paid. All acquisition and integration expenses are included in our Corporate reportable segment, as presented in Note 10. In addition, in the second quarter of fiscal 2016, we repaid Coffey's bank loans and corporate bonds in full, including \$1.9 million in pre-payment charges that are included in interest expense.

In fiscal 2015, we acquired Cornerstone Environmental Group, LLC (CEG), headquartered in Middletown, New York. CEG is an environmental engineering and consulting firm focused on solid waste markets in the United States, and is included in our RME segment. The fair value of the purchase price for CEG was \$15.9 million. Of this amount, \$11.8 million was paid to the sellers and \$4.1 million was the estimated fair value of contingent earn-out obligations, with a maximum of \$9.8 million, based upon the achievement of specified financial objectives. The results of this acquisition were included in the consolidated financial statements from the closing date. The acquisition was not considered material to our condensed consolidated financial statements. As a result, no pro forma information has been provided.

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

We measure our contingent earn-out liabilities at fair value on a recurring basis using significant unobservable inputs classified within Level 3 of the fair value hierarchy (as described in Critical Accounting Policies and Estimates in our Annual Report on Form 10-K for the fiscal year ended September 27, 2015). We use a probability-weighted discounted income approach as a valuation technique to convert future estimated cash flows to a single present value amount. The significant unobservable inputs used in the fair value measurements are operating income projections over the earn-out period (generally two or three years), and the probability outcome percentages we assign to each scenario.

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Significant increases or decreases to either of these inputs in isolation would result in a significantly higher or lower liability, with a higher liability capped by the contractual maximum of the contingent earn-out obligation. Ultimately, the liability will be equivalent to the amount paid, and the difference between the fair value estimate and amount paid will be recorded in earnings. The amount paid that is less than or equal to the contingent earn-out liability on the acquisition date is reflected as cash used in financing activities in our consolidated statements of cash flows. Any amount paid in excess of the contingent earn-out liability on the acquisition date is reflected as cash used in operating activities.

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We review and re-assess the estimated fair value of contingent consideration on a quarterly basis, and the updated fair value could differ materially from the initial estimates. Changes in the estimated fair value of our contingent earn-out liabilities related to the time component of the present value calculation are reported in interest expense. Adjustments to the estimated fair value related to changes in all other unobservable inputs are reported in operating income. During the first nine months of fiscal 2016 (all in the first half of the year), we increased our contingent earn-out liabilities and reported related losses in operating income of \$2.8 million. These losses include a \$1.8 million charge that reflected our updated valuation of the contingent consideration liability for CEG. This valuation included our updated projection of CEG's financial performance during the earn-out period, which exceeded our original estimate at the acquisition date. The remaining \$1.0 million loss represented the final cash settlement of an earn-out liability that was valued at \$0 at the end of fiscal 2015.

During the first nine months of fiscal 2015 (all in the second quarter), we decreased our contingent earn-out liabilities and reported a related gain in operating income of \$3.1 million. This gain resulted from an updated valuation of the contingent consideration liability for Caber Engineering (Caber), which is part of our Oil, Gas & Energy reporting unit in the RME segment.

The acquisition agreement for Caber included a contingent earn-out agreement based on the achievement of operating income thresholds (in Canadian dollars) in each of the first two years beginning on the acquisition date, which was in the first quarter of fiscal 2014. The maximum earn-out obligation over the two-year earn-out period was CAD\$8.0 million (CAD\$4.0 million in each year). These amounts could be earned on a pro-rata basis for operating income within a predetermined range in each year. Caber was required to meet a minimum operating income threshold in each year to earn any contingent consideration. These thresholds were CAD\$4.0 million and CAD\$4.6 million in years one and two, respectively. In order to earn the maximum contingent consideration, Caber needed to generate operating income of CAD\$4.4 million in year one and CAD\$5.1 million in year two.

The determination of the fair value of the purchase price for Caber on the acquisition date included our estimate of the fair value of the related contingent earn-out obligation. This initial valuation was primarily based on probability-weighted internal estimates of Caber's operating income during each earn-out period. As a result of these estimates, we calculated an initial fair value at the acquisition date of Caber's contingent earn-out liability of CAD\$6.5 million in the first quarter of fiscal 2014. In determining that Caber would earn 81% of the maximum potential earn-out, we considered several factors including Caber's recent historical revenue and operating income levels and growth rates. We also considered the recent trend in Caber's backlog level and the prospects for the oil and gas industry in Western Canada.

Caber's actual financial performance in the first earn-out period exceeded our original estimate at the acquisition date. As a result, in the fourth quarter of fiscal 2014, we increased the related contingent consideration liability and recognized a loss of \$1.0 million. This updated valuation included our assumption that Caber would earn the maximum amount of contingent consideration of \$4.0 million in the first earn-out period. In the second quarter of fiscal 2015, we completed our final calculation of the contingent consideration for the first earn-out period and paid contingent consideration of CAD\$4.0 million (USD\$3.2 million). At that time we also evaluated our estimate of Caber's contingent consideration liability for the second earn-out period. This assessment included a review of the status of ongoing projects in Caber's backlog, and the inventory of prospective new contract awards. We also considered the status of the oil and gas industry in Western Canada, particularly in light of the decline in oil prices at the time. As a result of this assessment, we concluded that Caber's operating income in the second earn-out period would be lower than our original estimate at the acquisition date and our subsequent estimates through the first quarter of fiscal 2015. We also concluded that Caber's operating income for the second earn-out period would be lower than the minimum requirement of CAD\$4.6 million to earn any contingent consideration. Accordingly, in the second quarter of fiscal 2015, we reduced the Caber contingent earn-out liability to \$0, which resulted in a gain of \$3.1 million. The second earn-out period ended in the first quarter of fiscal 2016 with no further adjustments.

At June 26, 2016, there was a total maximum of \$17.8 million of outstanding contingent consideration related to acquisitions. Of this amount, \$11.8 million was estimated as the fair value and accrued on our condensed consolidated balance sheet.

Table of Contents**4. Goodwill and Intangible Assets**

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

	WEI	RME (in thousands)	Total
Balance at September 27, 2015	\$ 210,748	\$ 390,631	\$ 601,379
Goodwill additions	9,030	95,424	104,454
Goodwill adjustments		8,377	8,377
Foreign exchange impact	3,013	10,550	13,563
Balance at June 26, 2016	\$ 222,791	\$ 504,982	\$ 727,773

As a result of the Coffey and INDUS acquisitions in the second quarter of fiscal 2016, our goodwill increased \$101.8 million and \$9.0 million in the RME and WEI segments, respectively. The \$8.4 million goodwill adjustment resulted from updated valuations of our purchase price allocations of net assets acquired in the CEG and Coffey acquisitions. Foreign exchange impact relates to our foreign subsidiaries with functional currencies that are different than our reporting currency. The gross amounts of goodwill for WEI were \$305.2 million and \$293.1 million at June 26, 2016 and September 27, 2015, respectively, excluding \$82.4 million of accumulated impairment. The gross amounts of goodwill for RME were \$538.2 million and \$423.8 million at June 26, 2016 and September 27, 2015, respectively, excluding \$33.2 million of accumulated impairment.

We perform our annual goodwill impairment review at the beginning of our fiscal fourth quarter. Our most recent review was performed at June 29, 2015 (i.e. the first day of our fourth quarter in fiscal 2015). In addition, we regularly evaluate whether events and circumstances have occurred that may indicate a potential change in the recoverability of goodwill. We perform interim goodwill impairment reviews between our annual reviews if certain events and circumstances have occurred, such as a deterioration in general economic conditions; an increase in the competitive environment; a change in management, key personnel, strategy or customers; negative or declining cash flows; or a decline in actual or planned revenue or earnings compared with actual and projected results of relevant prior periods.

We estimate the fair value of all reporting units with a goodwill balance based on a comparison and weighting of the income approach (weighted 70%), specifically the discounted cash flow method and the market approach (weighted 30%), which estimates the fair value of our reporting units based upon comparable market prices and recent transactions and also validates the reasonableness of the multiples from the income approach. The resulting fair value is most sensitive to the assumptions we use in our discounted cash flow analysis. The assumptions that have the most significant impact on the fair value calculation are the reporting unit's revenue growth rate and operating profit margin, and the discount rate used to convert future estimated cash flows to a single present value amount.

In the fourth quarter of fiscal 2015, we determined that our Waste Management Group (WMG) reporting unit in our RME segment had an estimated fair value that exceeded its carrying value by less than 20%. In our discounted cash flow model for WMG, we assumed annual revenue growth rates of 3% to 5% based on historical trends in WMG and the solid waste industry, projections for future solid waste activity, and WMG's backlog and prospects for new orders. We discounted the resulting cash flows at a rate of 11.0%. Our market based assessment resulted in a value approximating a 1.0 multiple of revenue for the 12 month period preceding the valuation date. The discounted cash flow value, combined on a weighted-average basis with the results of our market analysis, resulted in an estimated fair value for WMG of \$103.5 million compared to our carrying value including goodwill of \$93.9 million. No changes occurred during the first nine months of fiscal 2016 that would significantly change these amounts. As of June 26, 2016, the goodwill amount for WMG was \$56.5 million.

Although we believe that our current estimate of fair value is reasonable, our analysis is primarily dependent on our future level of revenue from our solid waste clients. However, the extent of our future activity is uncertain. We currently anticipate that if WMG's future revenue grows by less than 2.0%, or market prices for similar businesses decline by more than 10%, WMG's goodwill could become impaired.

Additionally, if the yield on 20-year U.S. treasury bonds (our assumed risk-free rate of return) or the additional return investors require for alternate investments, including those similar to WMG, increases, we may be required to increase the discount rate used in our cash flow analysis. If all of our operating assumptions remain constant, but we are required to increase the discount rate in our cash flow model to 14.0% or higher, WMG's goodwill could become impaired.

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

	Weighted-Average Remaining Life (in Years)	June 26, 2016		September 27, 2015	
		Gross Amount	Accumulated Amortization (\$ in thousands)	Gross Amount	Accumulated Amortization
Non-compete agreements	0.6	\$ 874	\$ (779)	\$ 819	\$ (587)
Client relations	3.4	119,377	(80,729)	106,676	(67,726)
Backlog	1.7	18,607	(5,589)	2,115	(1,444)
Technology and trade names	1.0	2,561	(2,331)	2,506	(2,027)
Total		\$ 141,419	\$ (89,428)	\$ 112,116	\$ (71,784)

As a result of the Coffey and INDUS acquisitions in the second quarter of fiscal 2016, our identifiable intangible assets increased \$21.0 million and \$5.7 million in the RME and WEI segments, respectively. Additionally, foreign currency translation adjustments increased our net identifiable intangible assets by \$1.0 million in the first nine months of fiscal 2016. Amortization expense related to the identifiable intangible assets for the three and nine months ended June 26, 2016 was \$6.3 million and \$16.1 million, respectively, compared to \$4.7 million and \$15.5 million for the prior-year periods. Estimated amortization expense for the remainder of fiscal 2016 and succeeding years is as follows:

	Amount (in thousands)
2016	\$ 6,368
2017	22,595
2018	11,864
2019	5,450
2020	4,279
Beyond	1,435
Total	\$ 51,991

5. Property and Equipment

Property and equipment consisted of the following:

	June 26, 2016	September 27, 2015
	(in thousands)	
Land and buildings	\$ 3,683	\$ 3,661
Equipment, furniture and fixtures	182,770	176,883

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Leasehold improvements	30,675	21,582
Total property and equipment	217,128	202,126
Accumulated depreciation	(145,540)	(137,220)
Property and equipment, net	\$ 71,588	\$ 64,906

The depreciation expense related to property and equipment, including assets under capital leases, was \$5.9 million and \$17.2 million for the three and nine months ended June 26, 2016, respectively, compared to \$5.3 million and \$18.1 million for the prior-year periods. In the first nine months of fiscal 2015, we sold assets comprised primarily of equipment with a net book value of \$4.7 million for net proceeds of \$10.0 million, and recognized a corresponding gain of \$5.3 million, which is included in Other costs of revenue in our consolidated statements of income. This equipment was primarily related to our RCM segment.

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6. Stock Repurchase and Dividends

On November 10, 2014, the Board of Directors authorized a stock repurchase program under which we could repurchase up to \$200 million of our common stock over the succeeding two years. In the first nine months of fiscal 2016, we repurchased through open market purchases under this program a total of 2,735,584 shares at an average price of \$27.42, for a total cost of \$75.0 million.

On November 9, 2015, the Board of Directors declared a quarterly cash dividend of \$0.08 per share payable on December 11, 2015 to stockholders of record as of the close of business on November 30, 2015. On January 25, 2016, the Board of Directors declared a quarterly cash dividend of \$0.08 per share payable on February 26, 2016 to stockholders of record as of the close of business on February 12, 2016. On April 25, 2016, the Board of Directors declared a quarterly cash dividend of \$0.09 per share payable on May 27, 2016 to stockholders of record as of the close of business on May 13, 2016. Dividends totaling \$14.6 million and \$13.4 million were paid in the first nine months of fiscal 2016 and fiscal 2015, respectively.

Subsequent Event. On July 25, 2016, the Board of Directors declared a quarterly cash dividend of \$0.09 per share payable on August 31, 2016 to stockholders of record as of the close of business on August 12, 2016.

7. Stockholders Equity and Stock Compensation Plans

We recognize the fair value of our stock-based compensation awards as compensation expense on a straight-line basis over the requisite service period in which the award vests. Stock-based compensation expense for the three and nine months ended June 26, 2016 was \$3.2 million and \$9.3 million, respectively, compared to \$2.7 million and \$8.1 million for the same periods last year. The majority of these amounts were included in Selling, general and administrative (SG&A) expenses in our condensed consolidated statements of income. There were no stock compensation awards in the third quarter of fiscal 2016. For the nine months ended June 26, 2016, we granted 241,932 stock options with an exercise price of \$27.16 per share and an estimated weighted-average fair value of \$8.05 per share to our non-employee directors and executive officers. The executive officer options vest over a four-year period, and the non-employee director options vest after one year. In addition, we awarded 137,777 performance shares units (PSUs) to our non-employee directors and executive officers at a fair value of \$31.63 per share on the award date. All of the PSUs are performance-based and vest, if at all, after the conclusion of the three-year performance period. The number of PSUs that ultimately vest is based 50% on the growth in our diluted earnings per share and 50% on our total shareholder return over the vesting period. Additionally, we awarded 215,539 restricted stock units (RSUs) to our non-employee directors, executive officers and employees at a fair value of \$27.16 per share on the award date. All of the executive officer and employee RSUs have time-based vesting over a four-year period, and the non-employee director RSUs vest after one year.

8. Earnings Per Share (EPS)

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

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

	Three Months Ended		Nine Months Ended	
	June 26, 2016	June 28, 2015	June 26, 2016	June 28, 2015
	(in thousands, except per share data)			
Net income attributable to Tetra Tech	\$ 25,694	\$ 26,206	\$ 52,678	70,798
Weighted-average common shares outstanding basic	57,796	60,207	58,483	61,293
Effect of dilutive stock options and unvested restricted stock	820	585	745	594
Weighted-average common stock outstanding diluted	58,616	60,792	59,228	61,887
Earnings per share attributable to Tetra Tech:				
Basic	\$ 0.44	\$ 0.44	\$ 0.90	\$ 1.16
Diluted	\$ 0.44	\$ 0.43	\$ 0.89	\$ 1.14

For the three and nine months ended June 26, 2016, 0.1 million and 0.3 million options were excluded from the calculation of dilutive potential common shares, respectively, compared to 1.1 million and 1.3 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 during the period. Therefore, their inclusion would have been anti-dilutive.

9. Income Taxes

Our effective tax rates for the first nine months of fiscal 2016 and 2015 were 34.3% and 30.6%, respectively. In the second quarter of fiscal 2016, we incurred \$13.3 million of acquisition and integration expenses and debt pre-payment fees for which no tax benefit was recognized. Of this amount, \$6.4 million resulted from acquisition expenses that were not tax deductible, and \$6.9 million resulted from integration expenses and debt pre-payment fees incurred in jurisdictions with current and historical net operating losses where the related deferred tax asset was fully reserved. Additionally, during the first quarter of fiscal 2016, the U.S. Protecting Americans from Tax Hikes (PATH) Act of 2015 was signed into law. This law permanently extended the federal research and experimentation tax credits (R&E Credits) retroactive to January 1, 2015. Our income tax expense for the first quarter of fiscal 2016 included a tax benefit of \$2.0 million attributable to operating income during the last nine months of fiscal 2015, primarily related to the retroactive recognition of the R&E Credits. Our income tax expense for the first quarter of fiscal 2015 included a similar retroactive tax benefit of \$1.2 million attributable to operating income during the last nine months of fiscal 2014. Excluding all of the items above, our effective tax rates for the first nine months of fiscal 2016 and 2015 were 32.7% and 31.5%, respectively.

At June 26, 2016, approximately \$64.5 million of undistributed earnings of our foreign subsidiaries, primarily in Canada, were expected to be permanently reinvested. Accordingly, no provision for U.S. income taxes or foreign withholding taxes has been made. Upon distribution of those earnings, we would be subject to U.S. income taxes and foreign withholding taxes. Assuming the permanently reinvested foreign earnings were repatriated under the laws and rates applicable at June 26, 2016, the incremental federal tax applicable to those earnings would be approximately \$5.6 million.

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We review the realizability of deferred tax assets on a quarterly basis by assessing the need for a valuation allowance. As of June 26, 2016, we performed our assessment of net deferred tax assets. Significant management judgment is required in determining the provision for income taxes and, in particular, any valuation allowance recorded against our deferred tax assets. Applying the applicable accounting guidance requires an assessment of all available evidence, both positive and negative, regarding the realizability of the net deferred tax assets. Based upon recent results, we concluded that a cumulative loss in recent years exists in certain foreign jurisdictions. We have historically relied on the following factors in our assessment of the realizability of our net deferred tax assets:

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

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We considered these factors in our estimate of the reversal pattern of deferred tax assets, using assumptions that we believe are reasonable and consistent with operating results. However, as a result of cumulative pre-tax losses in certain foreign jurisdictions for the 36 months ended June 26, 2016, we concluded that our estimates of future taxable income and certain tax planning strategies did not constitute sufficient positive evidence to assert that it is more likely than not that certain deferred tax assets would be realizable before expiration. Based on our assessment, we concluded that it is more likely than not that the assets will be realized except for the assets related to loss carry-forwards in foreign jurisdictions for which a valuation allowance of \$8.9 million has been provided.

10. Reportable Segments

Our reportable segments are described as follows:

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

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

RCM: We report the results of the wind-down of our non-core construction activities in the RCM reportable segment. The remaining work to be performed in this segment will be substantially complete in 2017.

Management evaluates the performance of these reportable segments based upon their respective segment operating income before the effect of amortization expense related to acquisitions, and other unallocated corporate expenses. We account for inter-segment sales and transfers as if the sales and transfers were to third parties; that is, by applying a negotiated fee onto the costs of the services performed. All significant intercompany balances and transactions are eliminated in consolidation. In the third quarter and first nine months of fiscal 2016, the Corporate segment operating losses included \$1.0 million and \$16.9 million of acquisition and integration expenses, respectively, described in Note 3.

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

Reportable Segments

	Three Months Ended		Nine Months Ended	
	June 26, 2016	June 28, 2015	June 26, 2016	June 28, 2015
(in thousands)				
Revenue				
WEI	\$ 264,729	\$ 256,442	\$ 731,120	\$ 741,976
RME	414,872	315,417	1,134,538	958,103
RCM	5,202	16,466	36,781	69,046
Elimination of inter-segment revenue	(17,934)	(13,217)	(47,478)	(48,198)
Total revenue	\$ 666,869	\$ 575,108	\$ 1,854,961	\$ 1,720,927
Operating Income (Loss)				
WEI	\$ 25,206	\$ 24,988	\$ 61,627	\$ 61,956
RME	26,882	23,219	79,802	69,342
RCM	(4,023)	(190)	(9,691)	(3,605)
Corporate (1)	(8,980)	(7,296)	(43,071)	(19,961)
Total operating income	\$ 39,085	\$ 40,721	\$ 88,667	\$ 107,732
Depreciation				
WEI	\$ 1,223	\$ 1,358	\$ 3,594	\$ 4,072
RME	4,113	3,209	11,818	10,260
RCM	183	237	560	1,573
Corporate (1)	393	515	1,211	2,207
Total depreciation	\$ 5,912	\$ 5,319	\$ 17,183	\$ 18,112

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

	June 26, 2016	September 27, 2015
(in thousands)		
Total Assets		
WEI	\$ 300,493	\$ 287,112
RME	524,285	422,133
RCM	38,725	57,612
Corporate (1)	950,826	792,385
Total assets	\$ 1,814,329	\$ 1,559,242

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

Table of Contents*Major Clients*

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

The following table represents our revenue by client sector:

Client Sector	Three Months Ended		Nine Months Ended	
	June 26, 2016	June 28, 2015	June 26, 2016	June 28, 2015
	(in thousands)			
International (1)	\$ 194,616	\$ 124,951	\$ 537,324	\$ 445,691
U.S. commercial	194,089	193,098	556,635	523,839
U.S. federal government (2)	203,663	186,578	546,700	541,613
U.S. state and local government	74,501	70,481	214,302	209,784
Total	\$ 666,869	\$ 575,108	\$ 1,854,961	\$ 1,720,927

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

11. Fair Value Measurements

The fair value of long-term debt was determined using the present value of future cash flows based on the borrowing rates currently available for debt with similar terms and maturities (Level 2 measurement, as described in *Critical Accounting Policies and Estimates* in our Annual Report on Form 10-K for the fiscal year ended September 27, 2015). The carrying value of our long-term debt approximated fair value at June 26, 2016 and September 27, 2015. As of June 26, 2016, we had borrowings of \$364.5 million outstanding under our credit agreement, which were used to fund our business acquisitions, working capital needs, and contingent earn-outs.

12. Joint Ventures*Consolidated Joint Ventures*

The aggregate revenue of our consolidated joint ventures for the three and nine months ended June 26, 2016 was \$1.3 million and \$2.8 million, respectively, compared to \$2.0 million and \$5.8 million for the same periods last year. The assets and liabilities of these consolidated joint

ventures were immaterial at June 26, 2016 and September 27, 2015. These assets are restricted for use only by those joint ventures and are not available for our general operations. Cash and cash equivalents maintained by the consolidated joint ventures at June 26, 2016 and September 27, 2015 were \$1.3 million and \$0.7 million, respectively.

Unconsolidated Joint Ventures

We account for our unconsolidated joint ventures using the equity method of accounting. Under this method, we recognize our proportionate share of the net earnings of these joint ventures within Other costs of revenue in our condensed consolidated statements of income. For the three and nine months ended June 26, 2016, we reported \$0.7 million and \$1.6 million of equity in earnings of unconsolidated joint ventures, respectively, compared to \$1.3 million and \$3.1 million, respectively, for the same periods last year. Our maximum exposure to loss as a result of our investments in unconsolidated joint ventures is typically limited to the aggregate of the carrying value of the investment. Future funding commitments for our unconsolidated joint ventures are immaterial. The unconsolidated joint ventures are, individually and in the aggregate, immaterial to our condensed consolidated financial statements.

The aggregate carrying values of the assets and liabilities of the unconsolidated joint ventures were \$13.6 million and \$11.8 million, respectively, at June 26, 2016, and \$17.1 million and \$15.2 million, respectively, at September 27, 2015.

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

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

We recognize derivative instruments as either assets or liabilities on the accompanying condensed consolidated balance sheets at fair value (Level 2 measurement, as described in **Critical Accounting Policies and Estimates** in our Annual Report on Form 10-K for the fiscal year ended September 27, 2015). We record changes in the fair value (i.e., gains or losses) of the derivatives that have been designated as accounting hedges in our condensed consolidated balance sheets in accumulated other comprehensive loss.

In fiscal 2013, we entered into three interest rate swap agreements that we designated as cash flow hedges to fix the variable interest rates on a portion of borrowings under our term loan facility. In the first quarter of fiscal 2014, we entered into two interest rate swap agreements that we designated as cash flow hedges to fix the variable interest rates on the borrowings under the term loan facility. At June 26, 2016, the effective portion of our interest rate swap agreements designated as cash flow hedges before taxes was \$2.5 million, all of which we expect to be reclassified from accumulated other comprehensive loss to interest expense within the next 12 months.

As of June 26, 2016, the total notional principal amount of our outstanding interest rate swap agreements that expire in May 2018 was \$184.5 million and the weighted average fixed interest rate was 1.32%.

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

	Balance Sheet Location	June 26, 2016	September 27, 2015
		(in thousands)	
Interest rate swap agreements	Other current liabilities	\$ 2,464	\$ 2,518

The impact of the effective portions of derivative instruments in cash flow hedging relationships on income and other comprehensive income from our interest rate swap agreements was immaterial for the first nine months of fiscal 2016 and the fiscal year ended September 27, 2015. Additionally, there were no ineffective portions of derivative instruments. Accordingly, no amounts were excluded from effectiveness testing for our foreign currency forward contracts and interest rate swap agreements. We had no derivative instruments that were not designated as hedging instruments for fiscal 2015 and the first nine months of fiscal 2016.

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

The accumulated balances and reporting period activities for the three and nine months ended June 26, 2016 and June 28, 2015 related to reclassifications out of accumulated other comprehensive loss are summarized as follows:

	Foreign Currency Translation Adjustments	Three Months Ended Loss on Derivative Instruments (in thousands)	Accumulated Other Comprehensive Loss
Balances at March 29, 2015	\$ (111,170)	\$ (1,450)	\$ (112,620)
Other comprehensive income before reclassifications	11,689	1,186	12,875
Reclassification adjustment of prior derivative settlement, net of tax		(565)	(565)
Net current-period other comprehensive income	11,689	621	12,310
Balances at June 28, 2015	\$ (99,481)	\$ (829)	\$ (100,310)
Balances at March 27, 2016	\$ (131,137)	\$ (1,429)	\$ (132,566)
Other comprehensive income (loss) before reclassifications	9,052	(104)	8,948
Reclassification adjustment of prior derivative settlement, net of tax		(420)	(420)
Net current-period other comprehensive income (loss)	9,052	(524)	8,528
Balances at June 26, 2016	\$ (122,085)	\$ (1,953)	\$ (124,038)

	Foreign Currency Translation Adjustments	Nine Months Ended Loss on Derivative Instruments (in thousands)	Accumulated Other Comprehensive Loss
Balances at September 28, 2014	\$ (43,085)	\$ 547	\$ (42,538)
Other comprehensive income (loss) before reclassifications	(56,396)	358	(56,038)
Reclassification adjustment of prior derivative settlement, net of tax		(1,734)	(1,734)
Net current-period other comprehensive loss	(56,396)	(1,376)	(57,772)
Balances at June 28, 2015	\$ (99,481)	\$ (829)	\$ (100,310)
Balances at September 27, 2015	\$ (141,229)	\$ (1,942)	\$ (143,171)
Other comprehensive income before reclassifications	19,144	1,423	20,567
Reclassification adjustment of prior derivative settlement, net of tax		(1,434)	(1,434)

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Net current-period other comprehensive income	19,144	(11)	19,133
Balances at June 26, 2016	\$ (122,085)	\$ (1,953)	\$ (124,038)

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15. Commitments and Contingencies

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

16. Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued an accounting standard that will supersede existing revenue recognition guidance under current U.S. GAAP. The new standard is a comprehensive new revenue recognition model that requires a company to recognize revenue to depict the transfer of goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods and services. The accounting standard is effective for us in the first quarter of fiscal year 2019. Companies may use either a full retrospective or a modified retrospective approach to adopt this standard, and management is currently evaluating which transition approach to use. We are currently assessing what impact this new standard may have on our consolidated financial statements.

In June 2014, the FASB issued updated guidance intended to eliminate the diversity in practice regarding share-based payment awards that include terms which provide for a performance target that affects vesting being achieved after the requisite service period. The new standard requires that a performance target which affects vesting and could be achieved after the requisite service period be treated as a performance condition that affects vesting and should not be reflected in estimating the grant-date fair value. The updated guidance is effective for interim and annual reporting periods beginning after December 15, 2015, with early adoption permitted. We do not expect the adoption of this guidance to have an impact on our consolidated financial statements.

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

In February 2015, the FASB issued updated guidance which changes the analysis that a reporting entity must perform to determine whether it should consolidate certain types of legal entities. The updated guidance was effective for interim and annual reporting periods beginning after December 15, 2015, with early adoption permitted. The adoption of this guidance did not have an impact on our consolidated financial statements.

In April 2015, the FASB issued updated guidance intended to simplify, and provide consistency to, the presentation of debt issuance costs. The new standard requires that debt issuance costs be presented in the balance sheet as a direct deduction from the carrying amount of the debt

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liability, consistent with debt discounts. The updated guidance is effective for interim and annual reporting periods beginning after December 15, 2015, with early adoption permitted. We do not expect the adoption of this guidance to have a material impact on our consolidated financial statements. We had \$2.8 million of unamortized debt issuance costs at June 26, 2016.

In August 2015, the FASB issued updated guidance relating to the SEC Staff Announcement at the June 18, 2015 Emerging Issues Task Force meeting on the presentation and subsequent measurement of debt issuance costs associated with line-of-credit arrangements. The updated guidance allows for the deferral and presentation of debt issuance costs as an asset which may be amortized ratably over the term of the line-of-credit arrangement, regardless of whether there are any related outstanding borrowings. The updated guidance is effective for interim and annual reporting periods beginning after December 15, 2015, with early adoption permitted. We do not expect the adoption of this guidance to have a material impact on our consolidated financial statements.

In September 2015, the FASB issued updated guidance to simplify measurement-period adjustments in business combinations. The updated guidance eliminated the requirement that an acquirer in a business combination account for measurement-period adjustments retrospectively. Instead, an acquirer will recognize a measurement-period adjustment during the period in which it determines the amount of the adjustment. The updated guidance is effective for interim and annual reporting periods beginning after December 15, 2015, with early adoption permitted. We do not expect the adoption of this guidance to have a material impact on our consolidated financial statements.

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In November 2015, the FASB issued updated guidance as a part of its ongoing Simplification Initiative, with the objective of reducing complexity in accounting standards. The updated guidance requires that all deferred tax assets and liabilities, along with any related valuation allowance, be classified as noncurrent on the balance sheet. This guidance does not change the offsetting requirements for deferred tax liabilities and assets, which results in the presentation of one amount on the balance sheet. The guidance is effective for interim and annual reporting periods beginning after December 15, 2016, with early adoption permitted. We do not expect the adoption of this guidance to have a material impact on our consolidated financial statements.

In January 2016, the FASB issued guidance that generally requires companies to measure investments in other entities, except those accounted for under the equity method, at fair value and recognize any changes in fair value in net income. The guidance is effective for annual and interim reporting periods beginning after December 15, 2017. We are currently evaluating the impact of this guidance on our consolidated financial statements.

In February 2016, the FASB issued guidance that primarily requires lessees to recognize most leases on their balance sheets but record expenses on their income statements in a manner similar to current accounting. For lessors, the guidance modifies the classification criteria and the accounting for sales-type and direct financing leases. The guidance is effective for annual and interim periods beginning after December 15, 2018, with early adoption permitted. We are currently evaluating the impact of this guidance on our consolidated financial statements.

In March 2016, the FASB issued updated guidance which requires excess tax benefits and deficiencies on share-based payment to be recorded as income tax expense or benefit in the income statement rather than being recorded in additional paid-in capital. This guidance is effective for annual and interim periods beginning after December 15, 2016, with early adoption permitted. We do not expect the adoption of this guidance to have a material impact 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 the Management's Discussion and Analysis of Financial Condition and Results of Operations, contains forward-looking statements regarding future events and our future results that are subject to the safe harbor provisions created under the Securities Act of 1933 and the Securities Exchange Act of 1934. All statements other than statements of historical facts are statements that could be deemed forward-looking statements. These statements are based on current expectations, estimates, forecasts and projections about the industries in which we operate and the beliefs and assumptions of our management. Words such as expects, anticipates, targets, goals, projects, intends, plans, believes, seeks, estimates, continues, may, variations of such words, and similar expressions are intended to identify such forward-looking statements. In addition, any statements that refer to projections of our future financial performance, our anticipated growth and trends in our businesses, and other characterizations of future events or circumstances are forward-looking statements. Readers are cautioned that these forward-looking statements are only predictions and are subject to risks, uncertainties and assumptions that are difficult to predict, including those identified below under Part II, Item 1A. Risk Factors and elsewhere herein. Therefore, actual results may differ materially and adversely from those expressed in any forward-looking statements. We undertake no obligation to revise or update publicly any forward-looking statements for any reason.

GENERAL OVERVIEW

We are a leading provider of consulting, engineering, program management, and construction management services that focuses on addressing fundamental needs for water, environment, infrastructure, resource management, energy, and international development. We typically begin at the earliest stage of a project by identifying technical solutions to problems and developing execution plans tailored to our clients' needs and resources. Our solutions may span the entire life cycle of consulting and engineering projects, and include applied science, research and technology, information technology, data analytics, engineering, design, construction management, construction, and operations and maintenance. Our commitment to continuous improvement and investment in growth has diversified our client base, expanded our geographic reach, and increased the breadth and depth of our service offerings to address existing and emerging markets. We currently have approximately 16,000 staff worldwide, located primarily in North America.

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

	Three Months Ended		Nine months Ended	
	June 26, 2016	June 28, 2015	June 26, 2016	June 28, 2015
Client Sector				
International (1)	29.2%	21.7%	29.0%	25.9%

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U.S. commercial	29.1	33.6	30.0	30.4
U.S. federal government (2)	30.5	32.4	29.4	31.5
U.S. state and local government	11.2	12.3	11.6	12.2
Total	100.0%	100.0%	100.0%	100.0%

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

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

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Our reportable segments are as follows:

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

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

Remediation and Construction Management. We report the results of the wind-down of our non-core construction activities in the RCM reportable segment. The remaining work to be performed in this segment will be substantially complete in fiscal 2017.

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

Reportable Segment	Three Months Ended		Nine Months Ended	
	June 26, 2016	June 28, 2015	June 26, 2016	June 28, 2015
WEI	39.7%	44.6%	39.4%	43.1%
RME	62.2	54.8	61.2	55.7
RCM	0.8	2.9	2.0	4.0
Inter-segment elimination	(2.7)	(2.3)	(2.6)	(2.8)
	100.0%	100.0%	100.0%	100.0%

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

Contract Type	Three Months Ended		Nine Months Ended	
	June 26, 2016	June 28, 2015	June 26, 2016	June 28, 2015
Fixed-price	29.5%	35.1%	29.1%	36.2%
Time-and-materials	49.7	46.1	52.8	45.1
Cost-plus	20.8	18.8	18.1	18.7
	100.0%	100.0%	100.0%	100.0%

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

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

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

ACQUISITIONS AND DIVESTITURES

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

On January 18, 2016, we acquired Coffey, headquartered in Sydney, Australia. Coffey had approximately 3,300 staff delivering technical and engineering solutions in international development and geoscience. Coffey significantly expands Tetra Tech's geographic presence, particularly in Australia and Asia Pacific, and is part of our RME segment. In addition to Australia, Coffey's international development business has operations supporting federal government agencies in the U.S. and the United Kingdom. The fair value of the purchase price for Coffey was \$76.1 million in addition to \$65.1 million of assumed debt. In the second quarter of fiscal 2016, we also acquired INDUS, headquartered in Vienna, Virginia. INDUS is an information technology solutions firm focused on water data analytics, geospatial analysis, secure infrastructure, and software applications management for U.S. federal government customers, and is included in our WEI segment. The fair value of the purchase price for INDUS was \$17.8 million. Of this amount, \$13.1 million was paid to the sellers and \$4.7 million was the estimated fair value of contingent earn-out obligations, with a maximum of \$8.0 million, based upon the achievement of specified financial objectives.

In fiscal 2015, we acquired CEG, headquartered in Middletown, New York. CEG is an environmental engineering and consulting firm focused on solid waste markets in the United States, and is included in our RME segment. The fair value of the purchase price for CEG was \$15.9 million. Of this amount, \$11.8 million was paid to the sellers and \$4.1 million was the estimated fair value of contingent earn-out obligations, with a maximum of \$9.8 million, based upon the achievement of specified financial objectives.

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For further detailed information regarding acquisitions, see Note 3, Mergers and Acquisitions of the Notes to Condensed Consolidated Financial Statements .

Divestitures. To complement our acquisition strategy and our focus on internal growth, we regularly review and evaluate our existing operations to determine whether our business model should change through the divestiture of certain businesses. Accordingly, from time to time, we may divest certain non-core businesses and reallocate our resources to businesses that better align with our long-term strategic direction. We did not have any divestitures in the first nine months of fiscal 2016 or 2015.

OVERVIEW OF RESULTS AND BUSINESS TRENDS

General. In the first nine months of fiscal 2016, our revenue increased 7.8% compared to the prior-year period. Coffey and INDUS together contributed revenue of \$205.1 million in the first nine months of fiscal 2016 since their respective acquisition dates. Excluding these contributions, our revenue decreased 4.1% in the first nine months of fiscal 2016 compared to the same period last year. This decline primarily resulted from adverse foreign exchange rate fluctuations as the U.S. dollar strengthened over the last 12 months against most of the foreign currencies in which we conduct our international business, particularly the Canadian dollar. In addition, our lower revenue reflects a reduction in construction activities compared to the first nine months of last year, which resulted from our decision in fiscal 2014 to exit from select fixed-price construction markets. On a constant currency basis, revenue from our ongoing business in the first nine months of fiscal 2016, excluding RCM, Coffey and INDUS, increased slightly compared to the year-ago period.

International. Our international business increased 20.6% in the first nine months of fiscal 2016 compared to the same period last year. This growth was primarily due to Coffey, which contributed international revenue of \$142.8 million in fiscal 2016, since the acquisition date. Excluding this contribution, our international business decreased 11.6% in the first nine months of fiscal 2016 compared to the same period last year, including the adverse impact of foreign exchange rate fluctuations. Excluding the impact of foreign exchange, our ongoing international business declined 2.3% compared to the prior-year period, reflecting the commodity-driven slow-down in economic activity in Canada. We anticipate significantly increased international revenue, primarily due to the contribution from Coffey, during the remainder of fiscal 2016 on a constant currency basis.

U.S. Commercial. Our U.S. commercial business increased 6.3% in the first nine months of fiscal 2016 compared to the year-ago period. This growth primarily reflects increased waste management and environmental activities. We expect our U.S. commercial revenue to continue to show year-over-year improvement during the remainder of fiscal 2016.

U.S. Federal Government. Our U.S. federal government business increased 0.9% in the first nine months of fiscal 2016 compared to the year-ago period. Excluding the contribution from Coffey, our U.S. federal government business decreased 9.0% in the first nine months of fiscal 2016 compared to the same period last year, partially due to the aforementioned reduction in fixed-price construction activities in the RCM segment. Excluding these activities and the contribution from Coffey, our U.S. federal government revenue decreased 4.2% in the first nine months of fiscal 2016 compared to the first nine months of last year. We experienced reduced activity on projects for the U.S. Department of Defense (DoD), which more than offset increases in revenues from civilian federal projects. During periods of economic volatility, our U.S. federal government clients have historically been the most stable and predictable. We expect our U.S. federal revenue to show year-over-year growth during the remainder of fiscal 2016, excluding the RCM segment.

U.S. State and Local Government. Our U.S. state and local government business increased 2.2% in the first nine months of fiscal 2016 compared to the same period in fiscal 2015. This increase includes the offsetting impact of the aforementioned reduction in certain construction activities, especially those related to state transportation projects in the RCM segment. Excluding these activities, our U.S. state and local government revenue increased 5.5% in the first nine months of fiscal 2016 compared to the same period last year. Many state and local government agencies are experiencing improved financial conditions that enable them to address major long-term infrastructure requirements, including the need for maintenance, repair, and upgrading of existing critical infrastructure and the need to build new facilities. As a result, we experienced broad-based growth in U.S. state and local government project-related infrastructure revenue. We expect our U.S. state and local government business to continue to show growth during the remainder of fiscal 2016, excluding the RCM segment.

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

	June 26, 2016		Three Months Ended June 28, 2015		Change		June 26, 2016		Nine Months Ended June 28, 2015		Change	
	\$		\$	%	\$	%	\$		\$	%	\$	%
(\$ in thousands, except per share data)												
Revenue	\$ 666,869	\$ 575,108	\$ 91,761	16.0%	\$ 1,854,961	\$ 1,720,927	\$ 134,034	7.8%				
Subcontractor costs	(168,235)	(153,209)	(15,026)	(9.8)	(456,606)	(429,194)	(27,412)	(6.4)				
Revenue, net of subcontractor costs (1)	498,634	421,899	76,735	18.2	1,398,355	1,291,733	106,622	8.3				
Other costs of revenue	(413,551)	(340,181)	(73,370)	(21.6)	(1,165,323)	(1,061,419)	(103,904)	(9.8)				
Gross profit	85,083	81,718	3,365	4.1	233,032	230,314	2,718	1.2				
Selling, general and administrative expenses	(44,993)	(40,997)	(3,996)	(9.7)	(124,626)	(125,695)	1,069	0.9				
Acquisition and integration expenses	(1,005)		(1,005)	NM	(16,916)		(16,916)	NM				
Contingent consideration - fair value adjustments					(2,823)	3,113	(5,936)	(190.7)				
Operating income	39,085	40,721	(1,636)	(4.0)	88,667	107,732	(19,065)	(17.7)				
Interest expense	(2,590)	(2,026)	(564)	(27.8)	(8,501)	(5,621)	(2,880)	(51.2)				
Income before income tax expense	36,495	38,695	(2,200)	(5.7)	80,166	102,111	(21,945)	(21.5)				
Income tax expense	(10,805)	(12,443)	1,638	13.2	(27,497)	(31,202)	3,705	11.9				
Net income including noncontrolling interests	25,690	26,252	(562)	(2.1)	52,669	70,909	(18,240)	(25.7)				
Net (income) loss from noncontrolling interests	4	(46)	50	108.7	9	(111)	120	108.1				
Net income attributable to Tetra Tech	25,694	26,206	(512)	(2.0)	52,678	70,798	(18,120)	(25.6)				
Diluted earnings per share	\$ 0.44	\$ 0.43	\$ 0.01	2.3	\$ 0.89	\$ 1.14	\$ (0.25)	(21.9)				

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

NM = not meaningful

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The following table reconciles our reported results to ongoing results, which exclude the RCM results, purchase accounting adjustments, and the impact of changes in foreign exchange translation rates in the fiscal 2016 reporting periods compared to the same periods in fiscal 2015. Ongoing results also exclude Coffey-related acquisition and integration expenses, and debt pre-payment fees in the third quarter and first nine months of fiscal 2016. Additionally, ongoing diluted EPS for the nine month periods exclude the benefit of the retroactive extension of the R&E Credits described below. The effective tax rate applied to the adjustments to EPS to arrive at ongoing EPS were 30% and 25% in the third quarter and first nine months of fiscal 2016, respectively, which had no tax benefit. The lower year-to-date rate reflects certain acquisition and integration expenses incurred in the second quarter of fiscal 2016 related to Coffey. Both EPS and ongoing EPS were calculated using diluted weighted-average common shares outstanding for the respective periods as reflected in our consolidated statements of income.

	June 26, 2016	Three Months Ended June 28, 2015	Change \$	%	June 26, 2016	Nine Months Ended June 28, 2015	Change \$	%
(\$ in thousands, except per share data)								
Revenue	\$ 666,869	\$ 575,108	\$ 91,761	16.0%	\$ 1,854,961	\$ 1,720,927	\$ 134,034	7.8%
Foreign exchange	4,837		4,837		41,166		41,166	
RCM	(5,202)	(16,466)	11,264		(36,781)	(69,046)	32,265	
Ongoing revenue	\$ 666,504	\$ 558,642	\$ 107,862	19.3	\$ 1,859,346	\$ 1,651,881	\$ 207,465	12.6
Revenue, net of subcontractor costs	\$ 498,634	\$ 421,899	\$ 76,735	18.2	\$ 1,398,355	\$ 1,291,733	\$ 106,622	8.3
Foreign exchange	4,707		4,707		38,061		38,061	
RCM	(2,372)	(5,754)	3,382		(12,537)	(18,446)	5,909	
Ongoing revenue, net of subcontractors costs	\$ 500,969	\$ 416,145	\$ 84,824	20.4	\$ 1,423,879	\$ 1,273,287	\$ 150,592	11.8
Operating income	\$ 39,085	\$ 40,721	\$ (1,636)	(4.0)	\$ 88,667	\$ 107,732	\$ (19,065)	(17.7)
Foreign exchange	58		58		1,584		1,584	
Acquisition and integration expenses	1,005		1,005		16,916		16,916	
Contingent consideration - fair value adjustments					2,823	(3,113)	5,936	
Subtotal	40,148	40,721	(573)	(1.4)	109,990	104,619	5,371	5.1
RCM	4,023	190	3,833		9,691	3,605	6,086	
Ongoing operating income	\$ 44,171	\$ 40,911	\$ 3,260	8.0	\$ 119,681	\$ 108,224	\$ 11,457	10.6
EPS	\$ 0.44	\$ 0.43	\$ 0.01	2.3%	\$ 0.89	\$ 1.14	\$ (0.25)	(21.9)%
Earn-out expense (gain)					0.03	(0.03)	0.06	
RCM	0.05		0.05		0.10	0.03	0.07	
Acquisition and integration expenses	0.01		0.01		0.27		0.27	
Coffey debt prepayment					0.03		0.03	
Retroactive R&E tax					(0.03)	(0.02)	(0.01)	
Ongoing EPS	\$ 0.50	\$ 0.43	\$ 0.07	16.3%	\$ 1.29	\$ 1.12	\$ 0.17	15.2%
Foreign exchange (FX)					0.02		0.02	
Ongoing EPS, net of FX	\$ 0.50	\$ 0.43	\$ 0.07	16.3%	\$ 1.31	\$ 1.12	\$ 0.19	17.0%

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In the third quarter of fiscal 2016, revenue and revenue, net of subcontractor costs, increased \$91.8 million, or 16.0%, and \$76.7 million, or 18.2%, respectively, compared to the third quarter of last year. In the first nine months of fiscal 2016, revenue and revenue, net of subcontractor costs, increased \$134.0 million, or 7.8%, and \$106.6 million, or 8.3%, respectively, compared to the same period last year. These results include the above-described fluctuation in foreign exchange rates and the reduction in certain construction activities compared to last year. Revenue declines caused by foreign exchange rate fluctuations resulted from a stronger U.S. dollar versus most of the foreign currencies in which we conduct our international business, particularly the Canadian dollar. These fluctuations negatively impacted revenue and revenue, net of subcontractor costs, by \$4.8 million and \$4.7 million, respectively, in the third quarter of fiscal 2016, and \$41.2 million and \$38.1 million, respectively, in the first nine months of fiscal 2016 compared to the same periods in fiscal 2015. Revenue and revenue, net of subcontractor costs, from the exited construction activities, which are reported in the RCM segment, declined \$11.3 million and \$3.4 million, respectively, in the third quarter of fiscal 2016 compared to the prior-year third quarter. On a year-to-date basis, this revenue and revenue, net of subcontractor costs, decreased \$32.3 million and \$5.9 million, respectively, compared to the first nine months of last year.

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Our ongoing revenue and revenue, net of subcontractor costs, increased 19.3% and 20.4%, respectively, in the third quarter of fiscal 2016 and 12.6% and 11.8%, respectively, in the first nine months of fiscal 2016, compared to the same periods last year. These increases reflect revenue and revenue, net of subcontractor costs, of \$108.9 million and \$79.2 million, respectively, in the third quarter, and \$197.1 million and \$144.9 million, respectively, in the first nine months of fiscal 2016 from Coffey since the acquisition date in the second quarter of fiscal 2016. Excluding the contributions from Coffey, our ongoing revenue and revenue, net of subcontractor costs, decreased 0.2% and increased 1.4%, respectively, in the third quarter of fiscal 2016, and increased 0.6% and 0.4%, respectively, in the first nine months of fiscal 2016, compared to the same periods last year. These results reflect increased commercial and state and local government activity in our ongoing U.S. operations. On a combined basis, commercial and state and local government revenue and revenue, net of subcontractor costs, increased \$6.3 million and \$5.4 million, respectively, in the third quarter of fiscal 2016, and \$42.2 million and \$22.2 million, respectively, in the first nine months of fiscal 2016 compared to the same periods last year, primarily due to increased waste management activities. However, these increases were offset by a decline in our international activities, which reflects the commodity-driven slowdown in economic activity in Canada. Excluding Coffey, our U.S. federal revenue was stable in the third quarter of fiscal 2016 compared to the same period last year. However, on a year-to-date basis, our U.S. federal revenue and revenue, net of subcontractor costs, declined \$21.2 million and \$11.5 million, respectively, compared to fiscal 2015. These decreases were due primarily to a reduction in DoD work.

Our operating income decreased \$1.6 million and \$19.1 million in the third quarter and first nine months of fiscal 2016, respectively, compared to the same periods in fiscal 2015. Our operating income in the third quarter and first nine months of 2016 was reduced by acquisition and integration expenses of \$1.0 million and \$16.9 million, respectively, related to the Coffey acquisition. For further detailed information regarding these charges, see Note 3, Mergers and Acquisitions of the Notes to Condensed Consolidated Financial Statements. In addition, losses of \$2.8 million related to changes in the estimated fair value of contingent earn-out liabilities reduced our operating income in the first nine months of fiscal 2016. These earn-out losses compare to a gain of \$3.1 million in the first nine months of fiscal 2015. The aforementioned year-over-year foreign exchange rate fluctuations reduced operating income by \$0.1 million and \$1.6 million in the third quarter and first nine months of fiscal 2016, respectively, compared to the same periods last year. The loss from exited construction activities in our RCM segment was \$4.0 million and \$9.7 million in the third quarter and first nine months of fiscal 2016, respectively, compared to break-even results and a loss of \$3.6 million in the third quarter and first nine months of fiscal 2015. Our RCM results are described below under Remediation and Construction Management. Excluding these non-operating items, ongoing operating income increased \$3.3 million, or 8.0%, and \$11.5 million, 10.6%, in the third quarter and first nine months of fiscal 2016, respectively, compared to the same periods in fiscal 2015.

Our increased ongoing operating income in the third quarter and first nine months of fiscal 2016 primarily reflects the contribution from Coffey in fiscal 2016. After related amortization of intangible assets of \$2.1 million and \$3.7 million in the third quarter and first nine months of fiscal 2016, respectively, Coffey contributed ongoing operating income of \$3.6 million and \$3.9 million in the same periods. Excluding Coffey, ongoing operating income was flat in the third quarter and increased \$8.3 million, or 7.7%, in the first nine months of fiscal 2016 compared to the same periods last year. The year-to-date increase in ongoing operating income, excluding Coffey, primarily reflects improved results in our RME segment compared to last year. On a constant currency basis, RME's ongoing operating income increased \$5.2 million in the first nine months of fiscal 2016 compared to the same period last year, excluding Coffey. Our RME results are described below under Resource Management and Energy. The remainder of the year-to-date increase in operating income reflects lower intangible amortization, excluding the amount for Coffey in fiscal 2016, of \$3.1 million.

Interest expense was \$2.6 million and \$8.5 million, in the third quarter and first nine months of fiscal 2016, respectively, compared to \$2.0 million and \$5.6 million in the same periods last year. Interest expense in the first nine months of fiscal 2016 includes debt pre-payment fees of \$1.9 million related to the Coffey acquisition incurred in the second quarter. The remaining increase in interest expense reflects additional borrowings to fund the Coffey acquisition.

Our effective tax rates for the first nine months of fiscal 2016 and 2015 were 34.3% and 30.6%, respectively. In the second quarter of fiscal 2016, we incurred \$13.3 million of acquisition and integration expenses and debt pre-payment fees for which no tax benefit was recognized. Of this amount, \$6.4 million resulted from acquisition expenses that were not tax deductible, and \$6.9 million resulted from integration expenses

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and debt pre-payment fees incurred in jurisdictions with current and historical net operating losses where the related deferred tax asset was fully reserved. Additionally, during the first quarter of fiscal 2016, the PATH Act of 2015 was signed into law which permanently extended the federal R&E Credits retroactive to January 1, 2015. Our income tax expense for the first quarter of fiscal 2016 included a tax benefit of \$2.0 million attributable to operating income during the last nine months of fiscal 2015, primarily related to the retroactive recognition of the R&E Credits. Our income tax expense for the first quarter of fiscal 2015 included a similar retroactive tax benefit of \$1.2 million attributable to operating income during the last nine months of fiscal 2014. Excluding these items, our effective tax rates for the first nine months of fiscal 2016 and 2015 were 34.2% and 32.9%, respectively.

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Diluted EPS were \$0.44 and \$0.89 in the third quarter and first nine months of fiscal 2016, respectively, compared to \$0.43 and \$1.14 in the prior-year periods. These comparisons reflect the acquisition and integration expenses and debt pre-payment fees that totaled \$1.0 million (\$0.7 million after tax) and \$18.8 million (\$17.2 million after-tax) in the third quarter and first nine months of fiscal 2016, respectively. These charges reduced EPS by \$0.01 and \$0.30 per share in the third quarter and first nine months of fiscal 2016, respectively. The other non-operating items described above (foreign exchange, earn-out gains/losses, and RCM segment results) also adversely affected the year-over-year EPS comparisons. On the same basis as our ongoing operating income, EPS was \$0.50 and \$1.31 in the third quarter and first nine months of fiscal 2016, respectively, compared to \$0.43 and \$1.12 in the same periods last year.

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

	June 26, 2016		Three Months Ended June 28, 2015		Change		June 26, 2016		Nine Months Ended June 28, 2015		Change			
			\$	%		%	\$	%	\$	%	\$	%		
	(\$ in thousands)													
Revenue	\$	264,729	\$	256,442	\$	8,287	3.2%	\$	731,120	\$	741,976	\$	(10,856)	(1.5)%
Subcontractor costs		(73,409)		(62,288)		(11,121)	17.9		(193,962)		(168,527)		(25,435)	15.1
Revenue, net of subcontractor costs	\$	191,320	\$	194,154	\$	(2,834)	(1.5)	\$	537,158	\$	573,449	\$	(36,291)	(6.3)
Operating income	\$	25,206	\$	24,988	\$	218	0.9	\$	61,627	\$	61,956	\$	(329)	(0.5)

On a constant currency basis, revenue increased 4.2% and revenue, net of subcontractor costs, decreased 0.3% in the third quarter of fiscal 2016, and increased 0.6% and decreased 3.9% in the first nine months of fiscal 2016, respectively, compared to the same periods of fiscal 2015. As described above, foreign exchange rate fluctuations negatively impacted revenue and revenue, net of subcontractor costs, in the amounts of \$2.4 million and \$2.2 million, respectively, for the third quarter of fiscal 2016, and \$15.4 million and \$14.1 million, respectively, for the first nine months of fiscal 2016 compared to the year-ago periods. The declines in revenue, net of subcontractor costs, resulted primarily from the aforementioned reduction in DoD work.

Despite lower revenue, net of subcontractor costs, operating income increased \$0.2 million in the third quarter of fiscal 2016 compared to the same period last year. Operating income in last year's third quarter included favorable income adjustments of \$2.7 million upon the completion of several projects. Excluding these adjustments operating income increased \$2.9 million, or 13.3%, compared to last year's third quarter. Over the same period, operating margin, based on revenue, net of subcontractor costs, improved to 13.2% in the third quarter of fiscal 2016 from 11.5% (excluding the project adjustments) in last year's third quarter. This improved profitability reflects a higher proportion of commercial revenue and a corresponding decline in government revenue in the third quarter of fiscal 2016 compared to the same period last year. Commercial revenue typically has a higher margin than revenue from government projects. On the same basis, this trend is also reflected in our year-to-date results as our operating margin improved to 11.5% in the first nine months of fiscal 2016 compared to 10.3% in the first nine months of fiscal 2015.

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	June 26, 2016	Three Months Ended		Change %	June 26, 2016	Nine Months Ended		Change %
		June 28, 2015	\$			June 28, 2015	\$	
(\$ in thousands)								
Revenue	\$ 414,872	\$ 315,417	\$ 99,455	31.5%	\$ 1,134,538	\$ 958,103	\$ 176,435	18.4%
Subcontractor costs	(109,930)	(93,426)	(16,504)	17.7	(285,878)	(258,264)	(27,614)	10.7
Revenue, net of subcontractor costs	\$ 304,942	\$ 221,991	\$ 82,951	37.4	\$ 848,660	\$ 699,839	\$ 148,821	21.3
Operating income	\$ 26,882	\$ 23,219	\$ 3,663	15.8	\$ 79,802	\$ 69,342	\$ 10,460	15.1

On a constant currency basis, revenue and revenue, net of subcontractor costs, increased 32.4% and 38.5%, respectively, in the third quarter of fiscal 2016, and 21.2% and 24.7%, respectively, in the first nine months of 2016 compared to the same periods last year. As in the WEI segment, foreign exchange rate fluctuations had an adverse impact on revenue and revenue, net of subcontractor costs, during fiscal 2016 in the amounts of \$2.6 million and \$2.5 million, respectively, for the third quarter, and \$26.7 million and \$23.9 million, respectively, for the nine-month period, compared to the same periods last year. The resulting increases reflect revenue of \$108.9 million and \$197.1 million contributed by Coffey in the third quarter and first nine months of fiscal 2016, respectively, since the acquisition date. On a constant currency basis, excluding the Coffey contribution, our revenue declined 2.2% and our revenue, net of subcontractor costs, increased 2.8% in the third quarter of fiscal 2016 compared to last year's third quarter. On the same basis, our year-to-date revenue and revenue, net of subcontractor costs, increased 0.6% and 4.0%, respectively, compared to first nine months of fiscal 2015. The increases primarily reflect higher waste management and international development revenue.

Operating income increased \$3.7 million and \$10.5 million in the third quarter and first nine months of fiscal 2016, respectively, compared to the same periods last year. Coffey contributed operating income of \$5.7 million and \$7.6 million in the third quarter and first nine months of fiscal 2016, respectively. The \$2.0 million decline in operating income, excluding Coffey, in the third quarter of fiscal 2016 reflects lower operating income from oil and gas activities, which was partially offset by improved project execution in our waste management business. In the first nine months of fiscal 2016, increased operating income in the oil and gas business, combined with the improved waste management results, accounted for substantially all of the \$2.9 million increase in year-to-date operating income, excluding Coffey.

Remediation and Construction Management

	June 26, 2016	Three Months Ended		Change %	June 26, 2016	Nine Months Ended		Change %
		June 28, 2015	\$			June 28, 2015	\$	
(\$ in thousands)								
Revenue	\$ 5,202	\$ 16,466	\$ (11,264)	(68.4)%	\$ 36,781	\$ 69,046	\$ (32,265)	(46.7)%
Subcontractor costs	(2,830)	(10,712)	7,882	(73.6)	(24,244)	(50,601)	26,357	(52.1)
Revenue, net of subcontractor costs	\$ 2,372	\$ 5,754	\$ (3,382)	(58.8)	\$ 12,537	\$ 18,445	\$ (5,908)	(32.0)
Operating loss	\$ (4,023)	\$ (190)	\$ (3,833)	2017.4	\$ (9,691)	\$ (3,605)	\$ (6,086)	168.8

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Revenue and revenue, net of subcontractor costs, decreased \$11.3 million and \$3.4 million, respectively, in the third quarter of fiscal 2016, and decreased \$32.3 million and \$5.9 million, respectively, in the first nine months of fiscal 2016, compared to the year-ago periods. These decreases resulted from our decision to wind-down the RCM construction activities. The operating loss in the third quarter of fiscal 2016 resulted from adverse changes in the estimated costs to complete several of the remaining projects, legal expenses, and resolution of various outstanding project claims. In addition, the year-to-date operating loss of \$9.7 million in fiscal 2016 includes \$7.9 million of losses related to uncollectible accounts receivable, including claims. This loss was partially offset by a gain of \$4.6 million resulting from the settlement of a claim with a U.S. federal government client for work completed in fiscal 2013. The remaining RCM backlog at the end of the third quarter of 2016 was \$38 million. The related work to be performed in this segment will be substantially complete in 2017.

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Financial Condition, Liquidity and Capital Resources

Capital Requirements. Our primary sources of liquidity are cash flows from operations and borrowings under our credit facilities. Our primary uses of cash are to fund working capital, capital expenditures, stock repurchases, cash dividends and repayment of debt, as well as to fund acquisitions and earn-out obligations from prior acquisitions. We believe that our existing cash and cash equivalents, operating cash flows and borrowing capacity under our credit agreement, as described below, will be sufficient to meet our capital requirements for at least the next 12 months. On November 10, 2014, the Board of Directors authorized a stock repurchase program under which we could repurchase up to \$200 million of our common stock over the succeeding two years, \$175 million of which had been repurchased as of June 26, 2016. On November 9, 2015, the Board of Directors declared a quarterly cash dividend of \$0.08 per share paid on December 11, 2015 to stockholders of record as of the close of business on November 30, 2015. On January 25, 2016, the Board of Directors declared a quarterly cash dividend of \$0.08 per share paid on February 26, 2016 to stockholders of record as of the close of business on February 12, 2016. On April 25, 2016, the Board of Directors declared a quarterly cash dividend of \$0.09 per share payable on May 27, 2016 to stockholders of record as of the close of business on May 13, 2016.

Subsequent Event. On July 25, 2016, the Board of Directors declared a quarterly cash dividend of \$0.09 per share payable on August 31, 2016 to stockholders of record as of the close of business on August 12, 2016.

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

As of June 26, 2016, cash and cash equivalents were \$153.9 million, an increase of \$18.6 million compared to the fiscal 2015 year-end. The increase was due to cash generated from operating activities, partially offset by cash used for share repurchases, capital expenditures and dividends.

Operating Activities. For the first nine months of fiscal 2016, net cash provided by operating activities was \$89.8 million, a decrease of \$44.3 million compared to the first nine months of fiscal 2015, due primarily to the timing of collections on accounts receivable, including \$17.6 million of collections on claims in the first nine months of fiscal 2016 compared to \$31.0 million in the same period last year. In addition, we paid \$16.9 million in acquisition and integration expenses related to Coffey in the first nine months of fiscal 2016.

Investing Activities. For the first nine months of fiscal 2016, net cash used in investing activities was \$92.2 million, an increase of \$70.3 million compared to the first nine months of fiscal 2015. The increase primarily resulted from cash used for the acquisitions of Coffey and INDUS in the second quarter of fiscal 2016, which totaled \$81.3 million.

Financing Activities. For the first nine months of fiscal 2016, net cash provided by financing activities was \$18.5 million, compared to net cash used in financing activities of \$55.6 million in the prior-year period. The \$74.2 million year-over-year change primarily relates to increased net borrowings of \$65.6 million for the fiscal 2016 acquisitions previously discussed.

Debt Financing. On May 7, 2013, we entered into a credit agreement that provided for a \$205 million term loan facility and a \$460 million revolving credit facility both maturing in May 2018. On May 29, 2015, we entered into a third amendment to our credit agreement (as amended, the Credit Agreement) that extended the maturity date for the term loan and the revolving credit facility to May 2020. The Credit Agreement is a \$654.8 million senior secured, five-year facility that provides for a \$194.8 million term loan facility (the Term Loan Facility) and a \$460 million revolving credit facility (the Revolving Credit Facility). The Credit Agreement allows us to, among other things, finance certain permitted open market repurchases of our common stock, permitted acquisitions, and cash dividends and distributions. The Revolving Credit Facility includes a \$150 million sublimit for the issuance of standby letters of credit, a \$20 million sublimit for swingline loans, and a \$150 million sublimit for multicurrency borrowings. The interest rate provisions of the term loan and the revolving credit facility did not materially change.

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The Term Loan Facility is subject to quarterly amortization of principal, with \$10.3 million payable in year 1, and \$15.4 million payable in years 2 through 5. The Term Loan may be prepaid at any time without penalty. We may borrow on the Revolving Credit Facility, at our option, at either (a) a Eurocurrency rate plus a margin that ranges from 1.15% to 2.00% per annum, or (b) a base rate for loans in U.S. dollars (the highest of the U.S. federal funds rate plus 0.50% per annum, the bank's prime rate or the Eurocurrency rate plus 1.00%) plus a margin that ranges from 0.15% to 1.00% per annum. In each case, the applicable margin is based on our Consolidated Leverage Ratio, calculated quarterly. The Term Loan Facility is subject to the same interest rate provisions. The interest rate of the Term Loan Facility at the date of inception was 1.57%. The Credit Agreement expires on May 29, 2020, or earlier at our discretion upon payment in full of loans and other obligations.

As of June 26, 2016, we had \$364.5 million in outstanding borrowings under the Credit Agreement, which was comprised of \$184.5 million under the Term Loan Facility and \$180 million under the Revolving Credit Facility at a weighted-average interest rate of 1.76% per annum. In addition, we had \$1.3 million in standby letters of credit under the Credit Agreement. Our average effective weighted-average interest rate on borrowings outstanding at June 26, 2016 under the Credit Agreement, including the effects of interest rate swap agreements described in Note 13, Derivative Financial Instruments of the Notes to Condensed Consolidated Financial Statements, was 2.43%. At June 26, 2016, we had \$278.7 million of available credit under the Revolving Credit Facility, of which \$184.4 million could be borrowed without a violation of our debt covenants. In addition, we entered into agreements with three banks to issue up to \$53 million in standby letters of credit. The aggregate amount of standby letters of credit outstanding under these additional facilities and other bank guarantees was \$25.3 million, of which \$6.0 million was issued in currencies other than the U.S. dollar.

The Credit Agreement contains certain affirmative and restrictive covenants, and customary events of default. The financial covenants provide for a maximum Consolidated Leverage Ratio of 3.00 to 1.00 (total funded debt/EBITDA, as defined in the Credit Agreement) and a minimum Consolidated Fixed Charge Coverage Ratio of 1.25 to 1.00 (EBITDA, as defined in the Credit Agreement minus capital expenditures/cash interest plus taxes plus principal payments of indebtedness including capital leases, notes and post-acquisition payments).

At June 26, 2016, we were in compliance with these covenants with a consolidated leverage ratio of 2.07x and a consolidated fixed charge coverage ratio of 2.97x. Our obligations under the Credit Agreement are guaranteed by certain of our subsidiaries and are secured by first priority liens on (i) the equity interests of certain of our subsidiaries, including those subsidiaries that are guarantors or borrowers under the Credit Agreement, and (ii) our accounts receivable, general intangibles and intercompany loans, and those of our subsidiaries that are guarantors or borrowers.

At the time of acquisition, Coffey had an existing secured credit facility with a bank, comprised of an overdraft facility, a term facility and a bank guaranty facility. This facility was amended in March 2016 to extend the term of the existing facility to April 8, 2016, and allow for the issuance of a parent guarantee and release of certain subsidiary guarantors. On April 8, 2016, the facility was amended again to provide for a secured AUD\$30 million facility, which may be used interchangeably by Coffey for bank overdrafts, short-term cash advances or bank guarantees. This facility expires in April 2017, is secured by assets of certain Australian and New Zealand subsidiaries, and is supported by a parent guarantee. At June 26, 2016, amounts outstanding under this facility consisted solely of bank guarantees of \$5.6 million.

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.

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

	Dividend Per Share	Record Date (in thousands, except per share data)	Total Maximum Payment	Payment Date
November 10, 2014	\$ 0.07	November 26, 2014	\$ 4,372	December 15, 2014
January 26, 2015	\$ 0.07	February 11, 2015	\$ 4,258	February 26, 2015
April 27, 2015	\$ 0.08	May 14, 2015	\$ 4,810	May 29, 2015
July 27, 2015	\$ 0.08	August 17, 2015	\$ 4,799	September 4, 2015
November 9, 2015	\$ 0.08	November 30, 2015	\$ 4,713	December 11, 2015
January 25, 2016	\$ 0.08	February 12, 2016	\$ 4,669	February 26, 2016
April 25, 2016	\$ 0.09	May 13, 2016	\$ 5,196	May 27, 2016
July 25, 2016	\$ 0.09	August 12, 2016	N/A	August 31, 2016

Income Taxes

We review the realizability of deferred tax assets on a quarterly basis by assessing the need for a valuation allowance. As of June 26, 2016, we performed our assessment of net deferred tax assets. Significant management judgment is required in determining the provision for income taxes and, in particular, any valuation allowance recorded against our deferred tax assets. Applying the applicable accounting guidance requires an assessment of all available evidence, positive and negative, regarding the realizability of the net deferred tax assets. Based upon recent results, we concluded that a cumulative loss in recent years exists in certain foreign jurisdictions. We have historically relied on the following factors in our assessment of the realizability of our net deferred tax assets:

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

We considered these factors in our estimate of the reversal pattern of deferred tax assets, using assumptions that we believe are reasonable and consistent with operating results. However, as a result of cumulative pre-tax losses in certain foreign jurisdictions for the 36 months ended June 26, 2016, we concluded that our estimates of future taxable income and certain tax planning strategies did not constitute sufficient positive evidence to assert that it is more likely than not that certain deferred tax assets would be realizable before expiration. Based on our assessment, we concluded that it is more likely than not that the assets will be realized except for the assets related to loss carry-forwards in foreign

jurisdictions for which a valuation allowance of \$8.9 million has been provided.

Off-Balance Sheet Arrangements

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

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

- Letters of credit and bank guarantees are used primarily to support project performance and insurance programs. We are required to reimburse the issuers of letters of credit and bank guarantees for any payments they make under the outstanding letters of credit or bank guarantees. Our Credit Agreement and additional letter of credit facilities cover the issuance of our standby letters of credit and bank guarantees and are critical for our normal operations. If we default on the Credit Agreement or additional credit facilities, our inability to issue or renew standby letters of credit and bank guarantees would impair our ability to maintain normal operations. At June 26, 2016, we had \$1.3 million in standby letters of credit outstanding under our Credit Agreement, \$25.3 million in standby letters of credit outstanding under our additional letter of credit facilities and \$5.6 million of bank guarantees under the existing Coffey facility.

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- From time to time, we provide guarantees and indemnifications related to our services. If our services under a guaranteed or indemnified project are later determined to have resulted in a material defect or other material deficiency, then we may be responsible for monetary damages or other legal remedies. When sufficient information about claims on guaranteed or indemnified projects is available and monetary damages or other costs or losses are determined to be probable, we recognize such guaranteed losses.
- In the ordinary course of business, we enter into various agreements as part of certain unconsolidated subsidiaries, joint ventures, and other jointly executed contracts where we are jointly and severally liable. We enter into these agreements primarily to support the project execution commitments of these entities. The potential payment amount of an outstanding performance guarantee is typically the remaining cost of work to be performed by or on behalf of third parties under engineering and construction contracts. However, we are not able to estimate other amounts that may be required to be paid in excess of estimated costs to complete contracts and, accordingly, the total potential payment amount under our outstanding performance guarantees cannot be estimated. For cost-plus contracts, amounts that may become payable pursuant to guarantee provisions are normally recoverable from the client for work performed under the contract. For lump sum or fixed-price contracts, this amount is the cost to complete the contracted work less amounts remaining to be billed to the client under the contract. Remaining billable amounts could be greater or less than the cost to complete. In those cases where costs exceed the remaining amounts payable under the contract, we may have recourse to third parties, such as owners, co-venturers, subcontractors or vendors, for claims.
- In the ordinary course of business, our clients may request that we obtain surety bonds in connection with contract performance obligations that are not required to be recorded in our consolidated balance sheets. We are obligated to reimburse the issuer of our surety bonds for any payments made thereunder. Each of our commitments under performance bonds generally ends concurrently with the expiration of our related contractual obligation.

Critical Accounting Policies

Our critical accounting policies are disclosed in our Annual Report on Form 10-K for the fiscal year ended September 27, 2015. To date, there have been no material changes in our critical accounting policies as reported in our 2015 Annual Report on Form 10-K.

New Accounting Pronouncements

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

Financial Market Risks

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

We are exposed to interest rate risk under our Credit Agreement. We can borrow, at our option, under both the Term Loan Facility and Revolving Credit Facility. We may borrow on the Revolving Credit Facility, at our option, at either (a) a Eurocurrency rate plus a margin that ranges from 1.15% to 2.00% per annum, or (b) a base rate for loans in U.S. dollars (the highest of the U.S. federal funds rate plus 0.50% per annum, the bank's prime rate or the Eurocurrency rate plus 1.00%) plus a margin that ranges from 0.15% to 1.00% per annum. Borrowings at the base rate have no designated term and may be repaid without penalty any time prior to the Facility's maturity date. Borrowings at a Eurodollar rate have a term no less than 30 days and no greater than 90 days. Typically, at the end of such term, such borrowings may be rolled over at our discretion into either a borrowing at the base rate or a borrowing at a Eurodollar rate with similar terms, not to exceed the maturity date of the Facility. The Facility matures on May 29, 2020. At June 26, 2016 we had borrowings outstanding under the Credit Agreement of \$364.5 million at a weighted-average interest rate of 1.76% per annum.

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In fiscal 2013, we entered into three interest rate swap agreements with three banks to fix the variable interest rate on \$153.8 million of our Term Loan Facility. In fiscal 2014, we entered into two interest rate swap agreements with two banks to fix the variable interest rate on \$51.3 million of our Term Loan Facility. The objective of these interest rate swaps was to eliminate the variability of our cash flows on the amount of interest expense we pay under our Credit Agreement. Our average effective interest rate on borrowings outstanding under the Credit Agreement, including the effects of interest rate swap agreements, at June 26, 2016 was 2.43%. For more information, see Note 13, Derivative Financial Instruments of the Notes to Condensed Consolidated Financial Statements .

Most of our transactions are in U.S. dollars; however, some of our subsidiaries conduct business in foreign currencies, primarily the CAD. Therefore, we are subject to currency exposure and volatility because of currency fluctuations. We attempt to minimize our exposure to these fluctuations by matching revenue and expenses in the same currency for our contracts. Foreign currency gains and losses were immaterial for both the third quarter and first nine months of fiscal 2016 and 2015. Foreign currency gains and losses are reported as part of Selling, general and administrative expenses in our condensed consolidated statements of income.

We have foreign currency exchange rate exposure in our results of operations and equity primarily as a result of the currency translation related to our Canadian subsidiaries where the local currency is the functional currency. To the extent the U.S. dollar strengthens against the CAD, the translation of these foreign currency denominated transactions will result in reduced revenue, operating expenses, assets and liabilities. Similarly, our revenue, operating expenses, assets and liabilities will increase if the U.S. dollar weakens against the CAD. For the first nine months of 2016 and 2015, 29.0% and 25.9% of our consolidated revenue, respectively, was generated by our international business, and such revenue was primarily denominated in CAD. For the first nine months of fiscal 2016, the effect of foreign exchange rate translation on the consolidated balance sheets was an increase in equity of \$19.1 million compared to a reduction in equity of \$56.5 million in the first nine months of fiscal 2015. These amounts were recognized as an adjustment to equity through other comprehensive income.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

Item 4. Controls and Procedures

Evaluation of disclosure controls and procedures and changes in internal control over financial reporting. As of June 26, 2016, we carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures. Based on our management's evaluation (with the participation of our principal executive officer and principal financial officer), our principal executive officer and principal financial officer have concluded that, as of the end of the period covered by this report, our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act), were effective.

Changes in internal control over financial reporting. There was no change in our internal control over financial reporting during our third quarter of fiscal 2016 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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

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Item 1A. Risk Factors

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

Continuing worldwide political and economic uncertainties may adversely affect our revenue and profitability.

The last several years have been periodically marked by concerns including but not limited to decreased consumer confidence, the lingering effects of international conflicts, energy costs and inflation. Although certain indices and economic data have shown signs of stabilization in the United States and certain global markets, there can be no assurance that these improvements will be broad-based or sustainable. This instability can make it extremely difficult for our clients, our vendors and us to accurately forecast and plan future business activities, and could cause constrained spending on our services, delays and a lengthening of our business development efforts and/or difficulty in collection of our accounts receivable. Further, ongoing economic instability in the global markets could limit our ability to access the capital markets at a time when we would like, or need, to raise capital, which could have an impact on our ability to react to changing business conditions or new opportunities. Accordingly, if worldwide political and economic uncertainties continue or worsen, our business, results of operations and financial condition could be materially and adversely affected.

Our annual revenue, expenses, and operating results may fluctuate significantly, which may adversely affect our stock price.

Our annual revenue, expenses, and operating results may fluctuate significantly because of numerous factors, some of which may contribute to more pronounced fluctuations in an uncertain global economic environment. These factors include:

- loss of key employees;
- the number and significance of client contracts commenced and completed during a quarter;
- creditworthiness and solvency of clients;
- the ability of our clients to terminate contracts without penalties;

- general economic or political conditions;
- unanticipated changes in contract performance that may affect profitability, particularly with contracts that are fixed-price or have funding limits;
- contract negotiations on change orders, requests for equitable adjustment, and collections of related billed and unbilled accounts receivable;
- seasonality of the spending cycle of our public sector clients, notably the U.S. federal government, the spending patterns of our commercial sector clients, and weather conditions;
- budget constraints experienced by our U.S. federal, and state and local government clients;
- integration of acquired companies;
- changes in contingent consideration related to acquisition earn-outs;
- divestiture or discontinuance of operating units;
- employee hiring, utilization and turnover rates;
- delays incurred in connection with a contract;
- the size, scope and payment terms of contracts;

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- the timing of expenses incurred for corporate initiatives;
- reductions in the prices of services offered by our competitors;
- threatened or pending litigation;
- legislative and regulatory enforcement policy changes that may affect demand for our services;
- the impairment of goodwill or identifiable intangible assets;
- the fluctuation of a foreign currency exchange rate;
- stock-based compensation expense;
- actual events, circumstances, outcomes, and amounts differing from judgments, assumptions, and estimates used in determining the value of certain assets (including the amounts of related valuation allowances), liabilities, and other items reflected in our condensed consolidated financial statements;
- success in executing our strategy and operating plans;
- changes in tax laws or regulations or accounting rules;
- results of income tax examinations;
- the timing of announcements in the public markets regarding new services or potential problems with the performance of services by us or our competitors, or any other material announcements;

- speculation in the media and analyst community, changes in recommendations or earnings estimates by financial analysts, changes in investors' or analysts' valuation measures for our stock, and market trends unrelated to our stock; and
- continued volatility in the financial and commodity markets.

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

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

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

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

The businesses of our global mining clients are, to varying degrees, cyclical and have experienced declines over the last two years due to lower global growth expectations and the associated decline in market prices. For example, depending on the market prices of uranium, precious metals, aluminum, copper, iron ore, and potash, our mining company clients may cancel or curtail their mining projects, which could result in a corresponding decline in the demand for our services among these clients. Accordingly, the cyclical nature of the mining industry could have a material adverse effect on our business, operating results or financial condition. As an example, in the fourth quarter of fiscal 2015, the mining sector continued to contract in response to lower global growth expectations driven in large part by China's actual and projected slower economic growth. Consistent with this trend, our mining customers continued their curtailment of capital spending for new mining projects. As a result, we experienced a 25% decline in our global mining revenue in the fourth quarter of fiscal 2015 compared to the same period of fiscal 2014. As a result of this financial performance, and our revised forecasts beyond fiscal 2015, we wrote-off all of our mining-related goodwill and identifiable intangible assets and recorded a related impairment charge of \$60.8 million (\$57.3 million after-tax) in the fourth quarter of fiscal 2015.

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

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

- prices, and expectations about future prices, of oil and natural gas;
- domestic and foreign supply of and demand for oil and natural gas;
- the cost of exploring for, developing, producing and delivering oil and natural gas;
- transportation capacity, including but not limited to train transportation capacity and its future regulation;
- available pipeline, storage and other transportation capacity;

- availability of qualified personnel and lead times associated with acquiring equipment and products;
- federal, state, provincial and local regulation of oilfield activities;
- environmental concerns regarding the methods our customers use to produce hydrocarbons;
- the availability of water resources and the cost of disposal and recycling services; and
- seasonal limitations on access to work locations.

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

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

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In the third quarter of fiscal 2016, we generated 41.7% of our revenue from contracts with U.S. federal, and state and local government agencies. A significant amount of this revenue is derived under multi-year contracts, many of which are appropriated on an annual basis. As a result, at the beginning of a project, the related contract may be only partially funded, and additional funding is normally committed only as appropriations are made in each subsequent year. These appropriations, and the timing of payment of appropriated amounts, may be influenced by numerous factors as noted below. Our backlog includes only the projects that have funding appropriated.

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

- the failure of the U.S. government to complete its budget and appropriations process before its fiscal year-end, which would result in the funding of government operations by means of a continuing resolution that authorizes agencies to continue to operate but does not authorize new spending initiatives. As a result, U.S. government agencies may delay the procurement of services;
- changes in and delays or cancellations of government programs, requirements or appropriations;
- budget constraints or policy changes resulting in delay or curtailment of expenditures related to the services we provide;
- re-competes of government contracts;
- the timing and amount of tax revenue received by federal, and state and local governments, and the overall level of government expenditures;
- curtailment in the use of government contracting firms;
- delays associated with insufficient numbers of government staff to oversee contracts;

- the increasing preference by government agencies for contracting with small and disadvantaged businesses;
- competing political priorities and changes in the political climate with regard to the funding or operation of the services we provide;
- the adoption of new laws or regulations affecting our contracting relationships with the federal, state or local governments;
- unsatisfactory performance on government contracts by us or one of our subcontractors, negative government audits or other events that may impair our relationship with federal, state or local governments;
- a dispute with or improper activity by any of our subcontractors; and
- general economic or political conditions.

As a U.S. government contractor, we must comply with various procurement laws and regulations and are subject to regular government audits; a violation of any of these laws and regulations or the failure to pass a government audit could result in sanctions, contract termination, forfeiture of profit, harm to our reputation or loss of our status as an eligible government contractor and could reduce our profits and revenue.

We must comply with and are affected by U.S. federal, state, local, and foreign laws and regulations relating to the formation, administration and performance of government contracts. For example, we must comply with Federal Acquisition Regulation (FAR), the Truth in Negotiations Act, Cost Accounting Standards (CAS), the American Recovery and Reinvestment Act of 2009, the Services Contract Act, and the U.S. Department of Defense security regulations, as well as many other rules and regulations. In addition, we must also comply with other government regulations related to employment practices, environmental protection, health and safety, tax, accounting, and anti-fraud measures, as well as many others regulations in order to maintain our government contractor status. These laws and regulations affect how we do business with our clients and, in some instances, impose additional costs on our business operations. Although we take precautions to prevent and deter fraud, misconduct, and non-compliance, we face the risk that our employees or outside partners may engage in misconduct, fraud, or other improper activities. U.S. government agencies, such as the Defense Contract Audit Agency (DCAA), routinely audit and investigate government contractors. These government agencies review and audit a government contractor's performance under its contracts and cost structure, and evaluate compliance with applicable laws, regulations, and standards. In addition, during the course of its audits, the DCAA may question our incurred project costs. If the DCAA believes we have accounted for such costs in a manner inconsistent with the requirements for FAR or CAS, the DCAA auditor may recommend to our U.S. government corporate administrative contracting officer that such costs be disallowed. Historically, we have not experienced significant disallowed costs as a result of government audits. However, we can provide no assurance that the DCAA or other government audits will not result in material disallowances for incurred costs in the future. In addition, U.S. government contracts are subject to various other requirements relating to the formation, administration, performance, and accounting for these contracts. We may also be subject to *qui tam* litigation brought by private individuals on behalf of the U.S. government under the Federal Civil False Claims Act, which could include claims for treble damages. U.S. government contract violations could result in the imposition of civil and criminal penalties or sanctions, contract termination, forfeiture of profit, and/or suspension of payment, any of which could make us lose our status as an eligible government contractor. We could also suffer serious harm to our reputation. Any interruption or termination of our U.S. government contractor status could reduce our profits and revenue significantly.

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

U.S. government contracts are awarded through a regulated procurement process. The U.S. federal government has increasingly relied upon multi-year contracts with pre-established terms and conditions, such as indefinite delivery/indefinite quantity (IDIQ) contracts, which generally require those contractors who have previously been awarded the IDIQ to engage in an additional competitive bidding process before a task order is issued. As a result, new work awards tend to be smaller and of shorter duration, since the orders represent individual tasks rather than large, programmatic assignments. In addition, we believe that there has been an increase in the award of federal contracts based on a low-price, technically acceptable criteria emphasizing price over qualitative factors, such as past performance. As a result, pricing pressure may reduce our profit margins on future federal contracts. The increased competition and pricing pressure, in turn, may require us to make sustained efforts to reduce costs in order to realize revenue, and profits under government contracts. If we are not successful in reducing the amount of costs we incur, our profitability on government contracts will be negatively impacted. In addition, the U.S. federal government has scaled back outsourcing of services in favor of insourcing jobs to its employees, which could reduce our revenue. Moreover, even if we are qualified to work on a government contract, we may not be awarded the contract because of existing government policies designed to protect small businesses and under-represented minority contractors. Our inability to win or renew government contracts during regulated procurement processes could harm our operations and significantly reduce or eliminate our profits.

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

Each year, client funding for some of our U.S. government contracts may directly or indirectly rely on government appropriations or public-supported financing. Legislatures may appropriate funds for a given project on a year-by-year basis, even though the project may take more than one year to perform. In addition, public-supported financing such as U.S. state and local municipal bonds may be only partially raised to support existing projects. Similarly, the impact of the economic downturn on U.S. state and local governments may make it more difficult for them to fund projects. In addition to the state of the economy and competing political priorities, public funds and the timing of payment of these funds may be influenced by, among other things, curtailments in the use of government contracting firms, increases in raw material costs, delays associated with insufficient numbers of government staff to oversee contracts, budget constraints, the timing and amount of tax receipts, and the overall level of government expenditures. If adequate public funding is not available or is delayed, then our profits and revenue could decline.

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

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

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

In the third quarter of fiscal 2016, we generated 46.2% of our revenue from U.S. and foreign commercial clients. Due to continuing weakness in general economic conditions, our commercial business may be at risk as we rely upon the financial stability and creditworthiness of our clients. To the extent the credit quality of these clients deteriorates or these clients seek bankruptcy protection, our ability to collect our receivables, and ultimately our operating results, may be adversely affected.

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

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

In the third quarter of fiscal 2016, we generated 29.2% of our revenue from our international operations, primarily in Canada, and from international clients for work that is performed by our domestic operations. International business is subject to a variety of risks, including:

- imposition of governmental controls and changes in laws, regulations, or policies;
- lack of developed legal systems to enforce contractual rights;
- greater risk of uncollectible accounts and longer collection cycles;
- currency exchange rate fluctuations, devaluations, and other conversion restrictions;

- uncertain and changing tax rules, regulations, and rates;
- the potential for civil unrest, acts of terrorism, force majeure, war or other armed conflict, and greater physical security risks, which may cause us to leave a country quickly;
- logistical and communication challenges;
- changes in regulatory practices, including tariffs and taxes;
- changes in labor conditions;
- general economic, political, and financial conditions in foreign markets; and
- exposure to civil or criminal liability under the U.S. Foreign Corrupt Practices Act (FCPA), the U.K. Bribery Act, the Canadian Corruption of Foreign Public Officials Act, the Brazilian Clean Companies Act, the anti-boycott rules, trade and export control regulations, as well as other international regulations.

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

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

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

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

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

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

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

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

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our estimates, and we could experience reduced profits or, in some cases, incur a loss on a project, which may reduce or eliminate our overall profitability. Further, any defects or errors, or failures to meet our clients' expectations, could result in claims for damages against us. Failure to meet performance standards or complete performance on a timely basis could also adversely affect our reputation.

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

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

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

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

- the application of the percentage-of-completion method of accounting and revenue recognition on contracts, change orders, and contract claims, including related unbilled accounts receivable;
- unbilled accounts receivable, including amounts related to requests for equitable adjustment to contracts that provide for price redetermination, primarily with the U.S. federal government. These amounts are recorded only when they can be reliably estimated and realization is probable;
- provisions for uncollectible receivables, client claims, and recoveries of costs from subcontractors, vendors, and others;
- provisions for income taxes, R&E tax credits, valuation allowances, and unrecognized tax benefits;

- value of goodwill and recoverability of other intangible assets;
- valuations of assets acquired and liabilities assumed in connection with business combinations;
- valuation of contingent earn-out liabilities recorded in connection with business combinations;
- valuation of employee benefit plans;
- valuation of stock-based compensation expense; and
- accruals for estimated liabilities, including litigation and insurance reserves.

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

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

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

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

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

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

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

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

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

The U.S. federal government and some clients have increased the use of fixed-priced contracts. Under fixed-price contracts, we receive a fixed price irrespective of the actual costs we incur and, consequently, we are exposed to a number of risks. We realize a profit on fixed-price contracts only if we can control our costs and prevent cost over-runs on our contracts. Fixed-price contracts require cost and scheduling estimates that are based on a number of assumptions, including those about future economic conditions, costs, and availability of labor, equipment and materials, and other exigencies. We could experience cost over-runs if these estimates are originally inaccurate as a result of errors or ambiguities in the contract specifications, or become inaccurate as a result of a change in circumstances following the submission of the estimate due to, among other things, unanticipated technical problems, difficulties in obtaining permits or approvals, changes in local laws or labor conditions, weather delays, changes in the costs of raw materials, or the inability of our vendors or subcontractors to perform. If cost overruns occur, we could experience reduced profits or, in some cases, a loss for that project. If a project is significant, or if there are one or more common issues that impact multiple projects, costs overruns could increase the unpredictability of our earnings, as well as have a material adverse impact on our business and earnings.

Under our time-and-materials contracts, we are paid for labor at negotiated hourly billing rates and also paid for other expenses. Profitability on these contracts is driven by billable headcount and cost control. Many of our time-and-materials contracts are subject to maximum contract values and, accordingly, revenue relating to these contracts is recognized as if these contracts were fixed-price contracts. Under our cost-plus contracts, some of which are subject to contract ceiling amounts, we are reimbursed for allowable costs and fees, which may be fixed or performance-based. If our costs exceed the contract ceiling or are not allowable under the provisions of the contract or any applicable regulations, we may not be able to obtain reimbursement for all of the costs we incur.

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

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

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

We have brought claims against clients for additional costs exceeding the contract price or for amounts not included in the original contract price. These types of claims occur due to matters such as client-caused delays or changes from the initial project scope, both of which may result in additional cost. Often, these claims can be the subject of lengthy arbitration or litigation proceedings, and it is difficult to accurately predict when these claims will be fully resolved. When these types of events occur and unresolved claims are pending, we have used working capital in projects to cover cost overruns pending the resolution of the relevant claims. A failure to promptly recover on these types of claims could have a negative impact on our liquidity and profitability. Total accounts receivable at June 26, 2016 included approximately \$43 million related to such claims.

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

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

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

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A key part of our growth strategy is to acquire other companies that complement our lines of business or that broaden our technical capabilities and geographic presence. We expect to continue to acquire companies as an element of our growth strategy; however, our ability to make acquisitions is restricted under our 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;

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- we may not be able to obtain the necessary financing, on favorable terms or at all, to finance any of our potential acquisitions;
- we may ultimately fail to consummate an acquisition even if we announce that we plan to acquire a company; and
- acquired companies may not perform as we expect, and we may fail to realize anticipated revenue and profits.

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

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

- issues in integrating information, communications, and other systems;