

TETRA TECH INC
Form 10-Q/A
May 22, 2003

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q/A

Amendment No. 1

(Mark One)

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

For the quarterly period ended March 30, 2003

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 No.)

3475 East Foothill Boulevard, Pasadena, California 91107

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(Address of principal executive offices)

(626) 351-4664

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of May 19, 2003, 53,500,415 shares of the Registrant's common stock were outstanding.

EXPLANATORY NOTE

This Amendment on Form 10-Q/A constitutes Amendment No. 1 to the Quarterly Report on Form 10-Q for the fiscal quarter ended March 30, 2003, which was previously filed with the Securities and Exchange Commission on May 14, 2003 (the "Quarterly Report"), of Tetra Tech, Inc. We are filing this Amendment to correct certain typographical errors contained in Part I, Items 1 and 2. The most significant corrections are as follows: (i) two captions in the Condensed Consolidated Balance Sheets have been corrected to read "Goodwill Net" and "Intangible and Other Assets Net"; (ii) the total in the Goodwill Adjustments column in the first table under Note 2 of Notes to Condensed Consolidated Financial Statements has been corrected to read "\$23,943,000"; and (iii) the total in the Accumulated Amortization column in the second table under Note 2 of Notes to Condensed Consolidated Financial Statements has been corrected to read "\$ (601,000)". We are also updating Part II, Item 6.

In accordance with Rule 12b-15 under the Securities Exchange Act of 1934, as amended, the complete text of Items 1 and 2 of Part I, and Item 6 of Part II, is set forth herein. In addition, in connection with the filing of this Amendment and pursuant to Rule 12b-15, we are including certain currently dated certifications. The remainder of our Quarterly Report is unchanged and is not reproduced in this Amendment. This Report speaks as of the original filing date of the Quarterly Report and, except as indicated, has not been updated to reflect events occurring subsequent to the original filing date.

TETRA TECH, INC.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

Tetra Tech, Inc.

Condensed Consolidated Balance Sheets

| In thousands, except share data | March 30, 2003 (Unaudited) | September 29, 2002 |
|--|-------------------------------|--------------------|
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$ 21,411 | \$ 46,345 |
| Accounts receivable - net | 163,819 | 137,354 |
| Unbilled receivables - net | 163,158 | 117,354 |
| Contract retentions | 5,856 | 5,090 |
| Prepaid expenses and other current assets | 22,301 | 18,588 |
| Income taxes receivable | 28,633 | 20,683 |
| Total Current Assets | 405,178 | 345,414 |
| PROPERTY AND EQUIPMENT: | | |
| Equipment, furniture and fixtures | 80,478 | 76,756 |
| Leasehold improvements | 9,344 | 8,217 |
| Total | 89,822 | 84,973 |
| Accumulated depreciation and amortization | (46,366) | (44,847) |
| PROPERTY AND EQUIPMENT - NET | 43,456 | 40,126 |
| GOODWILL - NET | 187,541 | 278,267 |
| INTANGIBLE AND OTHER ASSETS - NET | 16,915 | 8,173 |
| TOTAL ASSETS | \$ 653,090 | \$ 671,980 |
| LIABILITIES AND STOCKHOLDERS EQUITY | | |
| CURRENT LIABILITIES: | | |
| Accounts payable | \$ 66,842 | \$ 60,038 |
| Accrued compensation | 36,684 | 34,228 |
| Billings in excess of costs on uncompleted contracts | 17,307 | 11,837 |
| Other current liabilities | 19,170 | 19,377 |
| Deferred income taxes | 18,638 | 18,638 |
| Current portion of long-term obligations | 60,984 | 1,559 |
| Total Current Liabilities | 219,625 | 145,677 |
| LONG-TERM OBLIGATIONS | 110,000 | 110,000 |

COMMITMENTS AND CONTINGENCIES

STOCKHOLDERS EQUITY:

| | | |
|--|-------------------|-------------------|
| Preferred stock - authorized, 2,000,000 shares of \$.01 par value; issued and outstanding, 0 shares at March 30, 2003 and September 29, 2002 | | |
| Exchangeable stock of a subsidiary | 13,239 | 13,239 |
| Common stock - authorized, 85,000,000 shares of \$.01 par value; issued and outstanding, 53,411,621 and 53,273,227 shares at March 30, 2003 and September 29, 2002, respectively | 534 | 533 |
| Additional paid-in capital | 208,179 | 207,505 |
| Accumulated other comprehensive loss | (1,192) | (1,784) |
| Retained earnings | 102,705 | 196,810 |
| TOTAL STOCKHOLDERS EQUITY | 323,465 | 416,303 |
| TOTAL LIABILITIES AND STOCKHOLDERS EQUITY | \$ 653,090 | \$ 671,980 |

See accompanying Notes to Condensed Consolidated Financial Statements.

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Tetra Tech, Inc.

Condensed Consolidated Statements of Operations

(Unaudited)

| In thousands, except per share data | Three Months Ended | | Six Months Ended | |
|--|--------------------|-------------------|-------------------|-------------------|
| | March 30, 2003 | March 31, 2002 | March 30, 2003 | March 31, 2002 |
| Gross Revenue | 245,464 | \$ 226,128 | \$ 478,544 | \$ 479,156 |
| Subcontractor Costs | 52,594 | 48,055 | 104,692 | 116,194 |
| Net Revenue | 192,870 | 178,073 | 373,852 | 362,962 |
| Cost of Net Revenue | 151,075 | 142,851 | 294,449 | 282,828 |
| Gross Profit | 41,795 | 35,222 | 79,403 | 80,134 |
| Selling, General and Administrative Expenses | 20,290 | 22,394 | 40,640 | 43,844 |
| Amortization of Intangibles | 181 | 2,660 | 316 | 5,321 |
| Income from Operations | 21,324 | 10,168 | 38,447 | 30,969 |
| Interest Expense | 2,387 | 2,479 | 4,524 | 4,720 |
| Interest Income | 106 | 1,002 | 351 | 1,038 |
| Income Before Income Tax Expense | 19,043 | 8,691 | 34,274 | 27,287 |
| Income Tax Expense | 7,618 | 3,389 | 13,710 | 10,642 |
| Income Before Cumulative Effect of Accounting Change | 11,425 | 5,302 | 20,564 | 16,645 |
| Cumulative Effect of Accounting Change | 114,669 | | 114,669 | |
| Net (Loss) Income | \$ (103,244) | \$ 5,302 | \$ (94,105) | \$ 16,645 |
| Basic Earnings Per Share: | | | | |
| Income Before Cumulative Effect of Accounting Change | \$ 0.21 | \$ 0.10 | \$ 0.39 | \$ 0.32 |
| Cumulative Effect of Accounting Change | (2.14) | | (2.15) | |
| Net (Loss) Income | \$ (1.93) | \$ 0.10 | \$ (1.76) | \$ 0.32 |
| Diluted Earnings Per Share: | | | | |
| Income Before Cumulative Effect of Accounting Change | \$ 0.21 | \$ 0.10 | \$ 0.37 | \$ 0.30 |
| Cumulative Effect of Accounting Change | (2.07) | | (2.07) | |
| Net (Loss) Income | \$ (1.86) | \$ 0.10 | \$ (1.70) | \$ 0.30 |
| Weighted Average Common Shares Outstanding: | | | | |
| Basic | 53,373 | 52,440 | 53,330 | 52,396 |

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| | | | | |
|---------|--------|--------|--------|--------|
| Diluted | 55,419 | 54,945 | 55,212 | 55,089 |
|---------|--------|--------|--------|--------|

See accompanying Notes to Condensed Consolidated Financial Statements.

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Tetra Tech, Inc.

Condensed Consolidated Statements of Cash Flows

(Unaudited)

| In thousands | Six Months Ended | |
|--|-------------------|-------------------|
| | March 30, 2003 | March 31, 2002 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net (loss) income | \$ (94,105) | \$ 16,645 |
| Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities: | | |
| Cumulative effect of accounting change | 114,669 | |
| Depreciation and amortization | 6,783 | 11,405 |
| Provision for losses on receivables | 1,853 | 3,051 |
| Changes in operating assets and liabilities, net of effects of acquisitions: | | |
| Accounts receivable | 4,942 | 19,129 |
| Unbilled receivables | (12,770) | (10,842) |
| Contract retentions | 329 | (2,306) |
| Prepaid expenses and other assets | (2,733) | (4,669) |
| Accounts payable | (21,022) | (4,882) |
| Accrued compensation | (2,603) | (3,778) |
| Billings in excess of costs on uncompleted contracts | 528 | 2,914 |
| Other current liabilities | 2,746 | 1,132 |
| Income taxes receivable/payable | (8,050) | (1,657) |
| Net Cash (Used In) Provided By Operating Activities | (9,433) | 26,142 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Capital expenditures | (4,000) | (3,499) |
| Payments for business acquisitions, net of cash acquired | (72,193) | (24,482) |
| Net Cash Used In Investing Activities | (76,193) | (27,981) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Payments on long-term obligations | (5,575) | (40,332) |
| Proceeds from borrowings under credit agreement | 65,000 | 45,000 |
| Net proceeds from issuance of common stock | 675 | 1,301 |
| Net Cash Provided By Financing Activities | 60,100 | 5,969 |
| EFFECT OF EXCHANGE RATE CHANGES ON CASH | 592 | 22 |
| NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS | (24,934) | 4,152 |

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| | | | | |
|--|----|--------|----|--------|
| CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD | | 46,345 | | 16,240 |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | \$ | 21,411 | \$ | 20,392 |

SUPPLEMENTAL CASH FLOW INFORMATION:

Cash paid during the period for:

| | | | | |
|---------------------------------------|----|--------|----|--------|
| Interest | \$ | 4,319 | \$ | 4,707 |
| Income taxes, net of refunds received | \$ | 22,140 | \$ | 11,675 |

SUPPLEMENTAL NON-CASH INVESTING AND FINANCING ACTIVITIES:

In March 2003, the Company's subsidiary, Tetra Tech FW, Inc., purchased certain assets and assumed certain liabilities of Foster Wheeler Environmental Corporation and Hartman Consulting Corporation. In conjunction with this acquisition, liabilities were assumed as follows:

| | | | | |
|-------------------------------|----|----------|--|--|
| Fair value of assets acquired | \$ | 108,105 | | |
| Cash paid | | (72,072) | | |
| Purchase price receivable | | 4,838 | | |
| Other acquisition costs | | (555) | | |
| Liabilities assumed | \$ | 40,316 | | |

In March 2002, the Company's subsidiary, The Thomas Group of Companies, Inc., purchased all of the capital stock of Thomas Associates Architects, Engineers, Landscape Architects, P.C. and America's Schoolhouse Consulting Services, Inc. In conjunction with this acquisition, liabilities were assumed as follows:

| | | | | |
|-------------------------------|--|--|----|----------|
| Fair value of assets acquired | | | \$ | 27,059 |
| Cash paid | | | | (15,055) |
| Issuance of common stock | | | | (5,018) |
| Other acquisition costs | | | | (10) |
| Liabilities assumed | | | \$ | 6,976 |

In March 2002, the Company purchased all of the capital stock of Hartman & Associates, Inc. In conjunction with this acquisition, liabilities were assumed as follows:

| | | | | |
|-------------------------------|--|--|----|----------|
| Fair value of assets acquired | | | \$ | 14,482 |
| Cash paid | | | | (10,800) |
| Other acquisition costs | | | | (10) |
| Liabilities assumed | | | \$ | 3,672 |

See accompanying Notes to Condensed Consolidated Financial Statements.

TETRA TECH, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation

The accompanying condensed consolidated balance sheet as of March 30, 2003, the condensed consolidated statements of operations for the three-month and six-month periods ended March 30, 2003 and March 31, 2002 and the condensed consolidated statements of cash flows for the six months ended March 30, 2003 and March 31, 2002 are unaudited, and in the opinion of management include all adjustments, consisting of only normal and recurring adjustments and a cumulative effect of accounting change, 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 September 29, 2002.

The results of operations for the three and six months ended March 30, 2003 are not necessarily indicative of the results to be expected for the fiscal year ending September 28, 2003.

2. Goodwill and Acquired Intangibles

Effective September 30, 2002, the Company adopted the Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) No. 142, *Goodwill and Other Intangible Assets*. The statement changed the accounting method for goodwill and indefinite-lived intangible assets from an amortization approach to an impairment-only approach. As a result of the adoption of SFAS No. 142, the Company recorded a transitional goodwill impairment charge during the quarter ended March 30, 2003 of \$114,669,000 presented as a cumulative effect of accounting change. This charge related to the Company's communications reporting unit.

The SFAS No. 142 goodwill impairment model is a two-step process. First, it requires a comparison of the book value of net assets to the fair value of the related operations that have goodwill assigned to them. The Company estimates the fair values of the related operations using a combination of discounted cash flows, peer company comparables and similar transactions in the marketplace. The cash flow forecasts are adjusted by an appropriate discount rate. If the fair value is determined to be less than book value, a second step is performed to compute the amount of the impairment. In this process, a fair value for goodwill is estimated, based on the fair value of the operations used in the first step, and is compared to its carrying value. The shortfall of the fair value below carrying value represents the amount of goodwill impairment. SFAS No. 142 requires goodwill to be tested for impairment annually at the same time every year, and when an event occurs or circumstances change such that it is reasonably possible that an impairment may exist.

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The changes in the carrying value of goodwill by reporting unit for the six months ended March 30, 2003 were as follows:

| Reporting Unit | September 29, 2002 | Goodwill Adjustments(1) | Impairment Losses | March 30, 2003 |
|---------------------|-----------------------|----------------------------|----------------------|-------------------|
| Resource Management | \$ 52,092,000 | \$ 23,903,000 | | \$ 75,995,000 |
| Infrastructure | 111,435,000 | 111,000 | | 111,546,000 |
| Communications | 114,740,000 | (71,000) | \$ (114,669,000) | |
| Total | \$ 278,267,000 | \$ 23,943,000 | \$ (114,669,000) | \$ 187,541,000 |

(1) The goodwill adjustments represent goodwill related to an acquisition and post-acquisition purchase price adjustments.

The gross carrying amounts and accumulated amortization of the Company's acquired intangible assets as of March 30, 2003 and September 30, 2002, included in Intangible and Other Assets, Net in the accompanying condensed consolidated balance sheets, were as follows:

| Identifiable Intangible Assets | March 30, 2003 | | September 30, 2002 | |
|--------------------------------|--------------------|-----------------------------|--------------------|-----------------------------|
| | Carrying Amount | Accumulated Amortization | Carrying Amount | Accumulated Amortization |
| Backlog | \$ 10,856,000 | \$ (441,000) | \$ 1,751,000 | \$ (163,000) |
| Non-compete Agreements | 451,000 | (429,000) | 451,000 | (397,000) |
| Software | 25,000 | (12,000) | 25,000 | (5,000) |
| Other | 41,000 | (36,000) | 41,000 | (36,000) |
| Total | \$ 11,373,000 | \$ (918,000) | \$ 2,268,000 | \$ (601,000) |

Identifiable intangible assets acquired during the quarter ended March 30, 2003 consisted of backlog of \$9,105,000 with a weighted average amortization period of 8.5 years. Amortization expense for acquired finite-lived intangible assets for the six months ended March 30, 2003 was \$316,000. Estimated amortization expense for the remainder of fiscal 2003 and for the succeeding five years is as follows:

| | |
|------|------------|
| 2003 | \$ 810,000 |
| 2004 | 1,474,000 |
| 2005 | 1,432,000 |
| 2006 | 1,396,000 |
| 2007 | 1,329,000 |
| 2008 | 1,125,000 |

SFAS No. 142 requires disclosures of the after-tax impact to reported net income and earnings per share of the adoption of the statement for all periods presented. The following table recognizes the after-tax impact on the Company's operating results of the adoption of SFAS No. 142 as if the statement had been in effect for all periods presented:

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Three Months Ended
March 31, 2002

Six Months Ended
March 31, 2002

| | | | | |
|---------------------------------|----|-----------|----|------------|
| Reported net income | \$ | 5,302,000 | \$ | 16,645,000 |
| Add back: Goodwill amortization | | 2,660,000 | | 5,321,000 |
| Adjusted net income | \$ | 7,962,000 | \$ | 21,966,000 |

Basic earnings per share:

| | | | | |
|---|----|------|----|------|
| Reported basic earnings per share | \$ | 0.10 | \$ | 0.32 |
| Add back: Goodwill amortization per basic share | | 0.05 | | 0.10 |
| Adjusted basic earnings per share | \$ | 0.15 | \$ | 0.42 |

Diluted earnings per share:

| | | | | |
|---|----|------|----|------|
| Reported diluted earnings per share | \$ | 0.10 | \$ | 0.30 |
| Add back: Goodwill amortization per diluted share | | 0.04 | | 0.10 |
| Adjusted diluted earnings per share | \$ | 0.14 | \$ | 0.40 |

3. Accounting Pronouncements

In October 2001, the FASB issued SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, which supersedes SFAS No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets To Be Disposed Of*. SFAS No. 144 addresses financial accounting and reporting requirements for the impairment or disposal of long-lived assets. This statement also expands the scope of a discontinued operation to include a component of an entity and eliminates the current exemption to consolidation when control over a subsidiary is likely to be temporary. The Company adopted SFAS No. 144 effective September 30, 2002. The adoption of SFAS No. 144 did not have a material impact on the Company's financial position or results of operations.

In July 2002, the FASB issued SFAS No. 146, *Accounting for Exit or Disposal Activities*. SFAS No. 146 addresses the recognition, measurement, and reporting of costs that are associated with exit and disposal activities, including certain lease termination costs and severance-type costs under a one-time benefit arrangement rather than an ongoing benefit arrangement or an individual deferred compensation agreement. SFAS No. 146 requires liabilities associated with exit or disposal activities to be expensed as incurred and will impact the timing of recognition for exit or disposal activities that are initiated after December 31, 2002. The Company will apply the provisions of SFAS No. 146 to any exit or disposal activities initiated after December 31, 2002.

In November 2002, the FASB issued Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others* (FIN 45). FIN 45 elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it issued. It also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The initial recognition and initial measurement provisions of FIN 45 are applicable on a prospective basis to guarantees issued or modified after December 31, 2002. The disclosure requirements in this interpretation are effective for financial statements of interim or annual periods ending after December 15, 2002. Management believes that the adoption of FIN 45 will not have a material impact on the Company's results of operations or financial position.

In December 2002, the FASB issued SFAS No. 148, *Accounting for Stock-Based Compensation--Transition and Disclosure*. SFAS No. 148 amends SFAS No. 123, *Accounting for*

Stock-Based Compensation, to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this statement amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. SFAS No. 148's amendment of the transition and annual disclosure requirements is effective for fiscal years ending after December 15, 2002. The amendment of the disclosure requirements is effective for interim periods beginning after December 15, 2002. The Company did not elect to adopt the fair value recognition provisions of SFAS No. 123; however, the Company adopted the expanded disclosure requirements to include the effect of stock-based compensation in interim reporting during the current quarter.

4. Earnings Per Share

Basic Earnings Per Share (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 of 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 number of weighted average shares used to compute basic and diluted EPS:

Three Months Ended

Six Months Ended

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Mar. 30, 2003

Mar. 31, 2002

Mar. 30, 2003

Mar. 31, 2002

| | | | | |
|--|------------|------------|------------|------------|
| Denominator for basic earnings per share | | | | |
| Weighted average shares | 53,373,000 | 52,440,000 | 53,330,000 | 52,396,000 |
| Denominator for diluted earnings per share | | | | |
| Denominator for basic earnings per share | 53,373,000 | 52,440,000 | 53,330,000 | 52,396,000 |
| Potential common shares: | | | | |
| Stock options | 811,000 | 1,270,000 | 647,000 | 1,458,000 |
| Exchangeable stock of a subsidiary | 1,235,000 | 1,235,000 | 1,235,000 | 1,235,000 |
| Potential common shares | 2,046,000 | 2,505,000 | 1,882,000 | 2,693,000 |
| Denominator for diluted earnings per share | 55,419,000 | 54,945,000 | 55,212,000 | 55,089,000 |

For the three and six months ended March 30, 2003, 2.9 million and 3.2 million options, respectively, were excluded from the calculation of potential common shares. For the three and six months ended March 31, 2002, 2.0 million and 1.8 million options, respectively, were excluded from the calculation of potential common shares. These options were excluded because the exercise price of the excluded options exceeded the average market price for the respective periods.

5. Stock-Based Compensation

The Company accounts for its stock-based employee compensation plans under the recognition and measurement principles of Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*, and related Interpretations. No stock-based employee compensation cost is reflected

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in net income, as all options granted under those plans had an exercise price equal to the market value of the underlying common stock on the date of grant. The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of SFAS No. 123 to stock-based employee compensation.

| | Three Months Ended | | Six Months Ended | |
|---|--------------------|----------------|------------------|----------------|
| | March 30, 2003 | March 31, 2002 | March 30, 2003 | March 31, 2002 |
| Income Before Cumulative Effect of Accounting Change, as reported | \$ 11,425,000 | \$ 5,302,000 | \$ 20,564,000 | \$ 16,645,000 |
| Deduct: Stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects | 1,440,000 | 1,023,000 | 2,363,000 | 2,045,000 |
| Pro Forma Income Before Cumulative Effect of Accounting Change | \$ 9,985,000 | \$ 4,279,000 | \$ 18,201,000 | \$ 14,600,000 |
| Earnings Per Share Before Cumulative Effect of Accounting Change: | | | | |
| Basic as reported | \$ 0.21 | \$ 0.10 | \$ 0.39 | \$ 0.32 |
| Basic pro forma | \$ 0.19 | \$ 0.08 | \$ 0.34 | \$ 0.28 |
| Diluted as reported | \$ 0.21 | \$ 0.10 | \$ 0.37 | \$ 0.30 |
| Diluted pro forma | \$ 0.18 | \$ 0.08 | \$ 0.33 | \$ 0.27 |

6. 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 \$21.4 million and \$46.3 million at March 30, 2003 and September 29, 2002, respectively.

7. Mergers and Acquisitions

On March 25, 2002, the Company acquired through its wholly-owned subsidiary, The Thomas Group of Companies, Inc., 100% of the capital stock of Thomas Associates Architects, Engineers, Landscape Architects P.C. and America's Schoolhouse Consulting Services, Inc. (collectively, TGI), providers of architectural, engineering and planning services for educational buildings and school systems primarily in the eastern region of the United States. The purchase was valued at approximately \$20.0 million and consisted of cash and 392,126 shares of Company common stock.

On March 29, 2002, the Company acquired 100% of the capital stock of Hartman & Associates, Inc. (HAI), a provider of engineering, construction and consulting services in the southeastern region of the United States. The purchase was valued at approximately \$10.8 million

and consisted of cash.

On March 7, 2003, the Company acquired through its wholly-owned subsidiary Tetra Tech FW, Inc. (FWI), certain assets and certain related liabilities of Foster Wheeler Environmental Corporation and Hartman Consulting Corporation, providers of engineering and program management services throughout the United States. The purchase was valued at approximately \$67.8 million, consisted of cash and is subject to a purchase price and purchase allocation adjustment based upon the final determination of FWI's net asset value as of March 7, 2003.

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 in the accompanying condensed consolidated balance sheets. The results of operations of each of the acquired companies have been included in the Company's financial statements from the effective acquisition dates.

8. Unaudited Pro Forma Operating Results

The table below presents summarized unaudited pro forma operating results assuming that the Company had acquired TGI, HAI, Ardaman & Associates, Inc. and FWI on October 1, 2001. 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 1, 2001.

| | Pro Forma Six Months Ended | |
|---|----------------------------|----------------|
| | March 30, 2003 | March 31, 2002 |
| Gross revenue | \$ 655,854,000 | \$ 652,970,000 |
| Net revenue | 471,430,000 | 487,737,000 |
| Income from operations | 30,931,000 | 37,441,000 |
| Income before cumulative effect of accounting change | 15,706,000 | 19,766,000 |
| Earnings per share before cumulative effect of accounting change: | | |
| Basic | 0.29 | 0.38 |
| Diluted | 0.28 | 0.36 |
| Weighted average shares outstanding: | | |
| Basic | 53,330,000 | 52,559,000 |
| Diluted | 55,212,000 | 52,252,000 |

9. Accounts Receivable and Unbilled Receivables

Accounts receivable and unbilled receivables are presented net of valuation allowances to provide for doubtful accounts and for the potential disallowance of billed and unbilled costs. The allowance for doubtful accounts as of March 30, 2003 and September 29, 2002 was \$15.3 million

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and \$12.8 million, respectively. The allowance for disallowed costs as of March 30, 2003 and September 29, 2002 was \$1.5 million and \$1.4 million, respectively. 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

contract receivables where collectibility is doubtful plus a general allowance for which some potential loss is determined to be probable based upon current events and circumstances. Management believes that resolution of these matters will not have a material adverse impact on the Company's financial position or results of operations.

10. Operating Segments

The Company's management has organized its operations into two operating segments: Resource Management and Infrastructure. The Resource Management operating segment provides environmental engineering and consulting services primarily relating to water quality and water quantity to both public and private organizations. The Infrastructure operating segment provides design, engineering and project management services for the additional development, as well as the upgrading and replacement, of existing infrastructure to both public and private organizations. Management has established these operating segments based upon the services provided, the different marketing strategies associated with the segments, 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. All inter-company balances and transactions are eliminated in consolidation.

In fiscal 2003, due to changes in the communications marketplace, the decline in the size of the Company's historical communications business, the convergence of communications products into smart infrastructure, and the Company's market strategy for its overall infrastructure business, the Company combined its historical Communications operating segment into its Infrastructure operating segment. In accordance with the segment reporting requirements of SFAS No. 131, *Disclosures About Segments of an Enterprise and Related Information*, the results of the historical Infrastructure and Communications segments are provided in the table below. The prior year historical information is presented in conformity with the current year operating segment information.

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

Reportable Segments:

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| | Resource Management | Historical Infrastructure | Infrastructure Historical Communications | Subtotal Infrastructure | Total |
|---|------------------------|------------------------------|--|----------------------------|------------|
| <u>Three months ended March 30, 2003</u> | | | | | |
| Gross Revenue | \$ 145,927 | \$ 80,592 | \$ 26,208 | \$ 106,800 | \$ 252,727 |
| Net Revenue | 105,282 | 67,858 | 18,171 | 86,029 | 191,311 |
| Income from Operations | 10,333 | 7,190 | 2,606 | 9,796 | 20,129 |
| Depreciation Expense | 1,232 | 1,092 | 828 | 1,920 | 3,152 |
| <u>Six months ended March 30, 2003</u> | | | | | |
| Gross Revenue | \$ 268,612 | \$ 161,052 | \$ 60,455 | \$ 221,507 | \$ 490,119 |
| Net Revenue | 196,830 | 134,594 | 39,235 | 173,829 | 370,659 |
| Income from Operations | 20,474 | 13,560 | 3,402 | 16,962 | 37,436 |
| Depreciation Expense | 2,142 | 2,220 | 1,805 | 4,025 | 6,167 |
| <u>Three months ended March 31, 2002</u> | | | | | |
| Gross Revenue | \$ 122,981 | \$ 76,918 | \$ 36,122 | \$ 113,040 | \$ 236,021 |
| Net Revenue | 86,519 | 64,972 | 25,245 | 90,217 | 176,736 |
| Income/(Loss) from Operations | 9,225 | 7,809 | (4,264) | 3,545 | 12,770 |
| Depreciation Expense | 629 | 1,210 | 1,249 | 2,459 | 3,088 |
| <u>Six months ended March 31, 2002</u> | | | | | |
| Gross Revenue | \$ 251,794 | \$ 150,203 | \$ 89,644 | \$ 239,847 | \$ 491,641 |
| Net Revenue | 170,451 | 126,279 | 63,478 | 189,757 | 360,208 |
| Income from Operations | 18,404 | 16,283 | 1,230 | 17,513 | 35,917 |
| Depreciation Expense | 1,252 | 2,319 | 2,273 | 4,592 | 5,844 |

Reconciliations:

| | Three Months Ended | |
|---|--------------------|----------------|
| | March 30, 2003 | March 31, 2002 |
| <u>Gross Revenue</u> | | |
| Gross revenue from reportable segments | \$ 252,727 | \$ 236,021 |
| Elimination of inter-segment revenue | (8,822) | (11,230) |
| Other revenue | 1,559 | 1,337 |
| Total consolidated gross revenue | \$ 245,464 | \$ 226,128 |
| <u>Net Revenue</u> | | |
| Net revenue from reportable segments | \$ 191,311 | \$ 176,736 |
| Other revenue | 1,559 | 1,337 |
| Total consolidated net revenue | \$ 192,870 | \$ 178,073 |
| <u>Income from Operations</u> | | |
| Income from operations of reportable segments | \$ 20,129 | \$ 12,770 |
| Other income | 1,376 | 58 |
| Amortization of intangibles | (181) | (2,660) |
| Total consolidated income from operations | \$ 21,324 | \$ 10,168 |
| | | |
| | Six Months Ended | |
| | March 30, 2003 | March 31, 2002 |
| <u>Gross Revenue</u> | | |
| Gross revenue from reportable segments | \$ 490,119 | \$ 491,641 |
| Elimination of inter-segment revenue | (14,760) | (15,239) |
| Other revenue | 3,193 | 2,754 |
| Total consolidated gross revenue | \$ 478,544 | \$ 479,156 |
| <u>Net Revenue</u> | | |
| Net revenue from reportable segments | \$ 370,659 | \$ 360,208 |
| Other revenue | 3,193 | 2,754 |
| Total consolidated net revenue | \$ 373,852 | \$ 362,962 |
| <u>Income from Operations</u> | | |
| Income from operations of reportable segments | \$ 37,436 | \$ 35,917 |
| Other income | 1,327 | 373 |
| Amortization of intangibles | (316) | (5,321) |
| Total consolidated income from operations | \$ 38,447 | \$ 30,969 |

Major Clients:

The Company's net revenue attributable to the U.S. government was approximately \$53.6 million and \$47.5 million for the three months ended March 30, 2003 and March 31, 2002, respectively. Net revenue attributable to the U.S. government was approximately \$97.3 million and \$95.9 million for the six months ended March 30, 2003 and March 31, 2002, respectively. Both the Resource Management and Infrastructure operating segments report revenue from the U.S. government.

11. Comprehensive (Loss) Income

Comprehensive (loss) 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 (loss) 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 loss was approximately \$102.6 million for the three months ended March 30, 2003 and comprehensive income was approximately \$5.3 million for the three months ended March 31, 2002. For the six months ended March 30, 2003, comprehensive loss was \$93.5 million. For the six months ended March 31, 2002, comprehensive income was \$16.7 million. For the three and six months ended March 30, 2003, the Company realized net translation gains of \$0.6 million. For the three and six months ended March 31, 2002, the Company incurred net translation losses of \$0.1 million and net translation gains of \$0.0 million, respectively.

12. Litigation

The Company is subject to certain claims and lawsuits typically filed against the engineering and consulting profession, primarily alleging professional errors or omissions. The Company carries professional liability insurance, subject to certain deductibles and policy limits, against such claims. Management is of the opinion that the resolution of these claims will not have a material adverse effect on the Company's financial position, results of operations or cash flows.

On December 2, 2002, a jury in Washington County Court in Bartlesville, Oklahoma handed down a \$4.1 million verdict against the Company in a dispute with Horsehead Industries, Inc., doing business as Zinc Corporation of America. The Company has filed an appeal in this matter, and is also pursuing other legal alternatives related to the case. However, because a verdict has been rendered, the Company established a \$4.1 million reserve for this matter in selling, general and administrative expenses in the consolidated statement of income for the year ended September 29, 2002.

Item 2.

CONDITION AND RESULTS OF OPERATIONS

This 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 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, projects, intends, plans, believes, estimates and similar expressions are intended to identify such 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. Therefore, actual results may differ materially and adversely from those expressed in any forward-looking statements. Readers are referred to risks and uncertainties identified below, and in the documents filed by us with the Securities and Exchange Commission, specifically the most recent reports on Forms 10-K, 10-Q and 8-K, each as it may be amended from time to time. We undertake no obligation to revise or update publicly any forward-looking statements for any reason.

Overview

Tetra Tech, Inc. is a leading provider of consulting, engineering and technical services. As a consultant, we assist our clients in defining problems and developing innovative and cost effective solutions. Our consulting services are complemented by our engineering and technical services. These technical services span the lifecycle of a project and include research and development, applied science and technology, engineering 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 that leverage our cross-selling capabilities and by internal growth.

We derive our revenue and related fees from providing 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, changes in gross revenue may not be indicative of business trends. Accordingly, we report net revenue, which is gross revenue less the cost of subcontractor services. The majority of our contract revenue and contract costs, on both cost-type and fixed-price-type contracts, are recorded using the percentage-of-completion (cost-to-cost) method. Under this method, contract revenue on contracts is recognized in the ratio that contract costs incurred bear to total estimated

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costs. Costs and income are subject to revision throughout the lives of the contracts and any required adjustments are made in the period in which the revision or adjustments become known. Other time and materials contract revenue is recognized as earned and contract costs are recorded as incurred. Losses on contracts are recorded as they are identified.

Our cost of net revenue includes professional compensation and related benefits 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 to support corporate activities and initiatives. We also include in SG&A expenses the charges to bad debt expense to provide reserves for account debtors.

We provide our services to a diverse base of Federal, state and local government agencies, and commercial 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 | |
| | March 30, 2003 | March 31, 2002 | March 30, 2003 | March 31, 2002 |
| Federal government | 27.8% | 26.7% | 26.0% | 26.5% |
| State and local government | 23.3 | 20.8 | 23.4 | 19.8 |
| Commercial | 47.1 | 50.2 | 48.6 | 51.5 |
| International | 1.8 | 2.3 | 2.0 | 2.2 |
| | 100.0% | 100.0% | 100.0% | 100.0% |

We manage our business in two operating segments: Resource Management and Infrastructure. In fiscal 2003, due to changes in the communications marketplace, the decline in the size of our historical communications business, the convergence of communications products into smart infrastructure, and our market strategy for our overall infrastructure business, we combined our historical Infrastructure and Communications operating segments into the Infrastructure operating segment. The following table presents, for the periods indicated, the approximate percentage of net revenue attributable to the operating segments:

| Operating Segment | Percentage of Net Revenue | | | |
|---------------------|---------------------------|----------------|------------------|----------------|
| | Three Months Ended | | Six Months Ended | |
| | March 30, 2003 | March 31, 2002 | March 30, 2003 | March 31, 2002 |
| Resource Management | 54.6% | 48.6% | 52.6% | 47.0% |
| Infrastructure | 44.6 | 50.7 | 46.5 | 52.3 |
| Other revenue | 0.8 | 0.7 | 0.9 | 0.7 |
| | 100.0% | 100.0% | 100.0% | 100.0% |

Recent Acquisition

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 2003 we made the following acquisition:

Tetra Tech FW, Inc. In March 2003, we acquired through our wholly-owned subsidiary Tetra Tech FW, Inc. (FWI), substantially all of the assets and assumed certain liabilities of Foster Wheeler Environmental Corporation and Hartman Consulting Corporation. The purchase was valued at approximately \$67.8 million. FWI, a New Jersey-based environmental engineering and construction services firm, provides a full

range of services from initial site assessments and feasibility studies to design, corrective action and remediation services throughout the United States.

Results of Operations

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

| | Percentage Relationship to Net Revenue | | | |
|--|--|-------------------|-------------------|-------------------|
| | Three Months Ended | | Six Months Ended | |
| | March 30, 2003 | March 31, 2002 | March 30, 2003 | March 31, 2002 |
| Net revenue | 100.0% | 100.0% | 100.0% | 100.0% |
| Cost of net revenue | 78.3 | 80.2 | 78.8 | 77.9 |
| Gross profit | 21.7 | 19.8 | 21.2 | 22.1 |
| Selling, general and administrative expenses | 10.5 | 12.6 | 10.9 | 12.1 |
| Amortization of intangibles | 0.1 | 1.5 | 0.1 | 1.5 |
| Income from operations | 11.1 | 5.7 | 10.3 | 8.5 |
| Net interest expense | 1.2 | 0.8 | 1.1 | 1.0 |
| Income before income tax expense | 9.9 | 4.9 | 9.2 | 7.5 |
| Income tax expense | 4.0 | 1.9 | 3.7 | 2.9 |
| Net income before cumulative effect of accounting change | 5.9% | 3.0% | 5.5% | 4.6% |

Net Revenue. Net revenue increased \$14.8 million, or 8.3%, to \$192.9 million for the three months ended March 30, 2003 from \$178.1 million for the comparable period last year. For the six months ended March 30, 2003, net revenue increased \$10.9 million, or 3.0%, to \$373.9 million from \$363.0 million for the comparable period last year.

Net revenue in our Resource Management segment grew \$18.8 million, or 21.7%, to \$105.3 million in the three months ended March 30, 2003 from \$86.5 million for the comparable period last year. For the six months ended March 30, 2003, net revenue in our Resource Management segment grew \$26.4 million, or 15.5%, to \$196.8 million from \$170.5 million for the comparable period last year. This growth was primarily attributable to the FWI acquisition in March 2003 and our acquisition of Ardaman & Associates, Inc. (AAD) in June 2002 and increased revenue from Federal government customers, particularly the Department of Defense.

Net revenue from our Infrastructure segment decreased by \$4.2 million, or 4.6%, to \$86.0 million in the three months ended March 30, 2003, from \$90.2 million in the comparable period last year. For the six months ended March 30, 2003, net revenue from our Infrastructure segment decreased by \$15.9 million, or 8.4%, to \$173.9 million, from \$190.0 million in the comparable period last year.

Net revenue in our historical Infrastructure segment area grew \$2.9 million, or 4.4%, to \$67.9 million in the three months ended March 30, 2003 from \$65.0 million for the comparable period last year. For the six months ended March 30, 2003, net revenue from our historical Infrastructure segment grew \$8.3 million, or 6.6%, to \$134.6 million from \$126.3 million in the comparable period last year. This growth was primarily attributable to the fiscal 2002 acquisitions of The Thomas Group of Companies and Hartman & Associates, Inc.

However, these increases were limited by economic conditions in certain geographic areas and reduced spending by commercial clients.

Net revenue in our historical Communications segment decreased by \$7.1 million in the three months ended March 30, 2003, or 28.0%, to \$18.2 million from \$25.2 million in the comparable period last year. For the six months ended March 30, 2003, net revenue in our historical Communications segment decreased by \$24.2 million, or 38.2%, to \$39.2 million from \$63.5 million for the comparable period last year. This reduction reflects the continued reduction of capital spending by our communications clients.

In our Federal, state and local government and commercial sectors, we continued to realize net revenue increases in actual dollars and as a percentage of net revenue.

We segregate from our total revenue the revenue recognized by acquired companies during their first 12 months following their respective effective dates of acquisition. We refer to revenue recognized from acquired companies during such first 12 months as acquisitive revenue. We compute organic revenue by deducting acquisitive revenue from total revenue. Acquisitive revenue for the three months ended March 30, 2003 totaled \$26.4 million. Excluding this net revenue, we realized negative organic growth in our net revenue of 6.5% for the three months ended March 30, 2003 from the comparable period last year.

Gross Revenue. Gross revenue increased \$19.3 million, or 8.6%, to \$245.5 million for the three months ended March 30, 2003 from \$226.1 million for the comparable period last year. For the six months ended March 30, 2003, gross revenue decreased \$0.6 million, or 0.1%, to \$478.5 million from \$479.2 million for the comparable period last year.

Gross revenue in our Resource Management segment grew \$22.9 million, or 18.7%, to \$145.9 million in the three months ended March 30, 2003 from \$123.0 million for the comparable period last year. For the six months ended March 30, 2003, gross revenue in our Resource Management segment grew \$16.8 million, or 6.7%, to \$268.6 million from \$251.8 million for the comparable period last year. This growth was primarily attributable to the FWI acquisition in March 2003 and our acquisition of AAI in June 2002, and growth in revenue from Federal government customers, particularly the Department of Defense.

Gross revenue from our Infrastructure segment decreased by \$6.2 million, or 5.5%, to \$106.8 million in the three months ended March 30, 2003 from \$113.0 million in the comparable period last year.

Gross revenue in our historical Infrastructure segment grew \$3.7 million, or 4.8%, to \$80.6 million in the three months ended March 30, 2003 from \$76.9 million for the comparable period last year. For the six months ended March 30, 2003, gross revenue from our historical Infrastructure segment grew \$10.8 million, or 7.2%, to \$161.1 million from \$150.2 million in the comparable period last year. This growth was primarily attributable to the fiscal 2002 acquisitions of The Thomas Group of Companies, Inc. and Hartman & Associates, Inc. However, these increases were limited by economic conditions in certain geographic areas and reduced spending by commercial clients.

Gross revenue in our historical Communications segment decreased by \$9.9 million in the three months ended March 30, 2003, or 27.4%, to \$26.2 million from \$36.1 million in the comparable period last year. For the six months ended March 30, 2003, gross revenue in our historical

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Communications segment decreased by \$29.2 million, or 32.6%, to \$60.5 million from \$89.6 million for the comparable period last year. This reduction reflects the continued reduction of capital spending by our communications clients.

Acquisitive gross revenue for the three months ended March 30, 2003 totaled \$36.9 million. Excluding this gross revenue, we realized negative organic growth in our gross revenue of 7.8% for the three months ended March 30, 2003 from the comparable period last year.

Cost of Net Revenue. Cost of net revenue increased \$8.2 million, or 5.8%, to \$151.1 million for the three months ended March 30, 2003 from \$142.9 million for the comparable period last year. As a percentage of net revenue, cost of net revenue for the three months ended March 30, 2003 was 78.3% compared to 80.2% for the comparable period last year. For the six months ended March 30, 2003, cost of net revenue increased \$11.6 million, or 4.1%, to \$294.4 million from \$282.8 million for the comparable period last year. As a percentage of net revenue, cost of net revenue for the six months ended March 30, 2003 was 78.8% compared to 77.9% for the comparable period last year. For the quarter ended March 30, 2003, the reduction in cost of net revenue as a percentage of net revenue resulted from cost reductions, particularly in our communications companies, in response to the overall slowdown in the communications industry. For the six months ended March 30, 2003, the cost reductions during the second quarter were offset by the increase in cost of net revenue as a percentage of net revenue in the first quarter due primarily to the timing of our cost reduction efforts.

Selling, General and Administrative Expenses. SG&A expenses decreased \$2.1 million, or 9.4%, to \$20.3 million for the three months ended March 30, 2003 from \$22.4 million for the comparable period last year. As a percentage of net revenue, total SG&A expenses decreased to 10.5% for the three months ended March 30, 2003 from 12.6% for the comparable period last year. For the six months ended March 30, 2003, SG&A expenses decreased \$3.2 million, or 7.3%, to \$40.6 million from \$43.8 million for the comparable period last year. As a percentage of net revenue, total SG&A expenses decreased to 10.9% for the six months ended March 30, 2003 from 12.1% for the comparable period last year. SG&A expenses for the six months ended March 31, 2002 were not commensurate with the net revenue for that period, primarily due to the rapid decline in net revenue from our communications clients. In addition, fees for professional services were lower in the six months ended March 30, 2003 as compared to the comparable period last year. Amortization expense relating to acquisitions decreased to 0.1% of net revenue for the three months and six months ended March 30, 2003 compared to 1.5% for both the three months and six months ended March 31, 2002 as a result of the discontinuation of goodwill amortization resulting from the adoption of Statement of Financial Accounting Standards (SFAS) No. 142, *Goodwill and Other Intangible Assets*.

Net Interest Expense. Net interest expense increased \$0.8 million, or 54.4%, to \$2.3 million for the three months ended March 30, 2003 from \$1.5 million for the comparable period last year. For the six months ended March 30, 2003, net interest expense increased \$0.5 million, or 13.3%, to \$4.2 million from \$3.7 million for the comparable period last year. These increases were primarily attributable to interest income on certain receivables recognized in the prior year, offset by a decrease in average borrowings outstanding during the three and six months ended March 30, 2003.

Income Tax Expense. Income tax expense increased \$4.2 million, or 124.8%, to \$7.6 million for the three months ended March 30, 2003 from \$3.4 million for the comparable period last year. For the six months ended March 30, 2003, income tax expense increased \$3.1 million, or 28.8%, to \$13.7 million from \$10.6 million for the comparable period last year. Our current estimated effective tax rate is 40.0% compared to 39.0% in the comparable period last year. This change is primarily attributable to the discontinuation of goodwill amortization as a result of the adoption of SFAS No. 142, partially offset by lower estimated research and development tax credits for fiscal 2003.

Cumulative Effect of Accounting Change. We adopted SFAS No. 142 effective September 30, 2002. The adoption of this standard required us to discontinue the amortization of goodwill and to test the net book value of goodwill for impairment. The cumulative effect of adopting this standard resulted in the elimination of \$114.7 million in net goodwill attributable to the acquisitions in the historical Communications segment.

Liquidity and Capital Resources

As of March 30, 2003, our working capital was \$185.6 million, a decrease of \$14.2 million from September 29, 2002, of which cash and cash equivalents totaled \$21.4 million as compared to \$46.3 million at September 29, 2002.

In addition, we have a credit agreement (the "Credit Agreement") with various financial institutions which provides for a revolving credit facility (the "Facility") of \$140.0 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. The Facility matures on March 17, 2005 or earlier at our discretion upon payment in full of loans and other obligations. As of March 30, 2003, borrowings and standby letters of credit on the Facility totaled \$60.0 million and \$6.8 million, respectively. These borrowings are classified as current portion of long-term obligations on our condensed consolidated balance sheet because we anticipate repaying them within 12 calendar months. However, we are not obligated to repay outstanding borrowings until the Facility matures.

Further, we have issued two series of senior secured notes in the aggregate amount of \$110.0 million. The Series A Notes, totaling \$92.0 million with an interest rate of 7.28%, mature on May 30, 2011. The Series B Notes, totaling \$18.0 million with an interest rate of 7.08%, mature on May 30, 2008. At March 30, 2003, the outstanding principal balance on these notes was \$110.0 million.

In the six months ended March 30, 2003, cash used in operating activities was \$9.4 million compared to cash generated from operating activities of \$26.1 million in the comparable period last year. This change is primarily attributable to the timing of billing and collection of accounts receivable and the timing of payments for liabilities. In addition, FWI's asset acquisition in March 2003 was net of cash and payment of FWI's acquired liabilities needed to be funded. For the six months ended March 30, 2003, cash used in investing activities was \$76.2 million compared to \$27.9 million for the comparable period last year. This increase was primarily due to cash used for the FWI acquisition. In the six months ended March 30, 2003, cash provided by financing activities was \$60.1 million compared to \$6.0 million for the comparable period last year.

We expect that internally generated funds, our existing cash balances and availability under the Credit Agreement will be sufficient to meet our capital requirements through the next 12 months. However, should we pursue an acquisition or acquisitions in which the potential cash consideration exceeds the then current availability of cash, we may pursue additional financing.

In conjunction with our investment strategy, we continuously evaluate the marketplace for strategic acquisition opportunities. Once an opportunity is identified, we examine the effect an acquisition may have on our long-range business strategy, as well as on our results of operations. We proceed with an acquisition if we believe that the acquisition is anticipated to have an accretive effect on future operations or could expand our service offerings. 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.

We believe our operations have not been and, in the foreseeable future, are not expected to be materially adversely affected by inflation or changing prices due to the average duration of our projects and our ability to negotiate prices as contracts end and new contracts begin. However, current general economic conditions may impact our client base and as such, may impact their credit-worthiness and our ability to collect cash to meet our operating needs.

Recently Issued Financial Standards

In October 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, which supersedes SFAS No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets To Be Disposed Of*. SFAS No. 144 addresses financial accounting and reporting requirements for the impairment or disposal of long-lived assets. This statement also expands the scope of a discontinued operation to include a component of an entity and eliminates the current exemption to consolidation when control over a subsidiary is likely to be temporary. We adopted SFAS No. 144 effective September 30, 2002. The adoption of SFAS No. 144 did not have a material impact on our financial position or results of operations.

In July 2002, the FASB issued SFAS No. 146, *Accounting for Exit or Disposal Activities*. SFAS No. 146 addresses the recognition, measurement, and reporting of costs that are associated with exit and disposal activities, including certain lease termination costs and severance-type costs under a one-time benefit arrangement rather than an ongoing benefit arrangement or an individual deferred compensation agreement. SFAS No. 146 requires liabilities associated with exit or disposal activities to be expensed as incurred and will impact the timing of recognition for exit or disposal activities that are initiated after December 31, 2002. We will apply the provisions of SFAS No. 146 to any exit or disposal activities initiated after December 31, 2002.

In November 2002, the FASB issued Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others* (FIN 45). FIN 45 elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it issued. It also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The initial recognition and initial measurement provisions of FIN 45 are applicable on a prospective basis to guarantees issued or modified after December 31, 2002. The disclosure requirements in this interpretation are effective for financial statements of interim or annual periods ending after December 15, 2002. We believe that the adoption of FIN 45 will not have a material impact on our results of operations or financial position.

In December 2002, the FASB issued SFAS No. 148, *Accounting for Stock-Based Compensation-Transition and Disclosure*. SFAS No. 148 amends SFAS No. 123, *Accounting for Stock-Based Compensation*, to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this statement amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. SFAS No. 148's amendment of the transition and annual disclosure requirements is effective for fiscal years ending after December 15, 2002. The amendment of the disclosure requirements is effective

for interim periods beginning after December 15, 2002. We did not elect to adopt the fair value recognition provisions of SFAS No. 123; however, we adopted the expanded disclosure to include the effect of stock-based compensation in interim reporting during the current quarter.

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 Credit Agreement. 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 1.50%. 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 \$61.0 million of our outstanding indebtedness in the next 12 months although we are not obligated to do so. Assuming we do repay \$61.0 million ratably during the next 12 months, and our average interest rate increases or decreases by one percent, our annual interest expense could increase or decrease by \$0.3 million. However, there can be no assurance that we will, or will be able to, repay our debt in the prescribed manner or obtain alternate financing. We could incur additional debt under the Facility or our operating results could be worse than we expect. In addition, we have outstanding senior secured notes which bear interest at a fixed rate. The Series A Notes bear interest at 7.28% and are payable at \$13.1 million per year commencing fiscal 2005 through fiscal 2011. The Series B Notes bear interest at 7.08% and are payable at \$3.6 million per year commencing fiscal 2004 through fiscal 2008. If interest rates increased by one percent, the fair value of the senior secured notes could decrease by \$4.8 million. If interest rates decreased by one percent, the fair value of the senior secured notes could increase by \$5.1 million. We presently have no material contracts under which the currency is not denominated in U.S. dollars. Accordingly, foreign exchange rate fluctuations will not have a material impact on our financial statements.

PART II. OTHER INFORMATION

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 (incorporated herein by reference to Exhibit 3.4 to the Company's Quarterly Report on Form 10-Q as amended for the fiscal quarter ended April 1, 2001).
- 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 First Amendment dated as of April 9, 2001 to the Credit Agreement dated as of March 17, 2000 among the Company and the financial institutions named therein (incorporated herein by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended July 1, 2001).
- 10.3 Second Amendment dated as of August 13, 2001 to the Credit Agreement dated as of March 17, 2000 among the Company and the financial institutions named therein (incorporated herein by reference to Exhibit 10.3 to the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2001).

- 10.4 Third Amendment dated as of February 28, 2002 to the Credit Agreement dated as of March 17, 2000 among the Company and the financial institutions named therein (incorporated herein by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2002).
- 10.5 Fourth Amendment dated as of April 18, 2003 to the Credit Agreement dated as of March 17, 2000 among the Company and the financial institutions named therein (incorporated herein by reference to Exhibit 10.5 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended March 30, 2003).
- 10.6 Note Purchase Agreement dated as of May 15, 2001 among the Company and the purchasers named therein (incorporated herein by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended July 1, 2001).
- 10.7 First Amendment dated as of September 30, 2001 to the Note Purchase Agreement dated as of May 15, 2001 among the Company and the purchasers named therein (incorporated herein by reference to Exhibit 10.5 to the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2001).
- 10.8 Second Amendment dated as of September 30, 2001 to the Note Purchase Agreement dated as of May 15, 2001 among the Company and the purchasers named therein (incorporated herein by reference to Exhibit 10.3 to the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2001).
- 10.9 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). *
- 10.10 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). *
- 10.11 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).*
- 10.12 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).*
- 10.13 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).*
- 10.14 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).*

- 10.15 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).*
- 10.16 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).
- 10.17 Form of Stock Purchase Agreement used by the Company in connection with the Company's 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).
- 10.18 2002 Stock Option Plan (incorporated herein by reference to Exhibit 10.15 to the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2001).*
- 10.19 Form of Incentive Option Agreement used by the Company in connection with the 2002 Stock Option Plan (incorporated herein by reference to Exhibit 10.15 to the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2001).*
- 10.20 2003 Outside Director Stock Option Plan (incorporated herein by reference to Exhibit 10.20 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended March 30, 2003).*
- 10.21 Form of Option Agreement used by the Company in connection with the 2003 Outside Director Stock Option Plan (incorporated herein by reference to Exhibit 10.21 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended March 30, 2003).*
- 10.22 Registration Rights Agreement dated as of May 21, 2001 among the Company and the parties listed on Schedule A attached thereto (incorporated herein by reference to Exhibit 10.31 to the Company's Quarterly Report on Form 10-Q for fiscal quarter ended July 1, 2001).
- 10.23 Registration Rights Agreement dated as of May 25, 2001 among the Company and the parties listed on Schedule A attached thereto (incorporated herein by reference to Exhibit 10.32 to the Company's Quarterly Report on Form 10-Q for fiscal quarter ended July 1, 2001).
- 10.24 Registration Rights Agreement dated as of June 1, 2001 among the Company and the parties listed on Schedule A attached thereto (incorporated herein by reference to Exhibit 10.33 to the Company's Quarterly Report on Form 10-Q for fiscal quarter ended July 1, 2001).
- 10.25 Registration Rights Agreement dated as of September 26, 2001 among the Company and the parties listed on Schedule A attached thereto (incorporated herein by reference to Exhibit 10.27 to the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2001).

- 10.26 Registration Rights Agreement dated as of September 26, 2001 among the Company and the parties listed on Schedule A attached thereto (incorporated herein by reference to Exhibit 10.28 to the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2001).
- 10.27 Registration Rights Agreement dated as of March 25, 2002 among the Company and the parties listed on Schedule A attached thereto (incorporated herein by reference to Exhibit 10.30 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2002).
- 99.1 Certification of Chief Executive Officer, dated as of May 21, 2003.
- 99.2 Certification of Chief Financial Officer, dated as of May 21, 2003.

* Management contract or compensatory arrangement.

(b) Reports on Form 8-K

On March 10, 2003, we filed with the Securities and Exchange Commission a Current Report on Form 8-K. The items reported in the Form 8-K were Item 5 (Other Events) and Item 7 (Financial Statements and Exhibits), which related to the press release dated March 7, 2003, titled "Tetra Tech Completes Foster Wheeler Environmental Acquisition." The date of the Form 8-K was March 7, 2003.

On March 20, 2003, we filed with the Securities and Exchange Commission a Current Report on Form 8-K. The items reported in the Form 8-K were Item 2 (Acquisition or Disposition of Assets) and Item 7 (Financial Statements and Exhibits), which related to the acquisition of substantially all of the assets of (i) Foster Wheeler Environmental Corporation and (ii) Hartman Consulting Corporation, a wholly-owned subsidiary of Foster Wheeler Environmental Corporation. The date of the Form 8-K was March 7, 2003. On May 21, 2003, we amended this Form 8-K by filing with the Securities and Exchange Commission a Current Report on Form 8-K/A (Amendment No. 1). The item reported in the Form 8-K/A was Item 7 (Financial Statements and Exhibits). The date of the Form 8-K/A was March 7, 2003.

On April 24, 2003, we filed with the Securities and Exchange Commission a Current Report on Form 8-K. The items reported in the Form 8-K were Item 7 (Financial Statements and Exhibits) and Item 9 (Regulation FD Disclosure), which related to the press release dated April 23, 2003, titled "Tetra Tech Reports Second Quarter 2003 Earnings." The date of the Form 8-K was April 23, 2003.

SIGNATURES

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

Dated: May 21, 2003

TETRA TECH, INC.

By: /s/ Li-San Hwang
Li-San Hwang
Chairman of the Board of Directors and
Chief Executive Officer
(Principal Executive Officer)

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

CHIEF EXECUTIVE OFFICER CERTIFICATION

Edgar Filing: TETRA TECH INC - Form 10-Q/A

I, Li-San Hwang, Chairman and Chief Executive Officer of Tetra Tech, Inc., certify that:

1. I have reviewed this Quarterly Report on Form 10-Q/A of Tetra Tech, Inc. (the Registrant);
2. Based on my knowledge, this Quarterly Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Quarterly Report;
3. Based on my knowledge, the financial statements, and other financial information included in this Quarterly Report, fairly present in all material respect the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this Quarterly Report;
4. The Registrant s other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the Registrant and have:
 - (a) designed such disclosure controls and procedures to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this Quarterly Report is being prepared;
 - (b) evaluated the effectiveness of the Registrant s disclosure controls and procedures as of a date within 90 days prior to the filing date of this Quarterly Report (the Evaluation Date); and
 - (c) presented in this Quarterly Report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The Registrant s other certifying officers and I have disclosed, based on our most recent evaluation, to the Registrant s auditors and the audit committee of Registrant s board of directors (or persons performing the equivalent functions):
 - (a) all significant deficiencies in the design or operation of internal controls which could adversely affect the Registrant s ability to record, process, summarize and report financial data and have identified for the Registrant s auditors any material weaknesses in internal controls; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal controls; and

6. The Registrant's other certifying officers and I have indicated in this Quarterly Report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Dated: May 21, 2003

/s/ Li-San Hwang
Li-San Hwang
Chairman and Chief Executive Officer
(Principal Executive Officer)

CHIEF FINANCIAL OFFICER CERTIFICATION

Edgar Filing: TETRA TECH INC - Form 10-Q/A

I, David W. King, Chief Financial Officer and Treasurer of Tetra Tech, Inc., certify that:

1. I have reviewed this Quarterly Report on Form 10-Q/A of Tetra Tech, Inc. (the Registrant);

2. Based on my knowledge, this Quarterly Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Quarterly Report;

3. Based on my knowledge, the financial statements, and other financial information included in this Quarterly Report, fairly present in all material respect the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this Quarterly Report;

4. The Registrant s other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the Registrant and have:
 - (a) designed such disclosure controls and procedures to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this Quarterly Report is being prepared;

 - (b) evaluated the effectiveness of the Registrant s disclosure controls and procedures as of a date within 90 days prior to the filing date of this Quarterly Report (the Evaluation Date); and

 - (c) presented in this Quarterly Report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The Registrant s other certifying officers and I have disclosed, based on our most recent evaluation, to the Registrant s auditors and the audit committee of Registrant s board of directors (or persons performing the equivalent functions):
 - (a) all significant deficiencies in the design or operation of internal controls which could adversely affect the Registrant s ability to record, process, summarize and report financial data and have identified for the Registrant s auditors any material weaknesses in internal controls; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal controls; and

6. The Registrant's other certifying officers and I have indicated in this Quarterly Report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Dated: May 21, 2003

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