TETRA TECH INC
Form 10-Q
April 30, 2010
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 28, 2010

OR

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

For the transition period from __________ to __________

Commission File Number 0-19655

TETRA TECH, INC.

(Exact name of registrant as specified in its charter)

Delaware	**95-4148514**
(State or other jurisdiction of	(I.R.S. Employer

incorporation or organization) Identification Number)

3475 East Foothill Boulevard, Pasadena, California 91107

(Address of principal executive offices) (Zip Code)

(626) 351-4664

(Registrant s telephone number, including area code)

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

Yes ý No o

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

Yes ý No o

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

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

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

Yes o No ý

As of April 26, 2010, 61,715,022 shares of the registrant s common stock were outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Tetra Tech, Inc.

Condensed Consolidated Balance Sheets

(unaudited - in thousands, except par value)

ASSETS		March 28, 2010		September 27, 2009
CURRENT ASSETS:				
Cash and cash equivalents	$	112,573	$	89,185
Accounts receivable net		449,665		506,316
Prepaid expenses and other current assets		54,106		55,167
Income taxes receivable		17,725		5,222
Total current assets		634,069		655,890
PROPERTY AND EQUIPMENT:				
Land and buildings		11,612		10,555
Equipment, furniture and fixtures		132,505		126,249
Leasehold improvements		14,096		13,740
Total		158,213		150,544
Accumulated depreciation and amortization		(88,166)		(79,616)
Property and equipment - net		70,047		70,928
GOODWILL		335,717		319,685
INTANGIBLE ASSETS NET		31,483		33,769
OTHER ASSETS		16,405		17,633
TOTAL ASSETS	$	1,087,721	$	1,097,905
LIABILITIES AND STOCKHOLDERS EQUITY				
CURRENT LIABILITIES:				
Accounts payable	$	118,727	$	149,352
Accrued compensation		69,879		88,793
Billings in excess of costs on uncompleted contracts		87,041		105,162
Deferred income taxes		18,483		9,645
Current portion of long-term debt		4,625		4,320
Other current liabilities		66,566		74,964
Total current liabilities		365,321		432,236
DEFERRED INCOME TAXES		7,696		4,615
LONG-TERM DEBT		5,580		6,530
OTHER LONG-TERM LIABILITIES		11,212		8,046
COMMITMENTS AND CONTINGENCIES				
STOCKHOLDERS EQUITY:				
Preferred stock Authorized, 2,000 shares of $0.01 par value; no shares issued and outstanding as of March 28, 2010 and September 27, 2009				

Common stock Authorized, 150,000 shares of $0.01 par value; issued and outstanding, 61,708 and 61,257 shares as of March 28, 2010 and September 27, 2009, respectively		617		613
Additional paid-in capital		363,241		350,571
Accumulated other comprehensive income		17,948		12,226
Retained earnings		316,106		283,068
TOTAL STOCKHOLDERS EQUITY		697,912		646,478
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$	1,087,721	$	1,097,905

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	
	March 28, 2010	March 29, 2009	March 28, 2010	March 29, 2009
Revenue	$ 469,528	$ 522,305	$ 1,011,485	$ 1,160,988
Subcontractor costs	(143,594)	(190,091)	(342,059)	(498,748)
Other costs of revenue	(262,429)	(265,893)	(536,139)	(531,578)
Selling, general and administrative expenses	(39,978)	(38,491)	(78,644)	(74,216)
Operating income	23,527	27,830	54,643	56,446
Interest expense net	(352)	(852)	(607)	(1,768)
Income before income tax expense	23,175	26,978	54,036	54,678
Income tax expense	(8,846)	(7,764)	(20,998)	(19,156)
Net income	$ 14,329	$ 19,214	$ 33,038	$ 35,522
Earnings per share:				
Basic	$ 0.23	$ 0.32	$ 0.54	$ 0.59
Diluted	$ 0.23	$ 0.32	$ 0.53	$ 0.59
Weighted-average common shares outstanding:				
Basic	61,511	60,014	61,291	59,832
Diluted	62,168	60,771	62,083	60,480

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 28, 2010		March 29, 2009
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net income	$	33,038	$	35,522
Adjustments to reconcile net income to net cash from operating activities:				
Depreciation and amortization		15,957		12,485
Stock-based compensation		5,353		4,557
Excess tax benefits from stock-based compensation		(743)		(96)
Deferred income taxes		12,158		2,989
Provision for losses on contracts and related receivables		4,754		11,219
Exchange (gain) loss		(151)		117
(Gain) loss on disposal of property and equipment		(767)		24
Changes in operating assets and liabilities, net of effects of acquisitions:				
Accounts receivable		52,350		86,673
Prepaid expenses and other assets		1,294		(4,503)
Accounts payable		(31,148)		(57,081)
Accrued compensation		(19,946)		(27,016)
Billings in excess of costs on uncompleted contracts		(18,121)		(12,212)
Other liabilities		(2,686)		572
Income taxes receivable/payable		(11,294)		(6,634)
Net cash provided by operating activities		40,048		46,616
CASH FLOWS FROM INVESTING ACTIVITIES:				
Capital expenditures		(9,495)		(9,791)
Payments for business acquisitions, net of cash acquired		(12,216)		(94,688)
Proceeds from sale of discontinued operation				192
Proceeds from sale of property and equipment		1,640		122
Net cash used in investing activities		(20,071)		(104,165)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Payments on long-term debt		(550)		(69,365)
Proceeds from borrowings				116,000
Excess tax benefits from stock-based compensation		743		96
Net proceeds from issuance of common stock		2,556		2,056
Net cash provided by financing activities		2,749		48,787
EFFECT OF EXCHANGE RATE CHANGES ON CASH		662		76
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		23,388		(8,686)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		89,185		50,902
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$	112,573	$	42,216
SUPPLEMENTAL CASH FLOW INFORMATION:				
Cash paid during the period for:				
Interest	$	648	$	1,431
Income taxes, net of refunds received	$	20,560	$	22,683

See accompanying Notes to Condensed Consolidated Financial Statements.

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TETRA TECH, INC.

Notes to Condensed Consolidated Financial Statements

1. Basis of Presentation

The accompanying condensed consolidated balance sheet as of March 28, 2010, the condensed consolidated statements of income for the three and six months ended March 28, 2010 and March 29, 2009, and the condensed consolidated statements of cash flows for the six months ended March 28, 2010 and March 29, 2009 of Tetra Tech, Inc. (we, us or our) are unaudited, and, in the opinion of management, include all adjustments necessary for a fair statement of the financial position, results of operations and cash flows for the periods presented. The condensed consolidated balance sheet as of September 27, 2009 has been derived from the audited financial statements at that date but does not include all the information and footnotes required by U.S. generally accepted accounting principles (GAAP) for complete financial statements.

The condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended September 27, 2009. The results of operations for the three and six months ended March 28, 2010 are not necessarily indicative of the results to be expected for the fiscal year ending October 3, 2010.

In the second quarter of fiscal 2010, we discontinued reporting Revenue, net of subcontractor costs and Gross profit on our condensed consolidated statements of income. In addition, Other contract costs have been relabeled as Other costs of revenue and Long-term obligations have been relabeled as Long-term debt .

2. Accounts Receivable Net

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

	March 28, 2010	September 27, 2009
	(in thousands)	
Billed	$ 235,406	$ 299,935
Unbilled	232,192	222,322
Contract retentions	13,029	14,952
Total accounts receivable gross	480,627	537,209
Allowance for doubtful accounts	(30,962)	(30,893)
Total accounts receivable net	$ 449,665	$ 506,316

Billings in excess of costs on uncompleted contracts	$	87,041	$	105,162

Billed accounts receivable represent amounts billed to clients that have not been collected. Unbilled accounts receivable represent revenue recognized but not yet billed pursuant to contract terms or billed after the period end date. Substantially all unbilled receivables as of March 28, 2010 are expected to be billed and collected within 12 months. Contract retentions represent amounts withheld by clients until certain conditions are met or the project is completed, which may be several months or years. The allowance for doubtful accounts was determined based on a review of client-specific accounts, bankruptcy filings by clients, and contract issues resulting from current events and economic circumstances. Billings in excess of costs on uncompleted contracts represent the amount of cash collected from clients and billings to clients on contracts in advance of revenue recognized. The majority of billings in excess of costs on uncompleted contracts will be earned within 12 months.

Billed accounts receivable related to U.S. federal government contracts were $75.3 million and $97.3 million as of March 28, 2010 and September 27, 2009, respectively. Federal government unbilled receivables, net of progress payments, were $94.6 million and $68.1 million as of March 28, 2010 and September 27, 2009, respectively. Other than the U.S. federal government, no single client accounted for more than 10% of our accounts receivable as of March 28, 2010 and September 27, 2009.

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3. Mergers and Acquisitions

In the second quarter of fiscal 2010, we acquired a company that enhances our nuclear energy service offerings in our remediation and construction management reportable segment. The purchase price consisted of initial cash payments and is subject to additional contingent earn-out payments based on achievement of certain financial objectives. As a result, we estimated the fair value of the contingent consideration and recorded a liability on our condensed consolidated balance sheet as of March 28, 2010. No pro forma results are presented for the respective interim periods as the effect of this acquisition was not considered material to our condensed consolidated financial statements.

In the six months ended March 29, 2009, we acquired several companies, the largest of which was Wardrop Engineering, Inc. (Wardrop), a Canadian firm that specializes in resource management, energy and infrastructure design and is included in our environmental consulting services reportable segment. The acquisition date was January 28, 2009, and Wardrop significantly expanded our worldwide presence, adding offices throughout Canada, and in the United Kingdom and India. The purchase price consisted of initial cash payments of $91.2 million. In addition, the former shareholders may receive over a three-year period from the acquisition date contingent earn-out payments up to an aggregate maximum of $29.2 million upon achievement of certain financial objectives. As of March 28, 2010, we recorded $82.2 million of goodwill, which represented the value paid for the assembled workforce, the international geographic presence, and engineering and consulting expertise.

4. Goodwill and Intangibles

The changes in the carrying value of goodwill by segment for the six months ended March 28, 2010 were as follows:

	September 27, 2009	Additions	Currency Translation Adjustments (in thousands)	Other Adjustments	March 28, 2010
Environmental consulting services	$ 189,416	$	$ 4,873	$ 5,596	$ 199,885
Technical support services	57,256			1,178	58,434
Engineering and architecture services	15,970			500	16,470
Remediation and construction management	57,043	3,885			60,928
Total	$ 319,685	$ 3,885	$ 4,873	$ 7,274	$ 335,717

Other adjustments consisted of earn-out accruals and payments related to prior year acquisitions. The $3.9 million addition to goodwill was attributable to the aforementioned acquisition in the second quarter of fiscal 2010, which is expected to be deductible for tax purposes.

The gross amount and accumulated amortization of our acquired identifiable intangible assets with finite useful lives as of March 28, 2010 and September 27, 2009, included in Intangible assets - net on the condensed consolidated balance sheets, were as follows:

	March 28, 2010				September 27, 2009			
	Gross Amount		Accumulated Amortization		Gross Amount		Accumulated Amortization	
			(in thousands)					
Non-compete agreements	$	4,027	$	(1,645)	$	3,825	$	(1,118)
Client relations		27,966		(5,791)		24,791		(3,632)
Backlog		27,608		(20,682)		27,057		(17,154)
Total	$	59,601	$	(28,118)	$	55,673	$	(21,904)

For the six months ended March 28, 2010, the gross amounts in the table above increased due to foreign currency translation adjustments and the acquisition described above. For the three months ended March 28, 2010 and March 29, 2009, amortization expense for these intangible assets was $3.0 million and $2.4 million, respectively. For the six months ended March 28, 2010 and March 29, 2009, amortization expense was $6.0 million

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and $4.1 million, respectively. Estimated amortization expense for the remainder of fiscal 2010 and the succeeding years is as follows:

	Amount (in thousands)
2010	$ 5,439
2011	8,903
2012	5,574
2013	3,747
2014	3,187
Beyond	4,633

5. Stockholders Equity and Stock Compensation Plans

We recognize the fair value of our stock-based compensation awards as compensation expense on a straight-line basis over the requisite service period in which the award vests. Stock-based compensation expense for the three and six months ended March 28, 2010 was $2.7 million and $5.4 million, compared to $2.5 million and $4.6 million for the same period last year, respectively. These amounts were primarily included in Selling, general and administrative (SG&A) expenses in our condensed consolidated statements of income. In the second quarter of fiscal 2010, we granted 51,000 stock options with exercise prices ranging from $20.28 - $25.08 per share and an estimated weighted-average fair value of $7.95 per share. For the six months ended March 28, 2010, we granted 1,085,974 stock options with exercise prices ranging from $20.28 - $26.77 per share and an estimated weighted-average fair value of $10.09 per share. In the first quarter of fiscal 2010, we also granted 88,258 shares of restricted stock to certain directors and executive officers at the fair value of $25.55 per share on the grant date.

6. Earnings Per Share (EPS)

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

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

	Three Months Ended		Six Months Ended	
	March 28, 2010	March 29, 2009	March 28, 2010	March 29, 2009
	(in thousands, except per share data)			
Net income	$ 14,329	$ 19,214	$ 33,038	$ 35,522
Weighted-average common shares outstanding	61,511	60,014	61,291	59,832
Effect of dilutive stock options and unvested restricted stock	657	757	792	648
Weighted-average common stock outstanding diluted	62,168	60,771	62,083	60,480

Earnings per share:								
Basic	$	0.23	$	0.32	$	0.54	$	0.59
Diluted	$	0.23	$	0.32	$	0.53	$	0.59

For the three and six months ended March 28, 2010, 2.3 million and 2.0 million options were excluded from the calculation of dilutive potential common shares, compared to 2.4 million and 2.6 million options for the same periods last year. These options were not included in the computation of dilutive potential common shares because the assumed proceeds per share exceeded the average market price per share for that period. Therefore, their inclusion would have been anti-dilutive.

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7. Income Taxes

We remain in the appeals process with the Internal Revenue Service (IRS) for fiscal years 2002 through 2004 related to research and experimentation credits (R&E Credits) and our tax accounting method for revenue recognition. We are also under examination by the California Franchise Tax Board (FTB) for fiscal years 2001 through 2003 related to R&E Credits. Management believes that it is reasonably possible we will reach a resolution of these audits within the next 12 months. We have completed R&E Credit studies and analyses for the tax years subsequent to fiscal 2004 and are in the process of filing amended returns to claim federal and state R&E Credits for certain years. There is a high probability that claimed R&E Credits will be examined by the taxing authorities. If the resolution of these pending and anticipated examinations is more favorable than expected, the change in unrecognized tax benefits could be significant. However, if the resolution is less favorable than expected, there could be a material increase in our income tax expense in the period in which the determination is made. With few exceptions, we are no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations for fiscal years before 2001.

In the second quarter of fiscal 2009, we received notification from the IRS that our appeals settlement related to an approved tax accounting method change for revenue recognition and R&E Credits was approved for fiscal years 1997 through 2001. Accordingly, we recorded a benefit of $3.3 million in income tax expense in the second quarter of fiscal 2009 to reflect the settlement adjustment and an adjustment to certain unrecognized tax benefits. These adjustments reduced our effective tax rates to 28.8% and 35.0% for the three and six months ended March 29, 2009, respectively.

On December 31, 2009, the federal R&E Credits provision expired. As such, we have only estimated a benefit from federal R&E Credits through the expiration date. Should the R&E Credits provision be retroactively extended during fiscal 2010, additional benefits will be reflected in our effective tax rate during the quarter reporting period of enactment.

8. Reportable Segments

Our reportable segments are as follows:

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

Technical Support Services (TSS). TSS advises clients through the study, design and implementation of projects. TSS conducts research in the areas of remedial planning, disaster management, sustainable solutions including climate change and carbon management, technical government staffing services, and program management for complex U.S. federal government and international development projects.

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

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

Management evaluates the performance of these reportable segments based upon their respective segment operating income before the effect of amortization expense related to acquisitions and other unallocated corporate expenses. In the second quarter of fiscal 2010, we discontinued reporting Revenue, net of subcontractor costs and Gross profit to be consistent with the current presentation of our condensed consolidated statement of income and management s emphasis on segment operating income which emphasis is unchanged from prior periods. We account for inter-segment sales and transfers as if the sales and transfers were to third parties; that is, by applying a negotiated fee onto the costs of the services performed. All intercompany balances and transactions are eliminated

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

Reportable Segments

	ECS	TSS	EAS (in thousands)	RCM	Total
Three months ended March 28, 2010:					
Revenue	$ 159,807	$ 120,309	$ 68,718	$ 142,389	$ 491,223
Segment operating income	11,737	9,976	826	5,407	27,946
Depreciation expense	1,386	153	549	2,151	4,239
Three months ended March 29, 2009:					
Revenue	$ 142,288	$ 127,178	$ 79,756	$ 196,550	$ 545,772
Segment operating income	9,337	10,025	3,994	8,467	31,823
Depreciation expense	1,008	178	551	1,955	3,692
Six months ended March 28, 2010:					
Revenue	$ 324,362	$ 250,394	$ 134,716	$ 342,782	$ 1,052,254
Segment operating income	24,933	20,386	3,117	14,873	63,309
Depreciation expense	2,793	312	1,102	4,208	8,415
Six months ended March 29, 2009:					
Revenue	$ 271,544	$ 253,055	$ 164,412	$ 513,765	$ 1,202,776
Segment operating income	18,064	18,731	8,295	17,981	63,071
Depreciation expense	1,668	353	1,101	3,802	6,924

Total assets by segment were as follows:

	March 28, 2010	September 27, 2009
	(in thousands)	
ECS	$ 499,988	$ 486,002
TSS	240,739	223,177
EAS	89,696	91,646
RCM	300,139	351,247
Total assets	$ 1,130,562	$ 1,152,072

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Reconciliations

	Three Months Ended		Six Months Ended	
	March 28, 2010	March 29, 2009	March 28, 2010	March 29, 2009
	(in thousands)			
Revenue				
Revenue from reportable segments	$ 491,223	$ 545,772	$ 1,052,254	$ 1,202,776
Elimination of inter-segment revenue	(21,695)	(23,467)	(40,769)	(41,788)
Total consolidated revenue	$ 469,528	$ 522,305	$ 1,011,485	$ 1,160,988
Operating Income				
Segment operating income	$ 27,946	$ 31,823	$ 63,309	$ 63,071
Amortization of intangibles	(3,020)	(2,415)	(6,000)	(4,134)
Other expense (1)	(1,399)	(1,578)	(2,666)	(2,491)
Total consolidated operating income	$ 23,527	$ 27,830	$ 54,643	$ 56,446
Depreciation Expense				
Depreciation expense from reportable segments	$ 4,239	$ 3,692	$ 8,415	$ 6,924
Other (2)	701	694	1,340	1,225
Total consolidated depreciation expense	$ 4,940	$ 4,386	$ 9,755	$ 8,149

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

(2) Other includes depreciation expense from corporate headquarters.

	March 28, 2010	September 27, 2009
	(in thousands)	
Assets		
Total assets of reportable segments	$ 1,130,562	$ 1,152,072
Assets not allocated to segments and intercompany eliminations	(42,841)	(54,167)
Total consolidated assets	$ 1,087,721	$ 1,097,905

Major Clients

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

The following table represents our revenue by client sector:

	Three Months Ended	Six Months Ended

	March 28, 2010	March 29, 2009	March 28, 2010	March 29, 2009
	(in thousands)			
Client Sector				
Federal government	$ 249,863	$ 271,265	$ 549,235	$ 555,592
State and local government	77,391	66,831	152,705	137,892
Commercial	102,499	157,644	229,965	433,706
International (1)	39,775	26,565	79,580	33,798
Total	$ 469,528	$ 522,305	$ 1,011,485	$ 1,160,988

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

9. Pension Plan

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In connection with the acquisition of Wardrop, we assumed the assets and obligations under Wardrop s defined benefit pension plan, which primarily covered a group of active and inactive employees and a limited number of retirees. No new employees are eligible to participate in this plan. Pursuant to the Wardrop purchase agreement, Wardrop agreed to terminate this plan as soon as practical. Further, an escrow account was established under the purchase agreement to fully fund the defined benefit pension settlement liability and all post-acquisition expenses. We assumed the initial net liability of approximately $5.7 million (net of plan assets of approximately $11.3 million) as of the acquisition date. In fiscal 2009, Wardrop purchased insurance annuities for existing pensioners and inactive employees, and settled the obligations with these participants for approximately $12.4 million. In fiscal 2010, approval was obtained from the appropriate government agencies to terminate the plan and distribute all plan assets and the remaining plan liability was settled. As of March 28, 2010, approximately $0.6 million is due to us from the escrow for the remaining post-acquisition pension contributions, actuarial expenses, and plan termination costs. The net periodic benefit expense in fiscal 2009 and 2010 was immaterial.

10. Comprehensive Income

Comprehensive income is comprised of net income and other comprehensive income, which includes translation gains and losses from foreign subsidiaries with functional currencies different than our reporting currency, and unrealized gains and losses on hedging activities. The following summarizes the after-tax components of our comprehensive income:

	Three Months Ended		Six Months Ended	
	March 28, 2010	March 29, 2009	March 28, 2010	March 29, 2009
	(in thousands)			
Net income	$ 14,329	$ 19,214	$ 33,038	$ 35,522
Other comprehensive income:				
Unrealized loss on hedging activities	(184)		(354)	
Foreign currency translation gain	1,974	293	6,076	242
Total comprehensive income	$ 16,119	$ 19,507	$ 38,760	$ 35,764

11. Fair Value of Derivative Instruments

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

12. Commitments and Contingencies

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

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In May 2003, Innovative Technologies Corporation (ITC) filed a lawsuit in Montgomery County, Ohio against Advanced Management Technology, Inc. (AMT) and other defendants for misappropriation of trade secrets, among other claims. In June 2004, we purchased all the outstanding shares of AMT. As part of the purchase agreement, the former owners of AMT agreed to indemnify us for all costs and damages related to this lawsuit. In December 2007, the case went to trial and the jury awarded $5.8 million in compensatory damages against AMT. In addition, the jury awarded $17 million in punitive damages against AMT plus reasonable attorneys fees. In July 2008, the Common Pleas Court of Montgomery County denied AMT s motion for judgment notwithstanding the verdict and conditionally denied AMT s motion for a new trial. Further, the court remitted the verdict to $2.0 million in compensatory damages and $5.8 million in punitive damages. ITC accepted the remittitur, and AMT appealed. The appellate court remanded the matter to the trial court for ruling on ITC s motion for prejudgment interest and attorneys fees. In December 2009, the trial court awarded ITC $2.9 million in attorneys fees and costs, and denied ITC s motion for prejudgment interest. AMT appealed the trial court s decision awarding compensatory and punitive damages, and attorneys fees and costs. ITC cross-appealed the trial court s decision to remit the jury verdict and the trial court s denial of prejudgment interest. AMT has posted a bond, as required by the trial court, for $13.4 million. We believe that a reasonably possible range of exposure, including attorneys fees, is from $0 to approximately $14.5 million. As of March 28, 2010, we have recorded a liability representing our best estimate of a probable loss. Further, for the same amount, we have recorded a receivable from the former owners of AMT as we believe it is probable they will fully honor their indemnification agreement with us for any and all costs and damages related to this lawsuit.

13. Recent Accounting Pronouncements

Recently Adopted Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued authoritative guidance on fair value measurements that defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. This guidance was effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years except for all non-recurring fair value measurements of non-financial assets and liabilities, which is effective for financial statements issued for fiscal years beginning after November 15, 2008. In October 2008, the FASB clarified the application of its authoritative guidance related to a market that is not active and provided an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. Revisions resulting from a change in valuation technique or its application should be accounted for as a change in accounting estimate, and any effects on fair-value measurement would be recognized in the period of adoption. Our adoption of this guidance on September 29, 2008 was limited to financial assets and liabilities, and it had no impact on our consolidated financial statements in fiscal 2009. We adopted the remaining aspects of the fair value measurement standard on our non-financial assets and non-financial liabilities on September 28, 2009, and the adoption of the guidance did not have an effect on our consolidated financial statements.

In December 2007, the FASB issued authoritative guidance that establishes the principles and requirements for how an acquirer (i) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree; (ii) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and (iii) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. This guidance makes significant changes to existing accounting practices for acquisitions, including the requirement to expense transaction costs and to reflect the fair value of contingent considerations at the date of acquisition. In April 2009, the FASB issued an amendment to revise and clarify the guidance on business combinations, which requires that an acquirer recognize at fair value, at the acquisition date, an asset acquired or a liability assumed in a business combination that arises from a contingency if the acquisition-date fair value of that asset or liability can be determined during the measurement period. If the acquisition-date fair value of such an asset acquired or liability assumed cannot be determined, the acquirer should apply the provisions of the guidance on business combinations to determine whether the contingency should be recognized at the acquisition date or after it. The guidance is effective for business combinations for which the acquisition date is after the beginning of the first annual reporting period beginning after December 15, 2008. We adopted the guidance on September 28, 2009. For any acquisitions completed after fiscal 2009, we expect the adoption of the guidance will have an impact on our consolidated financial statements; however, the magnitude of the impact will depend upon the nature, terms and size of the acquisitions we consummate.

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In December 2007, the FASB issued authoritative guidance that establishes accounting and reporting standards that require (i) noncontrolling interests to be reported as a component of equity; (ii) changes in a parent s ownership interest while the parent retains its controlling interest to be accounted for as equity transactions; and (iii) any retained noncontrolling equity investment upon the deconsolidation of a subsidiary to be initially measured at fair value. We do not currently have any less than wholly-owned consolidated subsidiaries. We adopted the guidance on September 28, 2009 and the adoption of the guidance did not have an effect on our consolidated financial statements as we do not currently have any noncontrolling interests.

In April 2008, the FASB issued authoritative guidance that revises the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under the guidance. We adopted the guidance on September 28, 2009 and the adoption of the guidance did not have a material effect on our consolidated financial statements.

Recent Accounting Guidance Not Yet Adopted

In June 2009, the FASB issued an accounting standard that requires us to perform an analysis to determine whether our variable interests give us a controlling financial interest in a variable interest entity. Such analysis requires us to assess whether we have the power to direct the activities of the variable interest entity and if we have the obligation to absorb losses or the right to receive benefits that could potentially be significant to the variable interest entity. This guidance eliminates the quantitative approach previously required for determining the primary beneficiary of a variable interest entity and significantly enhances disclosures. The guidance is effective for fiscal years beginning after November 15, 2009. We are currently evaluating the impact of this guidance, if any, on our consolidated financial statements.

In October 2009, the FASB issued an Accounting Standards Update that provides amendments to the criteria of Accounting Standards Codification Topic 605, Revenue Recognition , for separately recognizing consideration in multiple-deliverable arrangements. The amendments establish a selling price hierarchy for determining the selling price of a deliverable. This guidance is effective for financial statements issued for fiscal years beginning on or after June 15, 2010. We are currently evaluating the effect the adoption will have on our consolidated financial statements, but do not expect the adoption will have a material impact on our consolidated financial statements.

In January 2010, the FASB issued an Accounting Standards Update that amends the disclosure guidance with respect to fair value measurements. Specifically, the new guidance requires disclosure of amounts transferred in and out of Levels 1 and 2 fair value measurements, a reconciliation presented on a gross basis rather than a net basis of activity in Level 3 fair value measurements, greater disaggregation of the assets and liabilities for which fair value measurements are presented and more robust disclosure of the valuation techniques and inputs used to measure Level 2 and 3 fair value measurements. This guidance is effective for us, with the exception of the new guidance around the Level 3 activity reconciliations. The adoption of the effective portion of the guidance had no impact on our consolidated financial statements. Certain Level 3 activities disclosure requirements of this guidance will be effective for fiscal years beginning after December 15, 2010. As we do not currently have any significant Level 3 fair value measurements, we do not expect the adoption will have a material impact on our consolidated financial statements.

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

FORWARD-LOOKING STATEMENTS

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

GENERAL OVERVIEW

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

We are a full-service company with a global reach in the areas of water programs, environmental management and remediation, alternative energy and supporting infrastructure. We focus on growth to expand our geographic reach, diversify our client base and increase the breadth and depth of our service offerings to address existing and emerging markets. As of March 28, 2010, we had approximately 9,400 employees worldwide, located primarily in North America. We manage our business under the following four reportable segments:

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

Technical Support Services. TSS advises clients through the study, design and implementation of projects. TSS conducts research in the areas of remedial planning, disaster management, sustainable solutions including climate change and carbon management, technical government staffing services, and program management for complex U.S. federal government and international development projects.

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

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

We generate revenue by providing fee-based professional, technical and project management services and, to a lesser extent, by executing construction contracts. As primarily a service-based company, we are labor-intensive rather than capital-intensive. We provide services to a diverse base of federal and state and local

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government agencies, as well as commercial and international clients. The following table represents the percentage of our revenue by client sector:

	Three Months Ended		Six Months Ended	
	March 28, 2010	March 29, 2009	March 28, 2010	March 29, 2009
Client Sector				
Federal government	53.2%	51.9%	54.3%	47.8%
State and local government	16.5	12.8	15.1	11.9
Commercial	21.8	30.2	22.7	37.4
International (1)	8.5	5.1	7.9	2.9
Total	100.0%	100.0%	100.0%	100.0%

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

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

	Three Months Ended		Six Months Ended	
	March 28, 2010	March 29, 2009	March 28, 2010	March 29, 2009
Contract Type				
Fixed-price	40.1%	36.6%	42.1%	40.2%
Time-and-materials	35.9	39.3	34.6	38.1
Cost-plus	24.0	24.1	23.3	21.7
	100.0%	100.0%	100.0%	100.0%

We derive income from our ability to generate revenue and collect cash for work performed on client projects and our ability to effectively manage our costs. Our revenue is dependent upon our ability to attract and retain qualified and productive employees, identify business opportunities, allocate our labor resources to profitable markets, execute existing contracts, secure new contracts and renew existing client agreements. Further, maintaining the high quality of the work generated by our employees is integral to our revenue generation. Our costs are primarily comprised of the compensation we pay to our employees, including salaries and fringe benefits; the costs of hiring subcontractors, construction materials and other project-related expenses; and administrative, marketing, sales, bid and proposal, rental and other overhead costs.

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

ACQUISITIONS AND DIVESTITURES

Acquisitions. We continuously evaluate the marketplace for strategic acquisition opportunities. Due to our reputation, size, financial resources, geographic presence and range of services, we have numerous opportunities to acquire both privately held companies and subsidiaries of publicly held companies. During our evaluation, we examine the effect an acquisition may have on our long-range business strategy and results of operations. Generally, we proceed with an acquisition if we believe that it would have a positive effect on future operations and could strategically expand our service offerings. As successful integration and implementation are essential to achieving favorable results, no assurance can be given that all acquisitions will provide accretive results. Our strategy is to position ourselves to address existing and emerging markets. We view acquisitions as a key component of our growth strategy, and we intend to use cash and debt, or may use securities as we deem appropriate, to fund acquisitions. We may acquire other businesses that we believe are synergistic and will ultimately increase our

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revenue and net income, strengthen our ability to achieve our strategic goals, provide critical mass with existing clients and further expand our lines of service. We typically pay a purchase price that results in the recognition of goodwill, representing an assembled workforce with technical expertise.

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

On January 28, 2009, we acquired Wardrop, a Canadian firm that specializes in resource management, energy and infrastructure design and is included in our ECS segment. This acquisition significantly expands our worldwide presence, adding offices throughout Canada, and in the United Kingdom and India. During the first half of fiscal 2009, we also made acquisitions in the TSS segment that expand our service offerings to the U.S. Agency for International Development (USAID), and other acquisitions in the ECS segment that broaden our energy services to the federal government and commercial clients. In the second quarter of fiscal 2010, we acquired a company that enhances our nuclear energy service offerings in the RCM segment. For more information, see Note 3 (Mergers and Acquisitions) of the Notes to Condensed Consolidated Financial Statements .

Divestitures. To complement our acquisition strategy and our focus on internal growth, we regularly review and evaluate our existing operations to determine whether our business model should change through the divestiture of certain businesses. Accordingly, from time to time, we may divest certain non-core businesses and reallocate our resources to businesses that better align with our long-term strategic direction. We had no divestitures in fiscal 2009 and through the second quarter of fiscal 2010.

OVERVIEW OF RESULTS AND BUSINESS TRENDS

General. In the second quarter of fiscal 2010, we delivered strong financial results despite the continuing difficult economic conditions. We continued our focus on organic growth and the strategic acquisition of firms to enhance our service offerings and expanded our geographic presence. However, our revenue declined 10.1% compared to the same quarter last year, primarily due to the completion of large wind and Iraq-related projects in the prior year, and weakness in the federal construction management and commercial markets in the current year. The revenue decline was partially offset by full period revenue contributions from the prior-year acquisitions and increased activity on projects for the Department of Energy (DOE), the Environmental Protection Agency (EPA) and other federal government clients, together with a large transportation infrastructure project. Our operating income declined 15.5% compared to the same quarter last year, primarily due to the aforementioned revenue decline. The decrease in operating income was partially mitigated by cost reductions and successful project risk management efforts.

We foresee a continued period of weakness in the economy, with a slow and gradual economic recovery. Accordingly, we expect that our revenue will be lower in fiscal 2010 than in fiscal 2009. Our forecasted revenue is lower than originally anticipated due to the delayed release of new opportunities in our construction management-related businesses. The U.S. federal government s stimulus plan contained in the American Recovery and Reinvestment Act of 2009 (ARRA) should provide us with additional business opportunities. However, to date, we have had fewer ARRA opportunities than anticipated. Because the timing and magnitude of any potential benefit to our business from the ARRA are uncertain, we cannot predict how meaningful such contributions may be in fiscal 2010. We also recognize that the economic conditions that have severely impacted both the domestic and international economies could adversely affect our future work for the U.S. federal government, state and local governments, and commercial and international clients, which constituted approximately 53%, 16%, 22% and 9% of our revenue in the second quarter of fiscal 2010, respectively.

Federal Government. Our federal government business declined 7.9% in the second quarter of fiscal 2010 compared to the same quarter last year. The decline resulted primarily from the prior year completion of Iraq-related projects for the Department of Defense (DoD). The decline was partially offset by our prior-year acquisitions and increased activity on Base Realignment and Closure Act (BRAC), DOE, EPA, Federal Aviation Administration (FAA), National Aeronautics and Space Administration (NASA), and other federal government programs. During periods of economic volatility, our federal government business has historically been the most stable and predictable. However, we continue to experience delays on new awards for certain large construction management-related projects in Afghanistan and the U.S. Gulf Coast region. We also continue to experience delays in existing and near-term projects due to the diversion of attention to ARRA project planning and contracting efforts

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at some federal contracting entities. As a result, revenue from our federal government business is expected to be flat in fiscal 2010.

State and Local Government. Our state and local government business grew 15.8% in the second quarter of fiscal 2010 compared to the same quarter last year. The growth was driven primarily by a large transportation infrastructure project and from a prior-year acquisition. Apart from these factors, we continue to experience difficult economic conditions across our state and local government markets. Many state and local government agencies continue to face economic challenges, including budget deficits, reduced tax revenues and difficult cost-cutting decisions. Simultaneously, states are facing major long-term infrastructure needs, including the need for maintenance, repair and upgrading of existing critical infrastructure and the need to build new facilities. The funding risks associated with our state and local government programs are partially mitigated by the regulatory requirements driving some of these programs, such as regulatory-mandated consent decrees, as well as demographic shifts and increasing demand for water and wastewater services. As a result, some programs will generally progress despite budget pressures. We expect ongoing economic challenges across most states and remain uncertain regarding the timing and magnitude of ARRA funds that may eventually benefit our state and local government business. In spite of these difficulties, due to the large transportation infrastructure project and anticipated contributions from a prior-year acquisition, we expect that our state and local government revenue will increase moderately in fiscal 2010.

Commercial. Our commercial business declined 35.0% in the second quarter of fiscal 2010 compared to the same quarter last year. This decline was primarily attributable to the prior-year completion of several large wind energy projects as well as reduced activity on certain environmental remediation and water projects. Additionally, we continue to experience project delays, cancellations and reduced workload in our real estate development and industrial sectors resulting from the current weak economic conditions. Overall, we expect our commercial business will decline in fiscal 2010 compared to fiscal 2009 due to the aforementioned revenue declines and the reduced backlog for wind energy projects.

International. Our international business grew 49.7% in the second quarter of fiscal 2010 compared to the same quarter last year, primarily due to our Wardrop acquisition last year. To a lesser extent, this growth was driven by increased workload for our engineering design services overseas. We expect that our international business will continue to grow in fiscal 2010 compared to fiscal 2009. However, global economic weakness could result in lower revenue than anticipated if planned mining or energy projects are delayed or cancelled due to a decline in commodity and energy prices.

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RESULTS OF OPERATION

Consolidated Results of Operations

	Three Months Ended				Six Months Ended			
	March 28, 2010	March 29, 2009	Change $	%	March 28, 2010	March 29, 2009	Change $	%
	($ in thousands)							
Revenue	$ 469,528	$ 522,305	$ (52,777)	(10.1)%	$ 1,011,485	$ 1,160,988	$ (149,503)	(12.9)%
Subcontractor costs	(143,594)	(190,091)	46,497	24.5	(342,059)	(498,748)	156,689	31.4
Revenue, net of subcontractor costs (1)	325,934	332,214	(6,280)	(1.9)	669,426	662,240	7,186	1.1
Other costs of revenue	(262,429)	(265,893)	3,464	1.3	(536,139)	(531,578)	(4,561)	(0.9)
Selling, general and administrative expenses	(39,978)	(38,491)	(1,487)	(3.9)	(78,644)	(74,216)	(4,428)	(6.0)
Operating income	23,527	27,830	(4,303)	(15.5)	54,643	56,446	(1,803)	(3.2)
Interest expense net	(352)	(852)	500	58.7	(607)	(1,768)	1,161	65.7
Income before income tax expense	23,175	26,978	(3,803)	(14.1)	54,036	54,678	(642)	(1.2)
Income tax expense	(8,846)	(7,764)	(1,082)	(13.9)	(20,998)	(19,156)	(1,842)	(9.6)
Net income	$ 14,329	$ 19,214	$ (4,885)	(25.4)%	$ 33,038	$ 35,522	$ (2,484)	(7.0)%

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

For the three and six-month periods, revenue declined compared to the same periods last year due to the completion of large wind energy and Iraq-related contracts, and reduced activity on water and environmental remediation projects for commercial clients. Additionally, the decline was attributable to federal government delays in releasing new awards and reduced workload from many states and local government agencies and commercial clients due to the continuing weakness in the economy. The overall revenue decline was partially offset by approximately $29 million and $83 million of revenue generated by the prior-year acquisitions for the three and six-month periods, respectively. The decline was also mitigated by increased activity on BRAC and other federal government programs, as well as revenue growth from a large transportation infrastructure project.

For the three and six-month periods, excluding the effect of acquisitions, our revenue, net of subcontractor costs, declined 5.5% and 7.3%, respectively, compared to the same periods last year. These rates of decline were lower than those for revenue due primarily to a significant decrease in subcontracting activity resulting from the completion of wind energy and Iraq-related projects, which were substantially subcontracted. However, our subcontracting activities remained high due to USAID, BRAC and certain water programs. In addition, our program management activities on U.S. federal government contracts typically result in higher levels of subcontracting that are partially driven by government-mandated small business set-aside requirements.

Operating income decreased partially due to the aforementioned revenue decline. Additionally, operating income declined because our SG&A expenses increased due to a $0.6 million quarterly and $1.9 million year-to-date increase in amortization expense of intangible assets related to prior-year acquisitions, and increased costs related to business development activities for the six-month period. Further, the prior-year operating income benefited from favorable claim settlements for the six-month period and higher profit margins on certain wind energy, water and telecommunication projects for both periods. The decreases in operating income were partially mitigated by lower contract costs related to regulatory delays, subcontractor issues and project start-up expenses in certain new programs compared to the prior year.

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Net interest expense decreased in both periods due to lower average borrowings. During the first half of fiscal 2010, we had no borrowings outstanding under our credit facility.

Despite the lower taxable income, our income tax expense increased due to a higher effective tax rate. For the first half of fiscal 2010, our effective tax rate was 38.9% compared to 35.0% for the same period last year. The increase in the effective tax rate was primarily due to the $3.3 million benefit recognized in the second quarter of fiscal 2009 for the appeals settlement with the IRS for fiscal years 1997 through 2001.

For both periods, net income decreased due to reduced operating income and higher income tax expense, partially mitigated by lower net interest expense for the reasons described above.

Segment Results of Operations

In the second quarter of fiscal 2010, we began reporting Revenue , Subcontractor costs and Operating income , and discontinued reporting Gross profit and the percentage relationship of certain items to revenue, net of subcontractor costs.

Environmental Consulting Services

	Three Months Ended				Six Months Ended			
	March 28, 2010	March 29, 2009	Change $	Change %	March 28, 2010	March 29, 2009	Change $	Change %
	($ in thousands)							
Revenue	$ 159,807	$ 142,288	$ 17,519	12.3%	$ 324,362	$ 271,544	$ 52,818	19.5%
Subcontractor costs	(42,057)	(36,171)	(5,886)	(16.3)	(82,878)	(77,677)	(5,201)	(6.7)
Revenue, net of subcontractor costs (1)	$ 117,750	$ 106,117	$ 11,633	11.0%	$ 241,484	$ 193,867	$ 47,617	24.6%
Operating income	$ 11,737	$ 9,337	$ 2,400	25.7%	$ 24,933	$ 18,064	$ 6,869	38.0%

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

For the three and six-month periods, revenue growth was driven by full period revenue contributions from the prior-year acquisitions, primarily Wardrop, which generated approximately $18 million and $63 million for the three and six month periods, respectively. Excluding the acquisitive revenue, revenue was flat for the three-month period and decreased for the six-month period primarily due to funding and contract delays from a large commercial client resulting from the continuing economic downturn. The decrease was partially mitigated by increased activity on federal government, state and local government and international projects.

For the three and six-month periods, the prior-year acquisitions contributed approximately $10 million and $51 million in revenue, net of subcontractor costs, respectively. Excluding the acquisitive revenue, our revenue, net of subcontractor costs, grew slightly for the three month period. This growth was driven by increased workload from our international and state and local clients, partially offset by a revenue decrease from a large commercial client. For the six-month period, the decline in revenue, net of subcontractor costs, resulted from funding and contract delays from a large commercial client, partially offset by revenue growth in federal and state and local government businesses.

For both periods, operating income increased due primarily to revenue growth. Additionally, the increases resulted from reductions of indirect costs, labor and other employee-related expenses in certain low-activity business areas. Further, contract costs related to inclement weather, regulatory delays, subcontractor issues and provision for losses on contracts and related receivables were lower in the current year.

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Technical Support Services

	Three Months Ended				Six Months Ended			
	March 28, 2010	March 29, 2009	Change $	%	March 28, 2010	March 29, 2009	Change $	%
	($ in thousands)							
Revenue	$ 120,309	$ 127,178	$ (6,869)	(5.4)%	$ 250,394	$ 253,055	$ (2,661)	(1.1)%
Subcontractor costs	(41,698)	(48,629)	6,931	14.3	(89,420)	(98,016)	8,596	8.8
Revenue, net of subcontractor costs (1)	$ 78,611	$ 78,549	$ 62	0.1%	$ 160,974	$ 155,039	$ 5,935	3.8%
Operating income	$ 9,976	$ 10,025	$ (49)	(0.5)%	$ 20,386	$ 18,731	$ 1,655	8.8%

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

For the three-month period, revenue declined due to reduced workload with the DoD and reduced subcontracting activity on USAID projects compared to last year. TSS was also impacted by the continuing weakness in the commercial market resulting from the economic downturn. The revenue decrease was partially offset by revenue growth on EPA, NASA and other federal government programs. For the six-month period, TSS experienced a revenue decline on commercial and DoD projects, partially offset by revenue growth on other federal government programs including EPA, NASA and USAID in the first quarter of fiscal 2010.

For the three and six-month periods, revenue, net of subcontractor costs, was flat and grew 3.8%, respectively. As a percentage of revenue, subcontractor costs decreased to 34.7% and 35.7% from 38.2% and 38.7% for the three and six-month periods, respectively, primarily attributable to reduced subcontracting activity on USAID and certain DoD projects.

For the three-month period, operating income was consistent with the prior year, which corresponded to the change in revenue, net of subcontractor costs. For the six-month period, operating income increased largely due to the growth in revenue, net of subcontractor costs. In addition, the increase was attributable to improved project performance on certain fixed-price contracts and our continuing focus on overhead cost control of discretionary expenses.

Engineering and Architecture Services

	Three Months Ended				Six Months Ended			
	March 28, 2010	March 29, 2009	Change $	%	March 28, 2010	March 29, 2009	Change $	%
	($ in thousands)							
Revenue	$ 68,718	$ 79,756	$ (11,038)	(13.8)%	$ 134,716	$ 164,412	$ (29,696)	(18.1)%
Subcontractor costs	(14,293)	(17,607)	3,314	18.8	(29,073)	(37,968)	8,895	23.4
Revenue, net of subcontractor costs (1)	$ 54,425	$ 62,149	$ (7,724)	(12.4)%	$ 105,643	$ 126,444	$ (20,801)	(16.5)%
Operating income	$ 826	$ 3,994	$ (3,168)	(79.3)%	$ 3,117	$ 8,295	$ (5,178)	(62.4)%

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

For both periods, revenue and revenue, net of subcontractor costs, decreased due to reduced activity on commercial projects, particularly in the real estate development and industrial markets. EAS state and local government business also experienced a revenue decline resulting from budget and spending constraints. The revenue decline was also attributable to reduced workload with the DoD.

For both periods, operating income decreased due largely to the aforementioned revenue decline. For the three-month period, operating income was reduced by a $3.1 million provision for losses on accounts receivable on certain commercial development and infrastructure projects. The overall decreases were partially mitigated by reductions in indirect costs, labor and other employee-related expenses that corresponded to the aforementioned revenue decline.

Remediation and Construction Management

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	Three Months Ended				Six Months Ended			
	March 28, 2010	March 29, 2009	Change $	%	March 28, 2010	March 29, 2009	Change $	%
	($ in thousands)							
Revenue	$ 142,389	$ 196,550	$ (54,161)	(27.6)%	$ 342,782	$ 513,765	$ (170,983)	(33.3)%
Subcontractor costs	(67,241)	(111,151)	43,910	39.5	(181,457)	(326,875)	145,418	44.5
Revenue, net of subcontractor costs (1)	$ 75,148	$ 85,399	$ (10,251)	(12.0)%	$ 161,325	$ 186,890	$ (25,565)	(13.7)%
Operating income	$ 5,407	$ 8,467	$ (3,060)	(36.1)%	$ 14,873	$ 17,981	$ (3,108)	(17.3)%

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

For both periods, the revenue decline was driven by the completion of several large contracts, primarily wind energy and Iraq-related work, as well as reduced activity on a large water project for a commercial client. Revenue from remediation and construction work also declined as a result of federal government delays in releasing new awards. Since wind energy and Iraq-related projects were substantially subcontracted, revenue, net of subcontractor costs, was not impacted by the completion of these projects to the same extent as revenue. The overall decline was partially offset by increased activity on BRAC and other federal government programs, as well as a large transportation infrastructure project with a state government client. To a lesser extent, the revenue decline was partially offset by approximately $11 million and $20 million of revenue generated by a prior-year acquisition for the three and six-month periods, respectively.

For both periods, operating income decreased largely due to the aforementioned revenue decline. Further, the prior year operating income benefited from favorable claim settlements for the six-month period, and higher-profit margins on certain wind energy, water and telecommunication projects for both periods. The decreases in operating income for both periods were partially offset by reductions of indirect costs, labor and other employee-related expenses, and income from the sale of equipment in the remediation and construction markets. Additionally, the decrease was partially offset by lower contract costs related to regulatory delays, subcontractor issues and project start-up expenses in certain new programs compared to the prior year. Further, the provision for losses on contracts and related receivables declined $4.8 million for the six-month period compared to the same period last year.

Liquidity and Capital Resources

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

Operating Activities. For the first half of fiscal 2010, our net cash provided by operating activities was $40.0 million, a decrease of $6.6 million, or 14.1%, compared to the same period last year. The decrease resulted from substantial cash collections on certain large fixed-price contracts in the prior year. To a lesser extent, the decrease was due to the reduction in advance payments received on contract work. The overall decrease was partially mitigated by substantial payments made for subcontractor accruals in the prior year, and increases in deferred income tax expense, accrued compensation and other assets.

Investing Activities. For the first half of fiscal 2010, our net cash used in investing activities was $20.1 million, a decrease of $84.1 million, or 80.7%, compared to the same period last year. The decrease was due primarily to the Wardrop acquisition, for which we paid approximately $91.2 million in the second quarter of last year. Our capital expenditures were $9.5 million, a decrease of $0.3 million compared to the same period last year.

Financing Activities. For the first half of fiscal 2010, our net cash provided by financing activities was $2.7 million, a decrease of $46.0 million, or 94.4%, compared to the same period last year. We had no borrowings in the first half of fiscal 2010 compared to net borrowings of $46.6 million in the same period last year.

Debt Financing. Under our credit agreement, our revolving credit facility (Facility) is $300.0 million, and the term of the agreement extends through March 30, 2012. As part of the Facility, we may request financial letters of credit up to an aggregate sum of $50.0 million and standby letters of credit up to the full amount of the

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Facility. As of March 28, 2010, we had no borrowings outstanding, $15.2 million in standby letters of credit and $284.8 million in availability under the Facility.

The credit agreement requires us to comply with various financial and operating covenants. Specifically, (i) the maximum consolidated leverage ratio (defined as the ratio of funded debt to rolling four-quarter adjusted earnings before interest, tax, depreciation and amortization (EBITDA)) is 2.50x for each quarter, and (ii) the minimum fixed charge coverage ratio (defined as the ratio of rolling four-quarter EBITDA minus capital expenditures to interest expense plus taxes and principal payments) is 1.25x for each quarter. As of March 28, 2010, our consolidated leverage ratio was 0.24x, and our fixed charge coverage ratio was 2.42x. Further, the credit agreement contains other restrictions, including but not limited to, the creation of liens and the payment of dividends on our capital stock (other than stock dividends). Borrowings under the credit agreement are collateralized by our accounts receivable, the stock of our significant subsidiaries and our cash, deposit accounts, investment property and financial assets.

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

Tax Claims. We remain in the appeals process with the IRS for fiscal years 2002 through 2004 related to R&E Credits and our tax accounting method for revenue recognition. We are also under examination by the FTB for fiscal years 2001 through 2003 related to R&E Credits. Management believes that it is reasonably possible we will reach a resolution of these audits within the next 12 months. We have completed R&E Credit studies and analyses for the tax years subsequent to fiscal 2004 and are in the process of filing amended returns to claim federal and state R&E Credits for certain years. There is a high probability that claimed R&E Credits will be examined by the taxing authorities. If the resolution of these pending and anticipated examinations is more favorable than expected, the change in unrecognized tax benefits could be significant. However, if the resolution is less favorable than expected, there could be a material increase in our income tax expense in the period in which the determination is made.

Critical Accounting Policies

Goodwill represents the excess of the purchase price over the fair value of identifiable net assets acquired in business acquisitions. In order to determine the amount of goodwill resulting from an acquisition, we perform an assessment to determine the value of the acquired company s tangible and identifiable intangible assets and liabilities. The identifiable intangible assets include backlog, customer relations, non-compete agreements and, to a lesser extent, trade names. We typically pay a purchase price that results in the recognition of goodwill, representing an assembled workforce with technical expertise.

We perform our goodwill impairment review at least annually at the beginning of our fiscal fourth quarter. Our annual review as of June 29, 2009 (i.e., the first day of our fiscal fourth quarter) indicated that we had no impairment of goodwill. In addition, we regularly evaluate whether events and circumstances have occurred that may indicate a potential change in recoverability of goodwill. We would perform an interim goodwill impairment review between our annual reviews if certain events and circumstances have occurred, including a significant adverse change in the business climate, unanticipated competition or a loss of key personnel.

The goodwill impairment review involves the determination of the fair value of our reporting units, which for us are the components one level below our reportable segments. This process requires us to make significant judgments and estimates, including assumptions about our strategic plans with regard to our operations as well as the interpretation of current economic indicators and market valuations. Furthermore, the development of the present value of future cash flow projections includes assumptions and estimates derived from a review of our expected revenue growth rates, profit margins, business plans, cost of capital and tax rates. We also make certain assumptions about future market conditions, market prices, interest rates, and changes in business strategies. Changes in assumptions or estimates could materially affect the determination of the fair value of a reporting unit, and, therefore, could eliminate the excess of fair value over carrying value of a reporting unit entirely and, in some cases, could result in impairment. Such changes in assumptions could be caused by a loss of one or more significant contracts, reductions in government or commercial client spending, or a decline in the demand of our services due to changing economic conditions. In the event that we determine that our goodwill is impaired, we would be required to record a non-cash charge that could result in a material adverse effect on our results of operations or financial

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position.

We utilize two methods to determine the fair value of our reporting units: (i) the Income Approach and (ii) the Market Approach. While each of these approaches is initially considered in the valuation of the business enterprises, the nature and characteristics of the reporting units indicate which approach is most applicable. The Income Approach utilizes the discounted cash flow method, which focuses on the expected cash flow of the reporting unit. In applying this approach, the cash flow available for distribution is calculated for a finite period of years. Cash flow available for distribution is defined, for purposes of this analysis, as the amount of cash that could be distributed as a dividend without impairing the future profitability or operations of the reporting unit. The cash flow available for distribution and the terminal value (the value of the reporting unit at the end of the estimation period) are then discounted to present value to derive an indication of the value of the business enterprise. The Market Approach is comprised of the guideline company and the similar transactions methods. The guideline company method focuses on comparing the reporting unit to select reasonably similar (or guideline) publicly traded companies. Under this method, valuation multiples are (i) derived from the operating data of selected guideline companies; (ii) evaluated and adjusted based on the strengths and weaknesses of the reporting units relative to the selected guideline companies; and (iii) applied to the operating data of the reporting unit to arrive at an indication of value. In the similar transactions method, consideration is given to prices paid in recent transactions that have occurred in the reporting unit s industry or in related industries. For our annual impairment analysis as of June 29, 2009, we weighted the Income Approach and the Market Approach at 70% and 30%, respectively. The Income Approach was given a higher weight because it has the most direct correlation to the specific economics of the reporting unit, as compared to the Market Approach, which is based on multiples of broad-based (i.e., less comparable) companies.

As of June 29, 2009, all but two of our reporting units had fair values substantially in excess of their carrying values. One of those reporting units, Advanced Management Technology, Inc. (AMT) in the ECS reportable segment, with $49.4 million of goodwill, had a fair value in excess of its carrying value by approximately 13%. In addition, the other reporting unit, Cosentini and Associates, Inc. (CAA) in the EAS reportable segment, with $4.6 million of goodwill, had a fair value in excess of its carrying value by approximately 39%. To arrive at our cash flow projections utilized in the Income Approach, we use a reporting unit s forecast of estimated operating results based on key assumptions such as growth rates in revenues, costs and estimates of future anticipated changes in operating margins based on economic and market information. To date, the actual results for AMT and CAA have been consistent with the estimates and assumptions utilized in the most recent discounted cash flow calculations. Although we believe the assumptions regarding future revenues, costs and operating margins are reasonable for AMT and CAA, they are subject to uncertainty and could be affected by many factors including a loss of one or more significant contracts, reductions in government or commercial client spending, or a decline in the demand of our services due to changing economic conditions. For example, if AMT is unsuccessful in winning re-competes on federal government contracts or if CAA experiences reduced workload in its domestic and international commercial development markets, their revenue and income could adversely and materially deviate from their historical trends, which could cause goodwill to become impaired. Accordingly, it is reasonably possible that business performance below our expectation or deterioration of market and economic conditions could occur. This would adversely impact our ability to meet our projected results, which could cause goodwill related to AMT and CAA to become impaired. If any of our goodwill becomes impaired, we would be required to record a non-cash charge that could have a material adverse effect on our results of operations or financial position, but would not have any adverse effect on the calculations of, or our overall compliance with, the covenants of our Facility.

Our other critical accounting policies are disclosed in our Annual Report on Form 10-K for the fiscal year ended September 27, 2009. To date, there have been no material changes in our critical accounting policies as reported in our 2009 Annual Report on Form 10-K.

New Accounting Pronouncements

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

Financial Market Risks

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

We are exposed to interest rate risk under our Credit Agreement. We may borrow on our Facility, at our option, at either (a) a base rate (the greater of the U.S. federal funds rate plus 0.50% per annum or the bank s reference rate) plus a margin which ranges from 0.0% to 1.25% per annum, or (b) a Eurodollar rate plus a margin that ranges from 1.0% to 2.25% per annum. Borrowings at the base rate have no designated term and may be repaid without penalty any time prior to the Facility s maturity date. Borrowings at a Eurodollar rate have a term no less than 30 days and no greater than 90 days. Typically, at the end of such term, such borrowings may be rolled over at our discretion into either a borrowing at the base rate or a borrowing at a Eurodollar rate with similar terms, not to exceed the maturity date of the Facility. The Facility matures on March 30, 2012 or earlier at our discretion upon payment in full of loans and other obligations. As of March 28, 2010, we had no borrowings outstanding under the Facility.

Most of our transactions are in U.S. dollars; however, some of our subsidiaries conduct business in foreign currencies, primarily the Canadian dollar. Therefore, we are subject to currency exposure and volatility because of currency fluctuations. We attempt to minimize our exposure to these fluctuations by matching revenues and expenses in the same currency for our contracts. For the first half of fiscal 2010 and 2009, our foreign currency gains and losses were immaterial.

We have foreign currency exchange rate exposure in our stockholders equity primarily as a result of the currency translation related to our subsidiary in Canada where the local currency is the functional currency. To the extent the U.S. dollar strengthens against the Canadian dollar, the translation of these foreign currency denominated transactions will result in the reduced revenue, operating expenses, assets and liabilities. Similarly, our revenue, operating expenses, assets and liabilities will increase if the U.S. dollar weakens against the Canadian dollar. The effect of foreign exchange rate translation on our condensed consolidated balance sheet for the six months ended March 28, 2010 was a net foreign translation gain of $6.1 million. The gain was recognized as an adjustment to stockholders equity through other comprehensive income.

In the first quarter of fiscal 2010, we entered into three foreign currency forward contracts to manage foreign currency exposure related to the settlement of interest receivable on an intercompany note denominated in Canadian dollars. In the second quarter of fiscal 2010, we settled the first foreign currency forward contract for U.S. $3.9 million. We also entered into a new forward contract for Canadian $4.2 million (equivalent to U.S $3.9 million at date of inception) that matures on January 28, 2013. For more information, see Note 10 (Fair Value of Derivative Instruments) of the Notes to Condensed Consolidated Financial Statements .

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

Item 4. Controls and Procedures

Evaluation of disclosure controls and procedures and changes in internal control over financial reporting. As of March 28, 2010, we carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures. Based on our management s evaluation (with the participation of our principal executive officer and principal financial officer), our principal executive officer and principal financial officer have concluded that, as of the end of the period covered by this Report, our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act), were effective.

Changes in internal control over financial reporting. There was no change in our internal control over financial reporting during our second quarter of fiscal 2010 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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

In May 2003, ITC filed a lawsuit in Montgomery County, Ohio against AMT and other defendants for misappropriation of trade secrets, among other claims. In June 2004, we purchased all the outstanding shares of AMT. As part of the purchase agreement, the former owners of AMT agreed to indemnify us for all costs and damages related to this lawsuit. In December 2007, the case went to trial and the jury awarded $5.8 million in compensatory damages against AMT. In addition, the jury awarded $17 million in punitive damages against AMT plus reasonable attorneys fees. In July 2008, the Common Pleas Court of Montgomery County denied AMT s motion for judgment notwithstanding the verdict and conditionally denied AMT s motion for a new trial. Further, the court remitted the verdict to $2.0 million in compensatory damages and $5.8 million in punitive damages. ITC accepted the remittitur, and AMT appealed. The appellate court remanded the matter to the trial court for ruling on ITC s motion for prejudgment interest and attorneys fees. In December 2009, the trial court awarded ITC $2.9 million in attorneys fees and costs, and denied ITC s motion for prejudgment interest. AMT appealed the trial court s decision awarding compensatory and punitive damages, and attorneys fees and costs. ITC cross-appealed the trial court s decision to remit the jury verdict and the trial court s denial of prejudgment interest. AMT has posted a bond, as required by the trial court, for $13.4 million. We believe that a reasonably possible range of exposure, including attorneys fees, is from $0 to approximately $14.5 million. As of March 28, 2010, we have recorded a liability representing our best estimate of a probable loss. Further, for the same amount, we have recorded a receivable from the former owners of AMT as we believe it is probable they will fully honor their indemnification agreement with us for any and all costs and damages related to this lawsuit.

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Item 1A. Risk Factors

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

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

General worldwide economic conditions have recently experienced a downturn due to the lack of available credit, slower economic activity, concerns about inflation and deflation, increased energy costs, decreased consumer confidence, reduced corporate profits and capital spending, and adverse business conditions. These conditions make it extremely difficult for our clients and our vendors to accurately forecast and plan future business activities and could cause businesses to slow spending on services, and have also made it very difficult for us to predict the short-term and long-term impacts on our business. We cannot predict the timing, strength or duration of any economic slowdown or subsequent economic recovery worldwide or in our industry. If the economy or markets in which we operate deteriorate from the level experienced in fiscal 2009 and the first half of fiscal 2010, our business, financial condition and results of operations may be materially and adversely affected.

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

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

- General economic or political conditions;

- Unanticipated changes in contract performance that may affect profitability, particularly with contracts that are fixed-price or have funding limits;

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

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

- Integration of acquired companies;
- Changes in contingent consideration related to acquisition earn-outs;
- Divestiture or discontinuance of operating units;
- Employee hiring, utilization and turnover rates;
- The number and significance of client contracts commenced and completed during a quarter;
- Creditworthiness and solvency of clients;
- The ability of our clients to terminate contracts without penalties;
- Delays incurred in connection with a contract;
- The size, scope and payment terms of contracts;
- Contract negotiations on change orders and collections of related accounts receivable;
- The timing of expenses incurred for corporate initiatives;
- Reductions in the prices of services offered by our competitors;
- Threatened or pending litigation;
- Legislative and regulatory enforcement policy changes that may affect demand for our services;

- The impairment of goodwill or identifiable intangible assets;

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- Share-based compensation expense;

- Actual events, circumstances, outcomes and amounts differing from judgments, assumptions and estimates used in determining the value of certain assets (including the amounts of related valuation allowances), liabilities and other items reflected in our consolidated financial statements;

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

- Changes in tax laws or regulations or accounting rules.

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

Demand from our state and local government and commercial clients is cyclical and vulnerable to economic downturns. If the economy remains weak or client spending declines further, then our revenues, profits and our financial condition may deteriorate.

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

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

In the second quarter of fiscal 2010, we generated 21.8% of our revenue from commercial clients. Due to the continuing weakness in general economic conditions, our commercial business may be at risk as we rely upon the financial stability and creditworthiness of our clients. To the extent the credit quality of these clients deteriorates or these clients seek bankruptcy protection, our ability to collect our receivables, and ultimately our operating results, may be adversely affected.

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

In the second quarter of 2010, we generated 69.7% of our revenue from contracts with U.S. federal, state and local government agencies. U.S. federal government agencies are among our most significant clients. We generated 53.2% of our revenue in the second quarter of fiscal 2010 from the following agencies: 29.0% from DoD agencies, 12.4% from USAID and 11.8% from other U.S. federal government agencies. A significant amount of this revenue is derived under multi-year contracts, many of which are appropriated on an annual basis. As a result, at the beginning of a project, the related contract may be only partially funded, and additional funding is normally committed only as appropriations are made in each subsequent year. These appropriations, and the timing of payment of appropriated amounts, may be influenced by numerous factors as noted below. Our backlog includes only the projects that have funding appropriated.

The demand for our government-related services is generally driven by the level of government program funding. Accordingly, the success and further development of our business depends, in large part, upon the continued funding of these government programs, and upon our ability to obtain contracts and perform well under

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these programs. There are several factors that could materially affect our government contracting business, including the following:

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

- General economic or political conditions.

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

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

In the second quarter of fiscal 2010, we generated 29.0% of our revenue from the DoD. We continued to experience a revenue decline due to the completion of our Iraq-related contracts, largely offset by BRAC and other domestic programs with the DoD. Past increases in spending for defense-related programs and outsourcing of federal government jobs to the private sector are not expected to be sustained on a long-term basis. Future levels of expenditures and authorizations for defense-related programs may decrease, remain constant or shift to other programs in areas in which we do not currently provide services. As a result, a general decline in U.S. defense spending or a change in budgetary priorities could reduce our profits and revenues.

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

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

As a government contractor, we must comply with various procurement laws and regulations and are subject to regular government audits; a violation of any of these laws and regulations or the failure to pass a

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government audit could result in sanctions, contract termination, forfeiture of profit, harm to our reputation or loss of our status as an eligible government contractor and could reduce our profits and revenues.

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

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

Government contracts are awarded through a regulated procurement process. The U.S. federal government has increasingly relied upon multi-year contracts with pre-established terms and conditions, such as indefinite delivery/indefinite quantity (IDIQ) contracts, which generally require those contractors who have previously been awarded the IDIQ to engage in an additional competitive bidding process before a task order is issued. The increased competition, in turn, may require us to make sustained efforts to reduce costs in order to realize revenues and profits under government contracts. If we are not successful in reducing the amount of costs we incur, our profitability on government contracts will be negatively impacted. Moreover, even if we are qualified to work on a government contract, we may not be awarded the contract because of existing government policies designed to protect small businesses and underrepresented minority contractors. Our inability to win or renew government contracts during regulated procurement processes could harm our operations and significantly reduce or eliminate our profits.

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

Each year, client funding for some of our government contracts may directly or indirectly rely on government appropriations or public-supported financing. For example, the ARRA enacted in February 2009 provides funding for various clients state environmental projects, for which we provide services. However, ARRA-funded contracts have not been awarded for environmental projects as quickly as we had expected, and it is possible that ARRA funding will never be allocated to projects that represent opportunities for us to the extent that we anticipate, if at all. Legislatures may appropriate funds for a given project on a year-by-year basis, even though the project may take more than one year to perform. In addition, public-supported financing such as state and local municipal bonds may be only partially raised to support existing projects. Public funds and the timing of payment of these funds may be influenced by, among other things, the state of the economy, competing political priorities, curtailments in the use of government contracting firms, increases in raw material costs, delays associated with a lack of a sufficient number of government staff to oversee contracts, budget constraints, the timing and amount of

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tax receipts and the overall level of government expenditures. If adequate public funding is not available or is delayed, then our profits and revenues could decline.

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

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

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

Our engagements often involve large-scale, complex projects. The quality of our performance on such projects depends in large part upon our ability to manage the relationship with our clients and our ability to effectively manage the project and deploy appropriate resources, including third-party contractors and our own personnel, in a timely manner. We may commit to a client that we will complete a project by a scheduled date. We may also commit that a project, when completed, will achieve specified performance standards. If the project is not completed by the scheduled date or fails to meet required performance standards, we may either incur significant additional costs or be held responsible for the costs incurred by the client to rectify damages due to late completion or failure to achieve the required performance standards. The uncertainty of the timing of a project can present difficulties in planning the amount of personnel needed for the project. If the project is delayed or canceled, we may bear the cost of an underutilized workforce that was dedicated to fulfilling the project. In addition, performance of projects can be affected by a number of factors beyond our control, including unavoidable delays from government inaction, public opposition, inability to obtain financing, weather conditions, unavailability of vendor materials, changes in the project scope of services requested by our clients, industrial accidents, environmental hazards, labor disruptions and other factors. To the extent these events occur, the total costs of the project could exceed our estimates and we could experience reduced profits or, in some cases, incur a loss on a project, which may reduce or eliminate our overall profitability. Further, any defects or errors, or failures to meet our clients expectations, could result in claims for damages against us. Our contracts generally limit our liability for damages that arise from negligent acts, errors, mistakes or omissions in rendering services to our clients. However, we cannot be sure that these contractual provisions will protect us from liability for damages in the event we are sued. Prior to fiscal 2006, we experienced significant project cost overruns on the performance of certain fixed-price construction work, other than that associated with our U.S. federal government projects. Although we have implemented procedures intended to address these issues, no assurance can be given that we will not experience project management issues in the future.

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

As primarily a professional and technical services company, we are labor-intensive and, therefore, our ability to attract, retain and expand our senior management and our professional and technical staff is an important factor in determining our future success. With limited exceptions, we do not have employment agreements with any of these individuals. The loss of the services of any of these key personnel could adversely affect our business. Although we have obtained non-compete agreements from certain principals and stockholders of companies we have acquired, we generally do not have non-compete or employment agreements with key employees who were once equity holders of these companies. Further, many of our non-compete agreements have expired. We do not maintain key-man life insurance policies on any of our executive officers or senior managers.

The market for qualified scientists and engineers is competitive and we may not be able to attract and retain such professionals. In addition, it may be difficult to attract and retain qualified individuals in the timeframe demanded by our clients. For example, some of our government contracts may require us to employ only individuals who have particular government security clearance levels. In an effort to attract key employees, we

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often grant them stock options, and a reduction in our stock price could impact our ability to retain these professionals.

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

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

- The application of the percentage-of-completion method of accounting and revenue recognition on contracts, change orders and contract claims;
- Provisions for uncollectible receivables and client claims and recoveries of costs from subcontractors, vendors and others;
- Provisions for income taxes and related valuation allowances;
- Value of goodwill and recoverability of other intangible assets;
- Valuations of assets acquired and liabilities assumed in connection with business combinations;
- Estimated earn-out payments due in connection with business combinations;
- Valuation of employee benefit plans;
- Valuation of stock-based compensation expense; and

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

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

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

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

- Our ability to transition employees from completed projects to new assignments and to hire and assimilate new employees;

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

- Our ability to manage attrition;

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

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

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

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

We account for most of our contracts on the percentage-of-completion method of accounting. Generally, our use of this method results in recognition of revenue and profit ratably over the life of the contract, based on the proportion of costs incurred to date to total costs expected to be incurred for the entire project. The effects of

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revisions to revenue and estimated costs, including the achievement of award and other fees, are recorded when the amounts are known and can be reasonably estimated. Such revisions could occur in any period and their effects could be material. Although we have historically made reasonably reliable estimates of the progress towards completion of long-term contracts, the uncertainties inherent in the estimating process make it possible for actual costs to vary materially from estimates, including reductions or reversals of previously recorded revenue and profit.

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

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

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

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

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

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

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

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

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

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

- We are pursuing international acquisitions, which inherently pose more risk than domestic acquisitions;

- We compete with others to acquire companies which may result in decreased availability of, or increased price for, suitable acquisition candidates;

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

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

- Acquired companies may not perform as we expect, and we may fail to realize anticipated revenue and profits.

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

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

- Unanticipated issues in integration information, communications and other systems;

- Unanticipated incompatibility of logistics, marketing and administration methods;

- Maintaining employee morale and retaining key employees;

- Integrating the business cultures of both companies;

- Preserving important strategic customer relationships;

- Consolidating corporate and administrative infrastructures and eliminating duplicative operations; and

- Coordinating geographically separate organizations.

Further, acquisitions may also cause us to:

- Issue common stock that would dilute our current stockholders ownership percentage;

- Use a substantial portion of our cash resources;

- Increase our interest expense, leverage and debt service requirements if we incur additional debt to pay for an acquisition;

- Assume liabilities, including environmental liabilities, for which we do not have indemnification from the former owners. Further, indemnification obligations may be subject to dispute or concerns regarding the creditworthiness of the former owners;

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- Record goodwill and non-amortizable intangible assets that are subject to impairment testing on a regular basis and potential impairment charges;
- Experience volatility in earnings due to changes in contingent consideration related to acquisition earn-out liability estimates;
- Incur amortization expenses related to certain intangible assets;
- Lose existing or potential contracts as a result of conflict of interest issues;
- Incur large and immediate write-offs; or
- Become subject to litigation.

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

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

Because we have historically acquired a significant number of companies, goodwill and other intangible assets have represented a substantial portion of our assets. As of March 28, 2010, our goodwill was $335.7 million and other intangible assets were $31.5 million. We are required to perform a goodwill and indefinite-lived intangible asset impairment test for potential impairment at least on an annual basis. The goodwill impairment test requires us to determine the fair value of our reporting units which are the components of our business one level below our four reportable segments. In determining fair value, we make significant judgments and estimates, including assumptions about our strategic plans with regard to our operations, as well as to interpret current economic indicators and market valuations. To the extent economic conditions that would impact the future operations of our reporting units change, our goodwill may be deemed to be impaired, and we would be required to record a non-cash charge that could result in a material adverse effect on our financial position or results of operations.

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

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

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

We remain in the appeals process with the IRS for fiscal years 2002 through 2004 related to R&E Credits and our tax accounting method for revenue recognition. We are also under examination by the FTB for fiscal years 2001 through 2003 related to R&E Credits. Management believes that it is reasonably possible we will reach a resolution of these audits within the next 12 months. We have completed R&E Credit studies and analyses for the tax years subsequent to fiscal 2004 and are in the process of filing amended returns to claim federal and state R&E Credits for certain years. There is a high probability that claimed R&E Credits will be examined by taxing authorities. If the resolution of these pending and anticipated examinations is more favorable than expected, the change in unrecognized tax benefits could be significant. However, if the resolution is less favorable than expected, there may be a material increase in our income tax expense in the period in which the determination is made.

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

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Our backlog as of March 28, 2010 was $1.7 billion. We include in backlog only those contracts for which funding has been provided and work authorizations have been received. We cannot guarantee that the revenue projected in our backlog will be realized or, if realized, will result in profits. In addition, project cancellations or scope adjustments may occur, from time to time, with respect to contracts reflected in our backlog. For example, certain of our contracts with the U.S. federal government and other clients are terminable at the discretion of the client with or without cause. These types of backlog reductions could adversely affect our revenue and margins. Accordingly, our backlog as of any particular date is an uncertain indicator of our future earnings.

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

During the second quarter of fiscal 2010, we generated 8.5% of our revenue from our foreign operations, primarily in Canada, and from our international clients that is performed by our domestic operations. The different business cultures associated with international operations may not be fully appreciated before we sign an agreement, and thereby expose us to risk. Likewise, prior to signing a contract, we need to understand international laws and regulations, such as foreign tax and labor laws, and U.S. laws and regulations applicable to companies engaging in business outside of the United States, such as the Foreign Corrupt Practices Act. For these reasons, pricing and executing international contracts is more difficult and carries more risk than pricing and executing domestic contracts. Our experience has also shown that it is typically more difficult to collect on international work that has been performed and billed.

Our international operations expose us to foreign currency risk.

Most of our transactions are in U.S. dollars; however, some of our subsidiaries conduct business in foreign currencies, primarily the Canadian dollar. Therefore, we are subject to currency exposure and volatility because of currency fluctuations, inflation changes and economic conditions in these countries. We attempt to minimize our exposure to foreign currency fluctuations by matching revenues and expenses in the same currency for our contracts.

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

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

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

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

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

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

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

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

Our results could be adversely affected by an inability to access our $300 million revolving credit facility. Unfavorable financial or economic conditions could impact certain issuers willingness or ability to fund our revolving credit facility. In addition, increases in interest rates or credit spreads, volatility in financial markets or the interest rate environment, significant political or economic events, defaults of significant issuers and other market and economic factors may negatively impact the general level of debt issuance, the debt issuance plans of certain categories of borrowers, the types of credit-sensitive products being offered, and/or a sustained period of market decline or weakness could have a material adverse effect on us.

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

Our credit agreement restricts our ability to, among other things:

- Incur additional indebtedness;
- Create liens securing debt or other encumbrances on our assets;
- Make loans or advances;
- Pay dividends or make distributions to our stockholders;
- Purchase or redeem our stock;

- Repay indebtedness that is junior to indebtedness under our credit agreement;
- Acquire the assets of, or merge or consolidate with, other companies; and
- Sell, lease or otherwise dispose of assets.

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

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

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

The value of our common stock could be volatile.

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

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- Quarter-to-quarter variations in our financial results, including revenue, profits, days sales outstanding, backlog, and other measures of financial performance or financial condition;
- Our announcements or our competitors announcements of significant events, including acquisitions;
- Resolution of threatened or pending litigation;
- Changes in investors and analysts perceptions of our business or any of our competitors businesses;
- Investors and analysts assessments of reports prepared or conclusions reached by third parties;
- Changes in environmental legislation;
- Investors perceptions of our performance of services in countries in which the U.S. military is engaged, including Iraq and Afghanistan;
- Broader market fluctuations; and
- General economic or political conditions.

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

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

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

We obtain insurance from third-party insurers as part of our overall risk management strategy and because some of our contracts require us to maintain specific insurance coverage limits. If any of our third-party insurers fail, suddenly cancel our coverage or otherwise are unable to provide us with adequate insurance coverage, then our overall risk exposure and our operational expenses would increase and the management of our business operations would be disrupted. It is possible that we may not be able to obtain adequate insurance to meet our needs, may have to pay an excessive amount for the insurance coverage we want, or may not be able to acquire any insurance for certain types of business risks.

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

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

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

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

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on reasonable terms. Our inability to obtain adequate bonding and, as a result, to bid on new work could have a material adverse effect on our future revenues and business prospects.

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

Misconduct, fraud, non-compliance with applicable laws and regulations, or other improper activities by one of our employees, agents or partners could have a significant negative impact on our business and reputation. Such misconduct could include the failure to comply with government procurement regulations, regulations regarding the protection of classified information, regulations prohibiting bribery and other foreign corrupt practices, regulations regarding the pricing of labor and other costs in government contracts, regulations on lobbying or similar activities, regulations pertaining to the internal controls over financial reporting, environmental laws and any other applicable laws or regulations. Our failure to comply with applicable laws or regulations or acts of misconduct could subject us to fines and penalties, loss of security clearances, and suspension or debarment from contracting, any or all of which could harm our reputation, reduce our revenues and profits, and subject us to criminal and civil enforcement actions.

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

Certain of our contracts may require our employees travel to and work in high-risk countries that are undergoing political, social and economic upheavals resulting in war, civil unrest, criminal activity or acts of terrorism. For example, we currently have employees working in Afghanistan and Iraq. As a result, we may be subject to costs related to employee death or injury, repatriation or other unforeseen circumstances.

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

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

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

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

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

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

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

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

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

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

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

In fiscal 2004, we began implementation of a new company-wide ERP system, principally for accounting and project management, and we plan to complete the conversion process of all companies acquired to date in fiscal 2012. In the event we do not complete the project successfully, we may experience difficulty in reporting certain revenue and costs data in an accurate and timely manner. During the ERP implementation process, we have experienced reduced cash flows due to temporary delays in issuing invoices to our clients, which have adversely affected the timely collection of cash. Further, it is possible that the cost of completing this project could exceed our current projections and negatively impact future operating results.

In addition, we rely on third-party software vendors to provide long-term software maintenance support for our information systems. Software vendors may decide to discontinue further development, integration or long-term software maintenance support for our information systems, which may increase our operational expense as well as disrupt the management of our business operation.

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Item 6. Exhibits

The following documents are filed as Exhibits to this Report:

31.1	Chief Executive Officer Certification pursuant to Rule 13a-14(a)/15d-14(a)
31.2	Chief Financial Officer Certification pursuant to Rule 13a-14(a)/15d-14(a)
32.1	Certification of Chief Executive Officer pursuant to Section 1350
32.2	Certification of Chief Financial Officer pursuant to Section 1350

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SIGNATURES

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

Dated: April 30, 2010 TETRA TECH, INC.

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

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

By: /s/ Steven M. Burdick
Steven M. Burdick
Senior Vice President, Controller
(Principal Accounting Officer)