

TETRA TECH INC
Form 10-Q/A
May 23, 2001

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q/A
(Amendment No. 2)**

(Mark One)

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

For the quarterly period ended April 1, 2001

OR

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

For the transition period from _____ to _____

Commission File Number 0-19655

TETRA TECH, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

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

670 N. Rosemead Boulevard, Pasadena, California 91107

(Address of principal executive offices)

(626) 351-4664

(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter periods that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

As of May 11, 2001, the total number of outstanding shares of the Registrant's common stock was 40,656,537.

The undersigned Registrant hereby amends the following items of its Quarterly Report on Form 10-Q for the quarter ended April 1, 2001, as set forth below:

TETRA TECH, INC.

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PART I. FINANCIAL INFORMATION

Item 1.

**Tetra Tech, Inc.
Condensed Consolidated Balance Sheets**

In thousands, except share data

April 1, 2001

October 1, 2000

(Unaudited)

ASSETS

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| In thousands, except share data | April 1, 2001 | October 1, 2000 |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|-------------------|
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$ 12,411 | \$ 7,557 |
| Accounts receivable net | 152,449 | 153,527 |
| Unbilled receivables net | 125,209 | 122,102 |
| Prepaid expenses and other current assets | 18,904 | 11,203 |
| Deferred income taxes | 2,551 | 2,551 |
| Total Current Assets | 311,524 | 296,940 |
| PROPERTY AND EQUIPMENT: | | |
| Equipment, furniture and fixtures | 65,210 | 59,361 |
| Leasehold improvements | 5,299 | 4,182 |
| Total | 70,509 | 63,543 |
| Accumulated depreciation and amortization | (32,988) | (28,331) |
| PROPERTY AND EQUIPMENT NET | 37,521 | 35,212 |
| INTANGIBLE ASSETS NET | 210,157 | 190,452 |
| OTHER ASSETS | 4,162 | 3,434 |
| TOTAL ASSETS | \$ 563,364 | \$ 526,038 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| CURRENT LIABILITIES: | | |
| Accounts payable | \$ 40,495 | \$ 50,304 |
| Accrued compensation | 25,166 | 25,705 |
| Billings in excess of costs on uncompleted contracts | 10,842 | 15,947 |
| Other current liabilities | 17,315 | 17,523 |
| Current portion of long-term obligations | 28,000 | 26,000 |
| Income taxes payable | 7,472 | 7,120 |
| Total Current Liabilities | 129,290 | 142,599 |
| LONG-TERM OBLIGATIONS | 102,242 | 85,532 |
| COMMITMENTS AND CONTINGENCIES | | |
| STOCKHOLDERS' EQUITY: | | |
| Preferred stock authorized, 2,000,000 shares of \$.01 par value; issued and outstanding 0 shares at April 1, 2001 and October 1, 2000 | | |
| Exchangeable stock of a subsidiary | 13,804 | 13,887 |
| Common stock authorized, 85,000,000 shares of \$.01 par value; issued and outstanding 40,579,267 and 39,830,633 shares at April 1, 2001 and October 1, 2000, respectively | 406 | 398 |
| Additional paid-in capital | 164,838 | 150,391 |
| Accumulated other comprehensive loss | (1,195) | (844) |
| Retained earnings | 153,979 | 134,075 |
| TOTAL STOCKHOLDERS' EQUITY | 331,832 | 297,907 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$ 563,364 | \$ 526,038 |

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In thousands, except share data

April 1, 2001

October 1, 2000

See accompanying Notes to Condensed Consolidated Financial Statements.

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Tetra Tech, Inc.
Condensed Consolidated Statements of Income
(Unaudited)

| In thousands, except per share data | Three Months Ended | | Six Months Ended | |
|----------------------------------------------|--------------------|------------------|------------------|------------------|
| | April 1, 2001 | April 2, 2000 | April 1, 2001 | April 2, 2000 |
| Gross Revenue | \$ 234,315 | \$ 177,581 | \$ 463,645 | \$ 347,822 |
| Subcontractor costs | 54,657 | 38,735 | 116,849 | 79,805 |
| Net Revenue | 179,658 | 138,846 | 346,796 | 268,017 |
| Cost of Net Revenue | 138,254 | 109,562 | 266,659 | 209,979 |
| Gross Profit | 41,404 | 29,284 | 80,137 | 58,038 |
| Selling, General and Administrative Expenses | 18,868 | 11,999 | 37,427 | 24,551 |
| Amortization of Intangibles | 2,175 | 1,305 | 4,199 | 2,773 |
| Income from Operations | 20,361 | 15,980 | 38,511 | 30,714 |
| Interest Expense | 2,308 | 1,507 | 4,463 | 2,791 |
| Interest Income | 108 | 34 | 269 | 89 |
| Income Before Income Tax Expense | 18,161 | 14,507 | 34,317 | 28,012 |
| Income Tax Expense | 7,627 | 6,383 | 14,413 | 12,325 |
| Net Income | \$ 10,534 | \$ 8,124 | \$ 19,904 | \$ 15,687 |
| Basic Earnings Per Share | \$ 0.26 | \$ 0.21 | \$ 0.50 | \$ 0.41 |
| Diluted Earnings Per Share | \$ 0.25 | \$ 0.20 | \$ 0.46 | \$ 0.38 |
| Weighted Average Common Shares Outstanding: | | | | |
| Basic | 40,363 | 38,550 | 40,189 | 38,501 |
| Diluted | 42,804 | 41,140 | 42,944 | 40,779 |

See accompanying Notes to Condensed Consolidated Financial Statements.

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Tetra Tech, Inc.

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Condensed Consolidated Statements of Cash Flow
(Unaudited)

| In thousands | Six Months Ended | |
|---------------------------------------------------------------------------------------------|------------------|------------------|
| | April 1, 2001 | April 2, 2000 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income | \$ 19,904 | \$ 15,687 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 8,956 | 7,377 |
| Provision for losses on receivables | 1,434 | (959) |
| Changes in operating assets and liabilities, net of effects of acquisitions: | | |
| Accounts receivable | 3,250 | (11,158) |
| Unbilled receivables | 1,240 | (6,489) |
| Prepaid expenses and other assets | (7,431) | (4,555) |
| Accounts payable | (12,074) | (7,573) |
| Accrued compensation | (2,405) | 496 |
| Billings in excess of costs on uncompleted contracts | (5,418) | (181) |
| Other current liabilities | (2,243) | (1,096) |
| Income taxes payable | (562) | (7,392) |
| Net Cash Provided By (Used In) Operating Activities | 4,651 | (15,843) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Capital expenditures | (4,439) | (7,015) |
| Payments for business acquisitions, net of cash acquired | (11,372) | (2,089) |
| Net Cash Used In Investing Activities | (15,811) | (9,104) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Payments on long-term obligations | (39,216) | (28,196) |
| Proceeds from issuance of long-term obligations | 53,500 | 63,000 |
| Net proceeds from issuance of common stock | 2,081 | 1,671 |
| Net Cash Provided By Financing Activities | 16,365 | 36,475 |
| EFFECT OF RATE CHANGES ON CASH | (351) | 926 |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 4,854 | 12,454 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD | 7,557 | 8,189 |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | \$ 12,411 | \$ 20,643 |
| SUPPLEMENTAL CASH FLOW INFORMATION: | | |
| Cash paid during the period for: | | |
| Interest | \$ 4,240 | \$ 2,527 |
| Income taxes | \$ 14,061 | \$ 19,718 |

See accompanying Notes to Condensed Consolidated Financial Statements.

(Continued)

| In thousands | Six Months Ended | |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|------------------|
| | April 1, 2001 | April 2, 2000 |
| SUPPLEMENTAL NON-CASH INVESTING AND FINANCING ACTIVITIES: | | |
| In March 2001, the Company purchased all of the capital stock of Williams, Hatfield & Stoner, Inc. (WHS). In conjunction with this acquisition, liabilities were assumed as follows: | | |
| Fair value of assets acquired | \$ 10,725 | |
| Cash paid | (6,234) | |
| Issuance of common stock | (2,500) | |
| Other acquisition costs | (50) | |
| | \$ 1,941 | |
| Liabilities assumed | | \$ 1,941 |
| In March 2001, the Company purchased all of the capital stock of Wahco Construction, Inc. In conjunction with this acquisition, liabilities were assumed as follows: | | |
| Fair value of assets acquired | \$ 4,567 | |
| Cash paid | (400) | |
| Issuance of common stock | (950) | |
| Purchase price payable | (200) | |
| Other acquisition costs | (65) | |
| | \$ 2,952 | |
| Liabilities assumed | | \$ 2,952 |
| In December 2000, the Company purchased all of the capital stock of Rocky Mountain Consultants, Inc. In conjunction with this acquisition, liabilities were assumed as follows: | | |
| Fair value of assets acquired | \$ 22,112 | |
| Cash paid | (6,524) | |
| Issuance of common stock | (8,700) | |
| Other acquisition costs | (70) | |
| | \$ 6,818 | |
| Liabilities assumed | | \$ 6,818 |
| In March 2000, concurrent with Tetra Tech Engineers, P.C.'s acquisition of certain assets of Edward A. Sears Associates, the Company's subsidiary, Cosentini Associates, Inc., acquired certain non-licensed assets of Edward A. Sears Associates from Tetra Tech Engineers, P.C. In conjunction with this acquisition, liabilities were assumed as follows: | | |
| Fair value of assets acquired | \$ 505 | |
| Cash paid | (350) | |
| Other acquisition costs | (80) | |
| | \$ 75 | |
| Liabilities assumed | | \$ 75 |
| In October 1999, the Company purchased all of the capital stock of LC of Illinois, Inc. and HFC Technologies, Inc. In conjunction with these acquisitions, liabilities were assumed as follows: | | |
| Fair value of assets acquired | \$ 2,606 | |
| Cash paid | (1,513) | |

| | <u>Six Months Ended</u> |
|-------------------------|-------------------------|
| Other acquisition costs | (80) |
| Liabilities assumed | <u>\$ 1,013</u> |

See accompanying Notes to Condensed Consolidated Financial Statements.
(Concluded)

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TETRA TECH, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation

The accompanying condensed consolidated balance sheet as of April 1, 2001, the condensed consolidated statements of income for the three-month and six-month periods ended April 1, 2001 and April 2, 2000 and the condensed consolidated statements of cash flows for the six months ended April 1, 2001 and April 2, 2000 are unaudited, and in the opinion of management include all adjustments, consisting of only normal and recurring adjustments, necessary for a fair presentation of the financial position and the results of operations for the periods presented.

The condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended October 1, 2000.

The results of operations for the three and six months ended April 1, 2001 are not necessarily indicative of the results to be expected for the fiscal year ending September 30, 2001.

2. Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 133, *Accounting for Derivative Instruments and Hedging Activities*, which was amended by SFAS No. 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities*. These Statements required derivatives to be measured at fair value and to be recorded as assets or liabilities on the balance sheet. The accounting for gains or losses resulting from changes in the fair values of those derivatives would be dependent upon the use of the derivative and whether it qualifies for hedge accounting. These Statements became effective for all fiscal quarters of fiscal years beginning after June 15, 2000. The Company adopted these Statements in the first quarter of fiscal year 2001 and the adoption of SFAS No. 133 and SFAS No. 138 has had no material impact on the Company's results of operations or financial position.

In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin (SAB) No. 101, *Revenue Recognition*, which outlines the basic criteria that must be met to recognize revenue and provides guidance for disclosures related to revenue recognition policies. SAB No. 101 requires companies to report any changes in revenue recognition as a cumulative change in accounting principle at the time of implementation in accordance with Accounting Principles Board Opinion No. 20, *Accounting Changes*. SAB No. 101, as amended, is effective no later than the fourth quarter of fiscal years beginning after December 15, 1999. The Company will adopt SAB No. 101 in the fourth quarter of fiscal year 2001. The Company believes its existing revenue recognition policies and procedures are in compliance with SAB No. 101, and that the adoption of SAB No. 101 will have no material impact on the Company's results of operations or financial position.

3. Earnings Per Share

Basic EPS excludes dilution and is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding 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. The Company includes as potential common shares the weighted average number shares of exchangeable stock of a subsidiary and the weighted average dilutive effects of outstanding stock options. The exchangeable stock of a subsidiary is non-voting and is exchangeable on a one to one basis, as adjusted for stock splits and stock dividends subsequent to the

original issuance, for the Company's common stock. The following table sets forth the computation of basic and diluted earnings per share:

| | Three Months Ended | | Six Months Ended | |
|----------------------------------------------------------|--------------------|--------------|------------------|---------------|
| | Apr. 1, 2001 | Apr. 2, 2000 | Apr. 1, 2001 | Apr. 2, 2000 |
| Numerator | | | | |
| Net income | \$ 10,534,000 | \$ 8,124,000 | \$ 19,904,000 | \$ 15,687,000 |
| Denominator | | | | |
| Denominator for basic earnings per share | | | | |
| weighted average shares | 40,363,000 | 38,550,000 | 40,189,000 | 38,501,000 |
| Effect of dilutive securities: | | | | |
| Stock options | 1,428,000 | 1,606,000 | 1,740,000 | 1,294,000 |
| Exchangeable stock of a subsidiary | 1,013,000 | 984,000 | 1,015,000 | 984,000 |
| Dilutive potential common shares | 2,441,000 | 2,590,000 | 2,755,000 | 2,278,000 |
| Denominator for diluted earnings per share | | | | |
| adjusted weighted average shares and assumed conversions | 42,804,000 | 41,140,000 | 42,944,000 | 40,779,000 |
| Basic earnings per share | \$ 0.26 | \$ 0.21 | \$ 0.50 | \$ 0.41 |
| Diluted earnings per share | \$ 0.25 | \$ 0.20 | \$ 0.46 | \$ 0.38 |

4. Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents. Cash and cash equivalents totaled \$12.4 million and \$7.6 million at April 1, 2001 and October 1, 2000, respectively.

5. Mergers and Acquisitions

On October 25, 1999, the Company acquired 100% of the capital stock of LC of Illinois, Inc. and HFC Technologies, Inc. (collectively, LCI), a provider of engineering and network infrastructure services for cable television and fiber optic telephone networks including design, construction and maintenance capabilities for communications and information transport systems. The purchase was valued at approximately \$1.6 million and consisted of cash.

On March 30, 2000, Tetra Tech Engineers, P.C. acquired certain assets of Edward A. Sears Associates (ESA), a provider of engineering services to hospitals in New York. Concurrent with this transaction, the Company's subsidiary, Cosentini Associates, Inc., acquired certain non-licensed assets of ESA from Tetra Tech Engineers, P.C. The purchase was valued at approximately \$0.4 million and consisted of cash.

On April 3, 2000, the Company acquired 100% of the capital stock of eXpert Wireless Solutions, Inc. (EWS), a provider of radio-frequency engineering and consulting services to the wireless communications industry. The purchase was valued at approximately \$18.8 million and consisted of cash (of which \$500,000 is dependent on operational performance) and 407,877 shares of Company common stock. Additionally, concurrently with the acquisition, EWS distributed to its former shareholders accounts receivable valued at approximately \$1.8 million.

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On May 3, 2000, the Company, through its majority-owned subsidiary, Tetra Tech Canada Ltd., acquired 100% of the capital stock of 1261248 Ontario, Inc., which does business as Engineered Communications (ENG), a provider of engineering and network services for the wired communications industry in Ontario, Canada. The purchase was valued at approximately \$1.5 million and consisted of cash and 33,606 shares of exchangeable stock of the Company's majority-owned subsidiary.

On May 17, 2000, the Company acquired 100% of the capital stock of FHC, Inc. (FHC), a provider of engineering consulting services primarily to the state and local governments in Oklahoma. The purchase was valued at approximately \$5.2 million and consisted of cash and 56,334 shares of Company common stock.

On May 24, 2000, the Company acquired 100% of the capital stock of Rizzo Associates, Inc. (RAI), a provider of engineering consulting services to state and local governments and commercial clients in the upper Northeast region of the U.S. This purchase was valued at approximately \$10.3 million and consisted of cash and 112,436 shares of Company common stock.

On June 16, 2000, the Company acquired 100% of the capital stock of Drake Contractors, Inc. (DCI), a provider of infrastructure installation and maintenance services primarily in Colorado. The purchase was valued at approximately \$5.5 million and consisted of cash (of which \$1.0 million is contingent on operational performance). Additionally, concurrent with the acquisition, DCI distributed to its former shareholders accounts receivable valued at approximately \$2.1 million.

On July 5, 2000, the Company, through its majority-owned subsidiary, Tetra Tech Canada Ltd., acquired 100% of the capital stock of Wm. Bethlehem Trenching Ltd. (BTL), a provider of infrastructure installation and maintenance services primarily in Ontario, Canada. The purchase was valued at approximately \$0.3 million and consisted of cash.

On December 21, 2000, the Company acquired 100% of the capital stock of Rocky Mountain Consultants, Inc. (RMC), a provider of water-related engineering and facility development services to state and local governments and private clients primarily in the western and midwestern United States. The purchase was valued at approximately \$15.3 million and consisted of cash and 296,667 shares of Company common stock.

On March 2, 2001, the Company acquired 100% of the capital stock of Wahco Construction, Inc. (WCI), a provider of network and field services to the utility and communications industry primarily in the northwestern United States. The purchase was valued at approximately \$1.6 million and consisted of cash and 51,982 shares of Company common stock and is subject to a purchase price and purchase allocation adjustment based upon the final determination of WCI's net asset value as of March 2, 2001.

On March 29, 2001, the Company acquired 100% of the capital stock of Williams, Hatfield & Stoner, Inc. (WHS), a provider of civil engineering, planning and environmental services primarily in the southeastern United States. The purchase was valued at approximately \$8.8 million and consisted of cash and 127,547 shares of Company common stock and is subject to a purchase price and purchase allocation adjustment based upon the final determination of WHS's net asset value as of March 29, 2001.

All of the acquisitions above have been accounted for as purchases and, accordingly, the purchase prices of the businesses acquired have been allocated to the assets and liabilities acquired based upon their fair values. The excess of the purchase cost of the acquisitions over the fair value of the net assets acquired was recorded as goodwill and is included in Intangible Assets Net in the accompanying condensed consolidated balance sheets. Prior to fiscal 2001, the Company valued stock exchanged in acquisitions based on extended restriction periods, high volatility in the trading price of the Company's common stock and other economic factors specific to the Company's circumstances at the time of acquisition. During the first three quarters of fiscal 2000, stock exchanged in acquisitions was discounted by 15%. During fiscal 2001, the stock exchanged in acquisitions was not discounted. The

results of operations of each of the companies acquired have been included in the Company's financial statements from the effective acquisition dates.

6. Accounts Receivable

Accounts receivable are presented net of a valuation allowance to provide for doubtful accounts and for the potential disallowance of billed and unbilled costs. The allowance for doubtful accounts as of April 1, 2001 and October 1, 2000 was \$6.5 million and \$5.5 million, respectively. The allowance for disallowed costs as of both April 1, 2001 and October 1, 2000 was \$1.6 million. Disallowance of billed and unbilled costs is primarily associated with contracts with the Federal government which contain clauses that subject contractors to several levels of audit. The Company establishes reserves on those contract receivables where collectibility is not assured. Management believes that resolution of these matters will not have a material adverse impact on the Company's financial position or results of operations.

7. Unaudited Pro Forma Operating Results

The table below presents summarized unaudited pro forma operating results assuming that the Company had acquired EWS, FHC, RAI and RMC on October 4, 1999. The effect of unaudited pro forma results of LCI, ENG, ESA, DCI, BTL, WCI and WHS, had they been acquired on October 4, 1999 is not material. These amounts are based on historical results and assumptions and estimates which the Company believes to be reasonable. The pro forma results do not reflect anticipated cost savings and do not necessarily represent results which would have occurred if these acquisitions had actually taken place on October 4, 1999.

| | Pro Forma Six Months Ended | |
|--------------------------------------|----------------------------|----------------|
| | April 1, 2001 | April 2, 2000 |
| Gross revenue | \$ 465,515,000 | \$ 380,225,000 |
| Income from operations | 38,834,000 | 33,323,000 |
| Net income | 20,044,000 | 16,159,000 |
| Basic earnings per share | \$ 0.50 | \$ 0.42 |
| Diluted earnings per share | \$ 0.47 | \$ 0.39 |
| Weighted average shares outstanding: | | |
| Basic | 40,239,000 | 38,938,000 |
| Diluted | 42,994,000 | 41,216,000 |

8. Operating Segments

The Company's management has organized its operations into three operating segments: Resource Management, Infrastructure, and Communications. The Resource Management operating segment provides specialized environmental engineering and consulting services primarily relating to water quality and water availability to both public and private organizations. The Infrastructure operating segment provides engineering services to provide additional development, as well as upgrading and replacement of existing infrastructure to both public and private organizations. The Communications operating segment provides a comprehensive set of services including engineering, consulting and field services to telecommunications companies, wireless service providers and cable operators. Management has established these operating segments based upon the services provided, the different marketing strategies, and the specialized needs of the clients. The Company accounts 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 cost of the services performed. Management evaluates the performance of these operating segments based upon their respective income from operations before the effect of any acquisition related amortization.

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The following tables set forth (in thousands) summarized financial information on the Company's reportable segments:

Reportable Segments:

| | Resource Management | Infrastructure | Communications | Total |
|-----------------------------------------|------------------------|----------------|----------------|------------|
| Three months ended April 1, 2001 | | | | |
| Gross Revenue | \$ 99,641 | \$ 75,646 | \$ 68,428 | \$ 243,715 |
| Net Revenue | 68,440 | 63,307 | 46,576 | 178,323 |
| Income from Operations | 7,877 | 8,238 | 6,373 | 22,488 |
| Depreciation Expense | 390 | 810 | 663 | 1,863 |
| | Resource Management | Infrastructure | Communications | Total |
| Six months ended April 1, 2001 | | | | |
| Gross Revenue | \$ 191,616 | \$ 146,951 | \$ 143,160 | \$ 481,727 |
| Net Revenue | 130,192 | 118,990 | 95,163 | 344,345 |
| Income from Operations | 14,592 | 13,812 | 13,962 | 42,366 |
| Depreciation Expense | 806 | 1,960 | 1,772 | 4,538 |
| | | Infrastructure | Communications | Total |

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| | Resource Management | | | |
|-----------------------------------------|----------------------------|-----------|-----------|------------|
| Three months ended April 2, 2000 | | | | |
| Gross Revenue | \$ 89,521 | \$ 54,152 | \$ 38,074 | \$ 181,747 |
| Net Revenue | 60,456 | 44,418 | 31,364 | 136,238 |
| Income from Operations | 6,896 | 4,514 | 5,720 | 17,130 |
| Depreciation Expense | 631 | 1,015 | 744 | 2,390 |

| | Resource Management | Infrastructure | Communications | Total |
|---------------------------------------|----------------------------|-----------------------|-----------------------|--------------|
| Six months ended April 2, 2000 | | | | |
| Gross Revenue | \$ 173,906 | \$ 106,549 | \$ 75,380 | \$ 355,835 |
| Net Revenue | 116,578 | 86,005 | 61,121 | 263,704 |
| Income from Operations | 13,958 | 9,434 | 10,251 | 33,643 |
| Depreciation Expense | 1,198 | 1,940 | 1,348 | 4,486 |

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Reconciliations:

| | Three Months Ended | |
|--------------------------------------------------|---------------------------|----------------------|
| | April 1, 2001 | April 2, 2000 |
| <u>Gross Revenue</u> | | |
| Gross revenue from reportable segments | \$ 243,715 | \$ 181,747 |
| Elimination of inter-segment revenue | (10,735) | (6,774) |
| Other revenue | 1,335 | 2,608 |
| Total consolidated gross revenue | \$ 234,315 | \$ 177,581 |
| <u>Net Revenue</u> | | |
| Net revenue from reportable segments | \$ 178,323 | \$ 136,238 |
| Other revenue | 1,335 | 2,608 |
| Total consolidated net revenue | \$ 179,658 | \$ 138,846 |
| <u>Income from Operations</u> | | |
| Income from operations of reportable segments | \$ 22,488 | \$ 17,130 |
| Other income | 48 | 155 |
| Amortization of intangibles | (2,175) | (1,305) |
| Total consolidated income from operations | \$ 20,361 | \$ 15,980 |
| | Six Months Ended | |
| | April 1, 2001 | April 2, 2000 |
| <u>Gross Revenue</u> | | |
| Gross revenue from reportable segments | \$ 481,727 | \$ 355,835 |
| Elimination of inter-segment revenue | (20,533) | (12,325) |

| | <u>Six Months Ended</u> | |
|--------------------------------------------------|-------------------------|-------------------|
| | <u>2001</u> | <u>2000</u> |
| Other revenue | 2,451 | 4,312 |
| Total consolidated gross revenue | \$ 463,645 | \$ 347,822 |
| <u>Net Revenue</u> | | |
| Net revenue from reportable segments | \$ 344,345 | \$ 263,704 |
| Other revenue | 2,451 | 4,313 |
| Total consolidated net revenue | \$ 346,796 | \$ 268,017 |
| <u>Income from Operations</u> | | |
| Income from operations of reportable segments | \$ 42,366 | \$ 33,643 |
| Other income/(loss) | 344 | (156) |
| Amortization of intangibles | (4,199) | (2,773) |
| Total consolidated income from operations | \$ 38,511 | \$ 30,714 |

Major Clients

The Company's net revenue attributable to the U.S. government was approximately \$44.4 million and \$41.9 million for the three months ended April 1, 2001 and April 2, 2000, respectively. Net revenue attributable to the U.S. government was approximately \$85.6 million and \$81.0 million for the six months ended April 1, 2001 and April 2, 2000, respectively. Both the Resource Management and Infrastructure operating segments report revenue from the U.S. government.

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9. Comprehensive Income

Comprehensive income is the change in equity of a business enterprise during a period from transactions and other events and circumstances from non owner sources. These sources include net income and other revenues, expenses, gains and losses incurred. The Company includes as other comprehensive income translation gains and losses from subsidiaries with functional currencies different than that of the Company. Comprehensive income was approximately \$10.2 million and \$8.6 million for the three months ended April 1, 2001 and April 2, 2000, respectively. For the six months ended April 1, 2001 and April 2, 2000, comprehensive income was \$19.5 million and \$16.6 million, respectively. For the three and six months ended April 1, 2001, the Company realized net translation losses of \$0.3 million and \$0.4 million, respectively. For the three and six months ended April 2, 2000, the Company incurred net translation gains of \$0.5 million and \$0.9 million, respectively.

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Item 2.**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS**

Except for the historical information contained below, the matters discussed in this section are forward-looking statements that involve a number of risks and uncertainties. Our actual liquidity needs, capital resources and operating results may differ materially from the discussion set forth below in these forward-looking statements. For additional information, refer to the Notes to Condensed Consolidated Financial Statements included elsewhere in this filing.

Overview

Tetra Tech, Inc. is a leading provider of specialized management consulting and technical services in three principal business areas: resource management, infrastructure and communications. As a specialized management consultant, we assist our clients in defining problems and developing innovative and cost-effective solutions. Our management consulting services are complemented by our technical services. These technical services, which implement solutions, include research and development, applied science, engineering and architectural design, construction management, and operations and maintenance. Our clients include a diverse base of public and private organizations located in the United States and internationally.

Since our initial public offering in December 1991, we have increased the size and scope of our business and have expanded our service offerings through a series of strategic acquisitions and internal growth.

We derive our revenue from fees from professional services. Our services are billed under various types of contracts with our clients, including:

- Fixed-price;
- Fixed-rate time and materials;
- Cost-reimbursement plus fixed fee; and
- Cost-reimbursement plus fixed and award fee.

In the course of providing our services, we routinely subcontract services. These subcontractor costs are passed through to clients and, in accordance with industry practice, are included in gross revenue. Because subcontractor services can change significantly from project to project, we believe net revenue, which is gross revenue less the cost of subcontractor services, is a more appropriate measure of our performance.

Our cost of net revenue includes professional compensation and certain direct and indirect overhead costs such as rents, utilities and travel. Professional compensation represents the majority of these costs. Our selling, general and administrative (SG&A) expenses are comprised primarily of our corporate headquarters' costs related to our executive offices, corporate finance and accounting, information technology, marketing, and bid and proposal costs. These costs are generally unrelated to specific client projects and can vary as expenses are incurred supporting corporate activities and initiatives. In addition, we include amortization of certain intangible assets resulting from acquisitions in SG&A expenses.

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We provide our services to a diverse base of Federal, state and local government agencies, and private sector and international clients. The following table presents, for the periods indicated, the approximate percentage of net revenue attributable to these client sectors:

| Client Sector | Percentage of Net Revenue | | | |
|--------------------------|---------------------------|---------------|------------------|---------------|
| | Three Months Ended | | Six Months Ended | |
| | April 1, 2001 | April 2, 2000 | April 1, 2001 | April 2, 2000 |
| Federal government | 24.7% | 30.2% | 24.7% | 30.3% |
| State & local government | 18.3 | 16.8 | 16.9 | 16.8 |
| Private sector | 53.5 | 50.5 | 54.6 | 50.3 |
| International | 3.5 | 2.5 | 3.8 | 2.6 |

We manage our business in three operating segments, Resource Management, Infrastructure and Communications. The following table presents, for the periods indicated, the approximate percentage of net revenue attributable to the operating segments:

Percentage of Net Revenue

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| Operating Segment | Percentage of Net Revenue | | | |
|---------------------|---------------------------|---------------|------------------|---------------|
| | Three Months Ended | | Six Months Ended | |
| | April 1, 2001 | April 2, 2000 | April 1, 2001 | April 2, 2000 |
| Resource Management | 38.1% | 43.5% | 37.5% | 43.5% |
| Infrastructure | 35.2 | 32.0 | 34.3 | 32.1 |
| Communications | 25.9 | 22.6 | 27.4 | 22.8 |
| Other revenue | 0.8 | 1.9 | 0.8 | 1.6 |

Recent Acquisitions

As a part of our growth strategy, we expect to pursue complementary acquisitions to expand our geographical reach and the breadth and depth of our service offerings. During the second quarter of fiscal 2001, we made the following acquisitions:

Wahco Construction, Inc. In March 2001, we acquired Wahco Construction, Inc. (WCI). The purchase was valued at approximately \$1.6 million. WCI, a Washington-based field services firm, provides network and field services to utility and communications companies primarily in the northwestern United States.

Williams, Hatfield & Stoner, Inc. In March 2001, we acquired Williams, Hatfield & Stoner, Inc. (WHS). The purchase was valued at approximately \$8.8 million. WHS, a Florida-based engineering services firm, provides civil engineering, planning and environmental services to state and local governments and private clients primarily in the southeastern United States.

Results of Operations

The following table presents the percentage relationship of selected items to net revenue in our condensed consolidated statements of income:

| | % Relationship to Net Revenue Three Months Ended | | % Relationship to Net Revenue Six Months Ended | |
|----------------------------------------------|-----------------------------------------------------|--------------|---------------------------------------------------|--------------|
| | Apr. 1, 2001 | Apr. 2, 2000 | Apr. 1, 2000 | Apr. 2, 2001 |
| | Net revenue | 100.0% | 100.0% | 100.0% |
| Cost of net revenue | 77.0 | 78.9 | 76.9 | 78.3 |
| Gross profit | 23.0 | 21.1 | 23.1 | 21.7 |
| Selling, general and administrative expenses | 11.7 | 9.6 | 12.0 | 10.2 |
| Income from operations | 11.3 | 11.5 | 11.1 | 11.5 |
| Net interest expense | 1.2 | 1.1 | 1.2 | 1.0 |
| Income before income tax expense | 10.1 | 10.4 | 9.9 | 10.5 |
| Income tax expense | 4.2 | 4.6 | 4.2 | 4.6 |
| Net income | 5.9% | 5.9% | 5.7% | 5.9% |

Net Revenue. Net revenue increased \$40.8 million, or 29.4%, to \$179.7 million for the three months ended April 1, 2001 from \$138.8 million for the comparable period last year. For the six months ended April 1, 2001, net revenue increased \$78.8 million, or 29.4%, to \$346.8 million from \$268.0 million for the comparable period last year. Included in net revenue for the six months ended April 2, 2000 was \$0.76 million relating to the reversal of previously established allowances for disallowed costs. This allowance relates to amounts previously not recognized as revenue as they were deemed to be unallowable. These amounts were subsequently recovered and therefore included as revenue. Excluding this

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amount, net revenue increased 29.8%. All sectors continued to show net revenue increases in actual dollars. As a percentage of net revenue, decreases were realized in the Federal government sector due to growth in revenue from private sector clients and revenue associated with acquired companies. We segregate from our total revenue, revenue from companies acquired during the current fiscal year as well as revenue recognized from acquired companies during the first 12 months following their respective effective dates of acquisition. Revenue recognized from acquired companies during such first 12 months is referred to as acquisitive revenue. Organic revenue is measured as total revenue less any acquisitive revenue. For the three months ended April 1, 2001, net revenue provided by companies acquired in the six months ended April 1, 2001 totaled \$6.9 million. Excluding this net revenue, we realized 24.4% growth in our net revenue. For the six months ended April 1, 2001, net revenue provided by companies acquired in the six months ended April 1, 2001 totaled \$10.1 million. Excluding this net revenue and the net revenue provided by the reserve reversal in the prior year, we realized 26.0% growth in our net revenue. Acquisitive net revenue for the three months ended April 1, 2001 totaled \$22.9 million. Excluding this net revenue, we realized a 12.9% organic growth in our net revenue. Acquisitive net revenue for the six months ended April 1, 2001 totaled \$41.9 million. Excluding this net revenue and the net revenue provided by the reserve reversal in the prior year, we realized a 14.1% organic growth in our net revenue.

Gross revenue increased \$56.7 million, or 31.9%, to \$234.3 million for the three months ended April 1, 2001 from \$177.6 million for the comparable period last year. For the six months ended April 1, 2001, gross revenue increased \$115.8 million, or 33.3%, to \$463.6 million from \$347.8 million for the comparable period last year. For the three months ended April 1, 2001, gross revenue provided by companies acquired in the six months ended April 1, 2001 totaled \$7.7 million. Excluding this revenue, we realized a 27.6% increase in our gross revenue. For the six months ended April 1, 2001, gross revenue provided by companies acquired in the six months ended April 1, 2001 totaled \$11.4 million. Excluding this revenue and the revenue provided by the reserve reversal in the prior year, we realized a 30.3% increase in our gross revenue. For the three months ended April 1, 2001, acquisitive gross revenue totaled \$26.9 million. Excluding this gross revenue, we realized a 16.8% increase in our gross revenue. For the six months ended April 1, 2001, acquisitive gross revenue totaled \$50.4 million. Excluding this revenue and the revenue provided by the reserve reversal in the prior year, we realized a 19.1% organic growth in our gross revenue.

Cost of Net Revenue. Cost of net revenue increased \$28.7 million, or 26.2%, to \$138.3 million for the three months ended April 1, 2001 from \$109.6 million for the comparable period last year. As a percentage of net revenue, cost of net revenue for the three months ended April 1, 2001 was 77.0% compared to 78.9% for the comparable period last year. For the six months ended April 1, 2001, cost of net revenue increased \$56.7 million, or 27.0%, to \$266.7 million from \$210.0 million for the comparable period last year. As a percentage of net revenue, cost of net revenue for the six months ended April 1, 2001 was 76.9% compared to 78.3% for the comparable period last year. The increase in cost of net revenue was primarily due to volume increases in all business areas, including increases due to acquired companies. Cost of net revenue decreased as a percentage of net revenue primarily due to the reduction of indirect costs from the comparable period last year whereby indirect costs of acquired companies were higher.

Selling, General and Administrative Expenses. SG&A expenses increased \$7.7 million, or 58.2%, to \$21.0 million for the three months ended April 1, 2001 from \$13.3 million for the comparable period last year. As a percentage of net revenue, SG&A expenses increased to 11.7% for the three months

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ended April 1, 2001 from 9.6% for the comparable period last year. For the six months ended April 1, 2001, SG&A expenses increased \$14.3 million, or 52.3%, to \$41.6 million from \$27.3 million for the comparable period last year. As a percentage of net revenue, SG&A expenses increased to 12.0% for the six months ended April 1, 2001 from 10.2% for the comparable period last year. These increases were primarily attributable to increased SG&A at operating levels, as well as continued automation of our corporate business systems and processes, business development activities and timing of professional services expenses. Amortization expense relating to acquisitions increased to 1.2% of net revenue for the three months and six months ended April 1, 2001 compared to 0.9% and 1.0% for both the three months and six months ended April 2, 2000.

Net Interest Expense. Net interest expense increased \$0.7 million, or 49.4% to \$2.2 million for the three months ended April 1, 2001. For the six months ended April 1, 2001, net interest expense increased \$1.5 million, or 55.2%, to \$4.2 million from \$2.7 million for the comparable period last year. These increases were primarily attributable to borrowings on our line of credit to facilitate acquisitions and to fund working capital needs.

Income Tax Expense. Income tax expense increased \$1.2 million, or 19.5%, to \$7.6 million for the three months ended April 1, 2001 from \$6.4 million for the comparable period last year. For the six months ended April 1, 2001, income tax expense increased \$2.1 million, or 16.9%, to \$14.4 million from \$12.3 million for the comparable period last year. Our current estimated effective tax rate is 42.0% compared to 44.0% in the comparable period last year. The decrease is primarily attributable to estimated tax credits.

Liquidity and Capital Resources

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As of April 1, 2001, our working capital was \$182.2 million, an increase of \$27.9 million from October 1, 2000, of which cash and cash equivalents totaled \$12.4 million. In addition, we have a credit agreement (the "Credit Agreement") with a bank which provides for a revolving credit facility (the "Facility") of \$150.0 million. Under our Credit Agreement, we may also request standby letters of credit up to the aggregate sum of \$25.0 million outstanding at any given time. Our Facility matures on March 17, 2005 or earlier at our discretion upon payment in full of loans and other obligations. As of April 1, 2001, borrowings and standby letters of credit on this facility totaled \$128.5 million and \$1.1 million, respectively.

In the six months ended April 1, 2001, we generated \$4.7 million from operating activities compared to the usage of \$15.8 million in the comparable period last year. This increase was in part attributable to our collection of accounts receivable and a reduction in the amount of payments made to former shareholders of acquired companies for accounts receivable not acquired in the purchase transactions. In the six months ended April 1, 2001, cash used in investing activities was \$15.8 million compared to \$9.1 million for the comparable period last year. This increase primarily was the result of cash used for business acquisitions. In the six months ended April 1, 2001, cash provided by financing activities was \$16.4 million compared to \$36.5 million for the comparable period last year. This change was attributable to lower borrowings on our credit facility.

We are currently seeking to augment our credit facility with a private placement of senior secured notes. We expect this transaction to be completed by June 2001. We expect that internally generated funds, our existing cash balances and availability under the Credit Agreement and proceeds from our senior secured notes will be sufficient to meet our capital requirements through the end of fiscal 2001.

We continuously evaluate the marketplace for strategic opportunities. Once an opportunity is identified, we examine the effect an acquisition may have on the business environment, as well as on our results of operations. We proceed with an acquisition if we determine that the acquisition is anticipated to have an accretive effect on future operations. However, as successful integration and implementation are essential to achieve favorable results, no assurances 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 both cash and our securities, as we deem appropriate, to fund such acquisitions.

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We believe our operations have not been and, in the foreseeable future, do not expect to be materially adversely affected by inflation or changing prices.

Recently Issued Financial Standards

In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin (SAB) No. 101, *Revenue Recognition*, which outlines the basic criteria that must be met to recognize revenue and provides guidance for disclosures related to revenue recognition policies. SAB No. 101 requires companies to report any changes in revenue recognition as a cumulative change in accounting principle at the time of implementation in accordance with Accounting Principles Board of Opinion No. 20, *Accounting Changes*. SAB No. 101, as amended, is effective no later than the fourth quarter of fiscal years beginning after December 15, 1999. We will adopt SAB No. 101 in the fourth quarter of fiscal year 2001. We believe our existing revenue recognition policies and procedures are in compliance with SAB No. 101, and that the adoption of SAB No. 101 will have no material impact on our results of operations or financial position.

Market Risks

We currently utilize no material derivative financial instruments which expose us to significant market risk. We are exposed to cash flow risk due to interest rate fluctuations with respect to our long-term obligations. At our option, we borrow on our Facility (a) at a base rate (the greater of the federal funds rate plus 0.50% or the bank's reference rate) or (b) at a eurodollar rate plus a margin which ranges from 0.75% to 1.25%. Borrowings at the base rate have no designated term and may be repaid without penalty anytime 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 upon payment in full of loans and other obligations. Accordingly, we classify total outstanding obligations between current liabilities and long-term obligations based on anticipated payments within and beyond one year's period of time. We currently anticipate repaying \$28.0 million of our outstanding indebtedness in the next 12 months. Assuming we repay \$28.0 million ratably during the next twelve months, and our average interest rate increases or decreases by one percentage point, our interest expense could increase or decrease by \$1.1 million during the next twelve months. However, there can be no assurance that we will, or will be able to repay our long-term obligations in the manner described. We could incur additional debt under the Facility or our operating results could be worse than currently anticipated.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

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

RISK FACTORS

Some of the information in this Quarterly Report on Form 10-Q contains forward-looking statements that involve substantial risks and uncertainties. You can identify these statements by forward-looking words such as "may," "will," "expect," "anticipate," "believe," "estimate" and "continue" or similar words. You should read statements that contain these words carefully because they: (1) discuss our future expectations; (2) contain projections of our future operating results or of our future financial condition; or (3) state other "forward-looking" information. We believe it is important to communicate our expectations to our investors. There may be events in the future, however, that we are not accurately able to predict or over which we have no control. The risk factors listed in this section, as well as any cautionary language in this Quarterly Report on Form 10-Q, provide examples of risks, uncertainties and events that may cause our actual results to differ materially from expectations described in forward-looking statements. The occurrence of any of the events described in these risk factors and elsewhere in this Quarterly Report on Form 10-Q could have a material adverse effect on our business, financial condition and operating results. Upon the occurrence of any of these events, the trading price of our common stock could decline.

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

A significant part of our growth strategy is to acquire other companies that complement our lines of business or that broaden our geographic presence. During fiscal 2000, we purchased nine companies in eight separate transactions. During the six months ended April 1, 2001, we purchased three companies in three transactions. We expect to continue to acquire companies as an element of our growth strategy. Acquisitions involve certain risks that could cause our actual growth or operating results to differ from our expectations or the expectations of security analysts. For example:

We may not be able to identify suitable acquisition candidates or to acquire additional companies on favorable terms;

We compete with others to acquire companies. Competition may increase and may result in decreased availability of or increased price for suitable acquisition candidates;

We may not be able to obtain the necessary financing, on favorable terms or at all, to finance any of our potential acquisitions;

We may ultimately fail to consummate an acquisition even if we announce that we plan to acquire a company;

We may fail to successfully integrate or manage these acquired companies due to differences in business backgrounds or corporate cultures;

These acquired companies may not perform as we expect;

We may find it difficult to provide a consistent quality of service across our geographically diverse operations; and

If we fail to successfully integrate any acquired company, our reputation could be damaged. This could make it more difficult to market our services or to acquire additional companies in the future.

In addition, our acquisition strategy may divert management's attention away from our primary service offerings, result in the loss of key clients or personnel and expose us to unanticipated liabilities.

Finally, acquired companies that derive a significant portion of their revenues from the Federal government and that do not follow the same cost accounting policies and billing procedures as we do may be subject to larger cost disallowances for greater periods than we typically encounter. If we fail to determine the existence of unallowable costs and establish appropriate reserves in advance of an

acquisition, we may be exposed to material unanticipated liabilities, which could have a material adverse effect on our business.

Our quarterly operating results may fluctuate significantly, which could have a negative effect on the price of our common stock

Our quarterly revenues, expenses and operating results may fluctuate significantly because of a number of factors, including:

The seasonality of the spending cycle of our public sector clients and the spending patterns of our private sector clients;

Employee hiring and utilization rates;

The number and significance of client engagements commenced and completed during a quarter;

Delays incurred in connection with an engagement;

The ability of our clients to terminate engagements without penalties;

The size and scope of engagements;

The timing of expenses incurred for corporate initiatives;

The timing and size of the return on investment capital; and

General economic and political conditions.

Variations in any of these factors could cause significant fluctuations in our operating results from quarter to quarter and could result in net losses.

The value of our common stock could continue to be volatile

The trading price of our common stock has fluctuated widely. In addition, in recent years the stock market has experienced extreme price and volume fluctuations. The overall market and the price of our common stock may continue to fluctuate greatly. The trading price of our common stock may be significantly affected by various factors, including:

Quarter to quarter variations in our operating results;

Changes in environmental legislation;

Changes in investors' and analysts' perception of the business risks and conditions of our business;

Broader market fluctuations; and

General economic or political conditions.

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

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

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

We depend upon the efforts and skills of our executive officers, senior managers and consultants. With limited exceptions, we do not have employment agreements with any of these individuals. The loss of the services of any of these key personnel could adversely affect our business. Although we have obtained non-compete agreements from certain principals and stockholders of companies we have acquired, we generally do not have non-compete or employment agreements with key employees who were not once equity holders of these companies. We do not maintain key-man life insurance policies on any of our executive officers or senior managers.

Our future growth and success depends on our ability to attract and retain qualified scientists and engineers. The market for these professionals is competitive and we may not be able to attract and retain such professionals.

Changes in existing laws and regulations could reduce the demand for our services

A significant amount of our resource management business is generated either directly or indirectly as a result of existing Federal and state governmental laws, regulations and programs. Any changes in these laws or regulations that reduce funding or affect the sponsorship of these programs could reduce the demand for our services and could have a material adverse effect on our business.

Our revenues from agencies of the Federal government are concentrated, and a reduction in spending by these agencies could adversely affect our business and operating results

Agencies of the Federal government are among our most significant clients. During the six months ended April 1, 2001, approximately 24.7% of our net revenue was derived from Federal agencies of which 13.0% was derived from the Department of Defense (DOD), 8.4% from the Environmental Protection Agency (EPA), 1.3% from the Department of Energy (DOE) and 2.0% from various other Federal agencies. Some contracts with Federal government agencies require annual funding approval and may be terminated at their discretion. A reduction in spending by Federal government agencies could limit the continued funding of our existing contracts with them and could limit our ability to obtain additional contracts. These limitations, if significant, could have a material adverse effect on our business.

Additionally, the failure of clients to pay significant amounts due us for our services could adversely affect our business. For example, we recently received notification from a Federal government agency that we are entitled to payments in excess of our billings. However, the agency involved must obtain specific funding approval for amounts owed to us and there can be no assurance this funding approval will be obtained.

Our contracts with governmental agencies are subject to audit, which could result in the disallowance of certain costs

Contracts with the Federal government and other governmental agencies are subject to audit. Most of these audits are conducted by the Defense Contract Audit Agency (DCAA), which reviews our overhead rates, operating systems and cost proposals. The DCAA may disallow costs if it determines that we accounted for these costs incorrectly or in a manner inconsistent with Cost Accounting Standards. A disallowance of costs by the DCAA, or other governmental auditors, could have a material adverse effect on our business.

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Our business and operating results could be adversely affected by losses under fixed-price contracts or termination of contracts at the client's discretion

We contract with Federal and state governments as well as with the commercial sector. These contracts are often subject to termination at the discretion of the client with or without cause. Additionally, we enter into various types of contracts with our clients, including fixed-price contracts. During the six months ended April 1, 2001, approximately 46.3% of our net revenue was derived from fixed-price contracts. Fixed-price contracts protect clients and expose us to a number of risks. These risks include underestimation of costs, problems with new technologies, unforeseen costs or difficulties, delays beyond our control and economic and other changes that may occur during the contract period. Losses under fixed-price contracts or termination of contracts at the discretion of the client could have a material adverse effect on our business.

Our inability to find qualified subcontractors could adversely affect the quality of our service and our ability to perform under certain contracts

Under some of our contracts, we depend on the efforts and skills of subcontractors for the performance of certain tasks. Reliance on subcontractors varies from project to project. In the six months ended April 1, 2001, subcontractor costs comprised 25.2% of our gross revenue. The absence of qualified subcontractors with whom we have a satisfactory relationship could adversely affect the quality of our service and our ability to perform under some of our contracts.

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

We provide specialized management consulting and technical services to a broad range of public and private sector clients. The market for our services is highly competitive and we compete with many other firms. These firms range from small regional firms to large national firms which have greater financial and marketing resources than ours.

We focus primarily on the resource management, infrastructure and communications business areas. We provide services to our clients which include Federal, state and local agencies, and organizations in the private sector.

We compete for projects and engagements with a number of competitors which can vary from 10 to 100 firms. Historically, clients have chosen among competing firms based on the quality and timeliness of the firm's service. We believe, however, that price has become an increasingly important factor.

We believe that our principal competitors include, in alphabetical order, Black & Veatch LLP; Brown & Caldwell; Castle Tower Corporation; CH2M Hill Companies Ltd.; Earth Tech, Inc.; IT Group, Inc.; Mastec, Inc.; Montgomery Watson; o2 Wireless Solutions, Inc.; Quanta Services; Roy F. Weston, Inc.; Science Applications International Corporation; URS Corporation and Wireless Facilities, Inc.

Our services expose us to significant risks of liability and our insurance policies may not provide adequate coverage

Our services involve significant risks of professional and other liabilities which may substantially exceed the fees we derive from our services. Our business activities could expose us to potential liability under various environmental laws such as the Comprehensive Environmental Response, Compensation, and Liability Act of 1980 (CERCLA). In addition, we sometimes contractually assume liability under indemnification agreements. We cannot predict the magnitude of such potential liabilities.

We currently maintain comprehensive general liability, umbrella and professional liability insurance policies. We believe that our insurance policies are adequate for our business operations. Professional

liability policies are "claims made" policies. Thus, only claims made during the term of the policy are covered. Should we terminate our professional liability policies and do not obtain retroactive coverage, we would be uninsured for claims made after termination even if these claims are based on events or acts that occurred during the term of the policy. Additionally, our insurance policies may not protect us against potential liability do to various exclusions and retentions. In addition, if we expand into new markets, we may not be able to obtain insurance coverage for such activities or, if insurance is obtained, the dollar amount of any liabilities incurred could exceed our insurance coverage. Partially or completely uninsured claims, if successful and of significant magnitude, could have a material adverse affect on our business.

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

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

Our international operations expose us to risks such as foreign currency fluctuations

In the six months ended April 1, 2001, approximately 3.8% of our net revenue was derived from the international marketplace. Some contracts with our international clients are denominated in foreign currencies. As such, these contracts contain inherent risks including foreign currency exchange risk and the risk associated with expatriating funds from foreign countries. If our international revenue increases, our exposure to foreign currency fluctuations will also increase. We have entered into forward exchange contracts to address foreign currency fluctuations.

PART II. OTHER INFORMATION

Item 2. Changes in Securities and Use of Proceeds.

On March 2, 2001, we acquired 100% of the capital stock of Wahco Construction, Inc., a Washington corporation ("WCI"). In connection with this transaction, we issued an aggregate of 51,982 shares of our common stock, \$.01 par value ("Common Stock") to the former shareholders of WCI. For purposes of this transaction, each share of Common Stock was valued at \$18.28. The issuances of Common Stock were made by private placement in reliance on the exemption from the registration provisions of the Securities Act of 1933, as amended (the "Act"), provided for in Section 4(2) of the Act.

On March 29, 2001, we acquired 100% of the capital stock of Williams, Hatfield & Stoner, Inc., a Florida corporation ("WHS"). In connection with this transaction, we issued an aggregate of 127,547 shares of Common Stock to the former shareholders of WHS. For purposes of this transaction, each share of Common Stock was valued at \$19.60. The issuances of Common Stock were made by private placement in reliance on the exemption from the registration provisions of the Act provided for in Section 4(2) of the Act.

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

On February 22, 2001, we held our annual meeting of stockholders for the following purposes:

- (1) To elect five directors to our Board of Directors;
- (2) To amend our Certificate of Incorporation to increase the number of authorized shares of Common Stock from 50,000,000 to 85,000,000; and
- (3) To adopt our 2001 Stock Plan.

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

Election of Directors:

| Director | For | Withhold Authority | Abstentions | Broker Non-Votes |
|----------------------|------------|--------------------|-------------|------------------|
| Li-San Hwang | 31,981,273 | 410,479 | 0 | 0 |
| J. Christopher Lewis | 31,980,275 | 411,477 | 0 | 0 |
| Patrick C. Haden | 31,972,750 | 419,002 | 0 | 0 |
| James J. Shelton | 31,981,231 | 410,521 | 0 | 0 |
| Daniel A. Whalen | 31,931,194 | 460,558 | 0 | 0 |

Amendment of Certificate of Incorporation:

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| | <u>For</u> | <u>Against</u> | <u>Abstentions</u> | <u>Broker Non-Votes</u> |
|-------------------------------------|------------|----------------|--------------------|-----------------------------|
| Adoption of 2001 Stock Plan: | 30,004,616 | 2,369,843 | 17,293 | 0 |

| | <u>For</u> | <u>Against</u> | <u>Abstentions</u> | <u>Broker Non-Votes</u> |
|--|------------|----------------|--------------------|-----------------------------|
| | 11,299,595 | 17,089,220 | 71,859 | 3,931,078 |

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Item 6. Exhibits and Reports on Form 8-K.

(a)

Exhibits

- 3.1 Restated Certificate of Incorporation of the Company (incorporated herein by reference to Exhibit 3.1 to the Company's Annual Report on Form 10-K for the fiscal year ended October 1, 1995).
- 3.2 Bylaws of the Company as amended to date (incorporated herein by reference to Exhibit 3.2 to the Company's Registration Statement on Form S-1, No. 33-43723).
- 3.3 Certificate of Amendment of Certificate of Incorporation of the Company (incorporated herein by reference to Exhibit 3.4 to the Company's Annual Report on Form 10-K for the fiscal year ended October 4, 1998).
- 3.4 Certificate of Amendment of Certificate of Incorporation of the Company.
- 10.1 Credit Agreement dated as of March 17, 2000 among the Company and the financial institutions named therein (incorporated herein by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended April 2, 2000).
- 10.2 1989 Stock Option Plan dated as of February 1, 1989 (incorporated herein by reference to Exhibit 10.13 to the Company's Registration Statement on Form S-1, No. 33-43723).
- 10.3 Form of Incentive Stock Option Agreement executed by the Company and certain individuals in connection with the Company's 1989 Stock Option Plan (incorporated herein by reference to Exhibit 10.14 to the Company's Registration Statement on Form S-1, No. 33-43723).
- 10.4 Executive Medical Reimbursement Plan (incorporated herein by reference to Exhibit 10.16 to the Company's Registration Statement on Form S-1, No. 33-43723).
- 10.5 1992 Incentive Stock Plan (incorporated herein by reference to Exhibit 10.18 to the Company's Annual Report on Form 10-K for the fiscal year ended October 3, 1993).
- 10.6 Form of Incentive Stock Option Agreement used by the Company in connection with the Company's 1992 Incentive Stock Plan (incorporated herein by reference to Exhibit 10.19 to the Company's Annual Report on Form 10-K for the fiscal year ended October 3, 1993).
- 10.7 1992 Stock Option Plan for Nonemployee Directors (incorporated herein by reference to Exhibit 10.20 to the Company's Annual Report on Form 10-K for the fiscal year ended October 3, 1993).
- 10.8 Form of Nonqualified Stock Option Agreement used by the Company in connection with the Company's 1992 Stock Option Plan for Nonemployee Directors (incorporated herein by reference to Exhibit 10.21 to the Company's Annual Report on Form 10-K for the fiscal year ended October 3, 1993).
- 10.9 1994 Employee Stock Purchase Plan (incorporated herein by reference to Exhibit 10.22 to the Company's Annual Report on Form 10-K for the fiscal year ended October 2, 1994).
- 10.10 Form of Stock Purchase Agreement used by the Company in connection with the Company's 1994 Employee Stock Purchase Plan (incorporated herein by reference to Exhibit 10.23 to the Company's Annual Report on Form 10-K for the fiscal year ended October 2, 1994).

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- 10.11 Employment Agreement dated as of June 11, 1997 between the Company and Daniel A. Whalen (incorporated herein by reference to Exhibit 10.16 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended June 29, 1997).

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- 10.12 Registration Rights Agreement dated as of June 11, 1997 among the Company and the parties listed on Schedule A attached thereto (incorporated herein by reference to Exhibit 10.17 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended June 29, 1997).
- 10.13 Registration Rights Agreement dated as of July 11, 1997 among the Company and the parties listed on Schedule A attached thereto (incorporated herein by reference to Exhibit 10.18 to the Company's Annual Report on Form 10-K for the fiscal year ended September 28, 1997).
- 10.14 Registration Rights Agreement dated as of March 26, 1998 among the Company and the parties listed on Schedule A attached thereto (incorporated herein by reference to Exhibit 10.20 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended March 29, 1998).
- 10.15 Registration Rights Agreement dated as of July 9, 1998 among the Company and the parties listed on Schedule A attached thereto (incorporated herein by reference to Exhibit 10.22 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended June 28, 1998).
- 10.16 Registration Rights Agreement dated as of September 22, 1998 among the Company and the parties listed on Schedule A attached thereto (incorporated herein by reference to Exhibit 10.23 to the Company's Annual Report on Form 10-K for the fiscal year ended October 4, 1998).
- 10.17 Registration Rights Agreement dated as of February 26, 1999 among the Company and the parties listed on Schedule A attached thereto (incorporated herein by reference to Exhibit 10.24 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended April 4, 1999).
- 10.18 Registration Rights Agreement dated as of May 7, 1999 among the Company and the parties listed on Schedule A attached thereto (incorporated herein by reference to Exhibit 10.26 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended July 4, 1999).
- 10.19 Registration Rights Agreement dated as of May 21, 1999 among the Company and the parties listed on Schedule A attached thereto (incorporated herein by reference to Exhibit 10.27 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended July 4, 1999).
- 10.20 Registration Rights Agreement dated as of June 18, 1999 among the Company and the parties listed on Schedule A attached thereto (incorporated herein by reference to Exhibit 10.28 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended July 4, 1999).
- 10.21 Registration Rights Agreement dated as of September 3, 1999 among the Company and the parties listed on Schedule A attached thereto (incorporated herein by reference to Exhibit 10.30 to the Company's Annual Report on Form 10-K for the fiscal year ended October 3, 1999).
- 10.22 Registration Rights Agreement dated as of March 31, 2000 among the Company and the parties listed on Schedule A attached thereto (incorporated herein by reference to Exhibit 10.22 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended July 2, 2000).

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- 10.23 Registration Rights Agreement dated as of May 3, 2000 among the Company and the parties listed on Schedule A attached thereto (incorporated herein by reference to Exhibit 10.23 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended July 2, 2000).
 - 10.24 Registration Rights Agreement dated as of May 17, 2000 among the Company and the parties listed on Schedule A attached thereto (incorporated herein by reference to Exhibit 10.24 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended July 2, 2000).
 - 10.25 Registration Rights Agreement dated as of May 24, 2000 among the Company and the parties listed on Schedule A attached thereto (incorporated herein by reference to Exhibit 10.25 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended July 2, 2000).
 - 10.26 Registration Rights Agreement dated as of December 21, 2000 among the Company and the parties listed on Schedule A attached thereto (incorporated herein by reference to Exhibit 10.26 to the Company's Annual Report on Form 10-K for the fiscal year ended October 1, 2000).
 - 10.27 Registration Rights Agreement dated as of March 2, 2001 among the Company and the parties listed on Schedule A attached thereto.
 - 10.28 Registration Rights Agreement dated as of March 30, 2001 among the Company and the parties listed on Schedule A attached thereto.

(b)

Reports on Form 8-K

None.

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SIGNATURES

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

TETRA TECH, INC.

Dated: May 23, 2001

By: /s/ JAMES M. JASKA

James M. Jaska
Executive Vice President, Chief Financial Officer
and Treasurer (Principal Financial and
Accounting Officer)
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