

TETRA TECH INC
Form 10-Q
May 03, 2019

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2019

OR

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

For the transition period from _____ to _____

Commission File Number 0-19655

TETRA TECH, INC.

(Exact name of registrant as specified in its charter)

Delaware 95-4148514

(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification Number)

3475 East Foothill Boulevard, Pasadena, California 91107

(Address of principal executive offices) (Zip Code)

(626) 351-4664

(Registrant's telephone number, including area code)

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

Yes No

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

Yes No

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

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes No

Securities registered pursuant to Section 12(b) of the Act:

| Title of each class | Trading Symbol(s) | Name of each exchange on which registered |
|--------------------------------|-------------------|---|
| Common Stock, \$0.01 par value | TTEK | The NASDAQ Stock Market LLC |

As of April 26, 2019, 54,866,464 shares of the registrant's common stock were outstanding.

TETRA TECH, INC.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Tetra Tech, Inc.

Consolidated Balance Sheets

(unaudited - in thousands, except par value)

| | March 31, 2019 | September 30, 2018 |
|--|-------------------|-----------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$130,728 | \$146,185 |
| Accounts receivable – net | 629,597 | 694,221 |
| Contract assets | 157,918 | 142,882 |
| Prepaid expenses and other current assets | 71,999 | 56,003 |
| Income taxes receivable | 8,178 | 11,089 |
| Total current assets | 998,420 | 1,050,380 |
| Property and equipment – net | 41,660 | 43,278 |
| Investments in unconsolidated joint ventures | 3,536 | 3,370 |
| Goodwill | 827,676 | 798,820 |
| Intangible assets – net | 11,698 | 16,123 |
| Deferred tax assets | 30,581 | 8,607 |
| Other long-term assets | 38,294 | 38,843 |
| Total assets | \$1,951,865 | \$1,959,421 |
| LIABILITIES AND EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$135,393 | \$160,222 |
| Accrued compensation | 156,079 | 180,153 |
| Contract liabilities | 154,609 | 143,270 |
| Income taxes payable | 1,877 | 8,272 |
| Promissory note | 24,688 | — |
| Current portion of long-term debt | 12,551 | 12,599 |
| Current contingent earn-out liabilities | 20,026 | 13,633 |
| Other current liabilities | 119,219 | 99,944 |
| Total current liabilities | 624,442 | 618,093 |
| Deferred tax liabilities | 25,622 | 30,166 |
| Long-term debt | 231,332 | 264,712 |
| Long-term contingent earn-out liabilities | 25,869 | 21,657 |
| Other long-term liabilities | 53,995 | 57,693 |
| Commitments and contingencies (Note 16) | | |
| Equity: | | |
| Preferred stock - authorized, 2,000 shares of \$0.01 par value; no shares issued and outstanding at March 31, 2019 and September 30, 2018 | — | — |
| Common stock - authorized, 150,000 shares of \$0.01 par value; issued and outstanding, 54,947 and 55,349 shares at March 31, 2019 and September 30, 2018, respectively | 549 | 553 |

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| | | |
|--|-------------|--------------|
| Additional paid-in capital | 111,277 | 148,803 |
| Accumulated other comprehensive loss | (148,217) | (127,350) |
| Retained earnings | 1,026,836 | 944,965 |
| Tetra Tech stockholders' equity | 990,445 | 966,971 |
| Noncontrolling interests | 160 | 129 |
| Total stockholders' equity | 990,605 | 967,100 |
| Total liabilities and stockholders' equity | \$1,951,865 | \$ 1,959,421 |

See Notes to Consolidated Financial Statements.

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Tetra Tech, Inc.
Consolidated Statements of Income
(unaudited – in thousands, except per share data)

| | Three Months Ended | | Six Months Ended | |
|---|--------------------|------------|------------------|-------------|
| | March 31, | April 1, | March 31, | April 1, |
| | 2019 | 2018 | 2019 | 2018 |
| Revenue | \$722,621 | \$700,262 | \$1,440,052 | \$1,460,010 |
| Subcontractor costs | (137,237) | (167,469) | (301,305) | (382,370) |
| Other costs of revenue | (488,913) | (441,368) | (943,592) | (892,070) |
| Gross profit | 96,471 | 91,425 | 195,155 | 185,570 |
| Selling, general and administrative expenses | (48,898) | (46,791) | (91,871) | (92,347) |
| Contingent consideration – fair value adjustments | (28) | (1,918) | (28) | (1,918) |
| Income from operations | 47,545 | 42,716 | 103,256 | 91,305 |
| Interest expense | (3,164) | (4,092) | (6,061) | (7,252) |
| Income before income tax benefit (expense) | 44,381 | 38,624 | 97,195 | 84,053 |
| Income tax benefit (expense) | 11,563 | (9,877) | 781 | (9,254) |
| Net income | 55,944 | 28,747 | 97,976 | 74,799 |
| Net income attributable to noncontrolling interests | (33) | (22) | (69) | (40) |
| Net income attributable to Tetra Tech | \$55,911 | \$28,725 | \$97,907 | \$74,759 |
| Earnings per share attributable to Tetra Tech: | | | | |
| Basic | \$1.01 | \$0.51 | \$1.77 | \$1.34 |
| Diluted | \$1.00 | \$0.51 | \$1.74 | \$1.32 |
| Weighted-average common shares outstanding: | | | | |
| Basic | 55,143 | 55,841 | 55,237 | 55,900 |
| Diluted | 55,985 | 56,673 | 56,161 | 56,825 |

See Notes to Consolidated Financial Statements.

Tetra Tech, Inc.
 Consolidated Statements of Comprehensive Income
 (unaudited – in thousands)

| | Three Months Ended | | Six Months Ended | |
|--|--------------------|---------------|------------------|---------------|
| | March 31, 2019 | April 1, 2018 | March 31, 2019 | April 1, 2018 |
| Net income | \$55,944 | \$28,747 | \$97,976 | \$74,799 |
| Other comprehensive income, net of tax | | | | |
| Foreign currency translation adjustments | 9,245 | (16,116) | (14,089) | (19,583) |
| (Loss) gain on cash flow hedge valuations | (2,769) | (27) | (6,778) | 39 |
| Other comprehensive income (loss) attributable to Tetra Tech | 6,476 | (16,143) | (20,867) | (19,544) |
| Other comprehensive income (loss) attributable to noncontrolling interests | 1 | (5) | 238 | (7) |
| Comprehensive income | \$62,421 | \$12,599 | \$77,347 | \$55,248 |
| Comprehensive income attributable to Tetra Tech | \$62,387 | \$12,582 | \$77,040 | \$55,215 |
| Comprehensive income attributable to noncontrolling interests | 34 | 17 | 307 | 33 |
| Comprehensive income | \$62,421 | \$12,599 | \$77,347 | \$55,248 |

See Notes to Consolidated Financial Statements.

Tetra Tech, Inc.
Consolidated Statements of Equity
Three Months Ended April 1, 2018 and March 31, 2019
(unaudited – in thousands)

| | Common Stock | | Additional Paid-in Capital | Accumulated Other Comprehensive Income (Loss) | Retained Earnings | Total Tetra Tech Equity | Non-Controlling Interests | Total Equity |
|---|--------------|--------|----------------------------------|---|----------------------|----------------------------------|------------------------------|-----------------|
| | Shares | Amount | | | | | | |
| BALANCE AT DECEMBER 31, 2017 | 55,988 | \$ 560 | \$ 175,293 | \$ (101,901) | \$ 873,004 | \$ 946,956 | \$ 165 | \$ 947,121 |
| Net income | | | | | 28,725 | 28,725 | 22 | 28,747 |
| Other comprehensive loss | | | | (16,143) | | (16,143) | (5) | (16,148) |
| Cash dividends of \$0.10 per common share | | | | | (5,583) | (5,583) | | (5,583) |
| Stock-based compensation | | | 4,735 | | | 4,735 | | 4,735 |
| Restricted & performance shares released | 2 | (1) | (6) | | | (7) | | (7) |
| Stock options exercised | 264 | 3 | 6,360 | | | 6,363 | | 6,363 |
| Stock repurchases | (505) | (5) | (24,995) | | | (25,000) | | (25,000) |
| BALANCE AT APRIL 1, 2018 | 55,749 | \$ 557 | \$ 161,387 | \$ (118,044) | \$ 896,146 | \$ 940,046 | \$ 182 | \$ 940,228 |
| BALANCE AT DECEMBER 31, 2018 | 55,326 | \$ 553 | \$ 130,753 | \$ (154,693) | \$ 977,541 | \$ 954,154 | \$ 147 | \$ 954,301 |
| Net income | | | | | 55,911 | 55,911 | 33 | 55,944 |
| Other comprehensive income | | | | 6,476 | | 6,476 | 1 | 6,477 |
| Distributions paid to noncontrolling interests | | | | | | — | (21) | (21) |
| Cash dividends of \$0.12 per common share | | | | | (6,616) | (6,616) | | (6,616) |
| Stock-based compensation | | | 4,066 | | | 4,066 | | 4,066 |
| Restricted & performance shares released | 5 | — | (66) | | | (66) | | (66) |
| Stock options exercised | 65 | 1 | 1,519 | | | 1,520 | | 1,520 |
| Stock repurchases | (449) | (5) | (24,995) | | | (25,000) | | (25,000) |
| BALANCE AT MARCH 31, 2019 | 54,947 | \$ 549 | \$ 111,277 | \$ (148,217) | \$ 1,026,836 | \$ 990,445 | \$ 160 | \$ 990,605 |

Tetra Tech, Inc.
Consolidated Statements of Equity
Six Months Ended April 1, 2018 and March 31, 2019
(unaudited – in thousands)

| | Common Stock | | Additional Paid-in Capital | Accumulated Other Comprehensive Income (Loss) | Retained Earnings | Total Tetra Tech Equity | Non-Controlling Interests | Total Equity |
|--|--------------|--------|----------------------------------|---|----------------------|----------------------------------|------------------------------|-----------------|
| | Shares | Amount | | | | | | |
| BALANCE AT OCTOBER 1, 2017 | 55,873 | \$ 559 | \$ 193,835 | \$ (98,500) | \$ 832,559 | \$ 928,453 | \$ 171 | \$ 928,624 |
| Net income | | | | | 74,759 | 74,759 | 40 | 74,799 |
| Other comprehensive loss | | | | (19,544) | | (19,544) | (7) | (19,551) |
| Distributions paid to noncontrolling interests | | | | | | — | (22) | (22) |
| Cash dividends of \$0.20 per common share | | | | | (11,172) | (11,172) | | (11,172) |
| Stock-based compensation | | | 8,705 | | | 8,705 | | 8,705 |
| Restricted & performance shares released | 273 | 2 | (8,821) | | | (8,819) | | (8,819) |
| Stock options exercised | 481 | 5 | 11,933 | | | 11,938 | | 11,938 |
| Shares issued for Employee Stock Purchase Plan | 142 | 1 | 5,725 | | | 5,726 | | 5,726 |
| Stock repurchases | (1,020) | (10) | (49,990) | | | (50,000) | | (50,000) |
| BALANCE AT APRIL 1, 2018 | 55,749 | \$ 557 | \$ 161,387 | \$ (118,044) | \$ 896,146 | \$ 940,046 | \$ 182 | \$ 940,228 |
| BALANCE AT SEPTEMBER 30, 2018 | 55,349 | \$ 553 | \$ 148,803 | \$ (127,350) | \$ 944,965 | \$ 966,971 | \$ 129 | \$ 967,100 |
| Net income | | | | | 97,907 | 97,907 | 69 | 97,976 |
| Other comprehensive income (loss) | | | | (20,867) | | (20,867) | 238 | (20,629) |
| Distributions paid to noncontrolling interests | | | | | | — | (276) | (276) |
| Cash dividends of \$0.24 per common share | | | | | (13,270) | (13,270) | | (13,270) |
| Stock-based compensation | | | 8,595 | | | 8,595 | | 8,595 |
| Restricted & performance shares released | 179 | 2 | (6,804) | | | (6,802) | | (6,802) |
| Stock options exercised | 151 | 2 | 3,832 | | | 3,834 | | 3,834 |
| Shares issued for Employee Stock Purchase Plan | 148 | 1 | 6,842 | | | 6,843 | | 6,843 |

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| | | | | | | | |
|---|--------|--------|------------|---------------|--------------|------------|------------|
| Stock repurchases | (880) | (9) | (49,991) | | (50,000) | | (50,000) |
| Cumulative effect of accounting changes | | | | (2,766) | (2,766) | | (2,766) |
| BALANCE AT MARCH 31, 2019 | 54,947 | \$ 549 | \$ 111,277 | \$ (148,217) | \$ 1,026,836 | \$ 990,445 | \$ 160 |
| | | | | | | | \$ 990,605 |

For certain items, the sum of the quarterly information above does not equal the year to date amounts reflected throughout this Form 10-Q due to rounding associated with the calculations on an individual quarter basis. These differences are not material to the Consolidated Financial Statements.

See Notes to Consolidated Financial Statements.

Tetra Tech, Inc.

Consolidated Statements of Cash Flows
(unaudited – in thousands)

| | Six Months Ended | |
|---|------------------|---------------|
| | March 31, 2019 | April 1, 2018 |
| Cash flows from operating activities: | | |
| Net income | \$97,976 | \$74,799 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 14,731 | 20,312 |
| Equity in income of unconsolidated joint ventures, net of distributions | (193) | (562) |
| Amortization of stock-based awards | 8,595 | 8,705 |
| Deferred income taxes | (26,092) | (10,100) |
| Provision for doubtful accounts | 9,878 | 2,390 |
| Fair value adjustments to contingent consideration | 28 | 1,918 |
| Gain on sale of property and equipment | (223) | (1,205) |
| Changes in operating assets and liabilities, net of effects of business acquisitions: | | |
| Accounts receivable and contract assets | 48,041 | (42,912) |
| Prepaid expenses and other assets | (16,007) | (15,528) |
| Accounts payable | (26,908) | (26,460) |
| Accrued compensation | (29,604) | (11,453) |
| Contract liabilities | 5,114 | 15,367 |
| Other liabilities | 17,863 | 9,535 |
| Income taxes receivable/payable | (3,951) | (1,213) |
| Net cash provided by operating activities | 99,248 | 23,593 |
| Cash flows from investing activities: | | |
| Payments for business acquisitions, net of cash acquired | 3,545 | (64,451) |
| Capital expenditures | (7,178) | (4,565) |
| Proceeds from sale of property and equipment | 250 | 1,651 |
| Net cash used in investing activities | (3,383) | (67,365) |
| Cash flows from financing activities: | | |
| Proceeds from borrowings | 128,717 | 180,026 |
| Repayments on long-term debt | (162,092) | (62,109) |
| Repurchases of common stock | (50,000) | (50,000) |
| Taxes paid on vested restricted stock | (6,802) | (8,819) |
| Stock options exercised | 3,834 | 11,945 |
| Dividends paid | (13,270) | (11,172) |
| Payments of contingent earn-out liabilities | (11,067) | (854) |
| Net cash (used in) provided by financing activities | (110,680) | 59,017 |
| Effect of exchange rate changes on cash, cash equivalents and restricted cash | (645) | (2,047) |
| Net (decrease) increase in cash, cash equivalents and restricted cash | (15,460) | 13,198 |
| Cash, cash equivalents and restricted cash at beginning of period | 148,884 | 192,690 |
| Cash, cash equivalents and restricted cash at end of period | \$133,424 | \$205,888 |

Supplemental information:

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| | | |
|--|-----------|-----------|
| Cash paid during the period for: | | |
| Interest | \$6,057 | \$6,895 |
| Income taxes, net of refunds received of \$0.9 million and \$0.3 million | \$30,707 | \$20,151 |
| Supplemental disclosures of non-cash investing activities: | | |
| Issuance of promissory note for business acquisition | \$24,688 | \$— |
| Reconciliation of cash, cash equivalents and restricted cash: | | |
| Cash and cash equivalents | \$130,728 | \$203,177 |
| Restricted cash | 2,696 | 2,711 |
| Total cash, cash equivalents and restricted cash | \$133,424 | \$205,888 |
| See Notes to Consolidated Financial Statements. | | |

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TETRA TECH, INC.

Notes to Consolidated Financial Statements

1. Basis of Presentation

The accompanying unaudited interim consolidated financial statements and related notes of Tetra Tech, Inc. (“we,” “us,” “our” or “Tetra Tech”) have been prepared in accordance with generally accepted accounting principles in the United States of America (“U.S. GAAP”) for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. They do not include all of the information and footnotes required by U.S. GAAP for complete financial statements and, therefore, should be read in conjunction with the audited consolidated financial statements and related notes contained in our Annual Report on Form 10-K for the fiscal year ended September 30, 2018.

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

In May 2014, the Financial Accounting Standards Board (“FASB”) issued ASU 2014-09 (“ASC 606”), “Revenue from Contracts with Customers”, which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The guidance and the related ASUs were effective for interim and annual reporting periods beginning after December 15, 2017 (first quarter of fiscal 2019 for us). On October 1, 2018, we adopted ASC 606 using the modified retrospective method in which the new guidance was applied retrospectively to contracts that were not substantially completed as of the date of adoption. Results for the reporting period beginning after October 1, 2018 have been presented under ASC 606, while prior period amounts have not been adjusted and continue to be reported in accordance with the previous guidance. See Note 3, “Revenue Recognition” for further discussion of the adoption and the impact on our consolidated financial statements.

2. Recent Accounting Pronouncements

Recently Adopted Accounting Standards

In January 2016, the FASB issued guidance that generally requires companies to measure investments in other entities, except those accounted for under the equity method, at fair value and recognize any changes in fair value in net income. The guidance was effective for fiscal years and interim periods within those fiscal years, beginning after December 15, 2017 (first quarter of fiscal 2019 for us). The adoption of this guidance had no impact on our consolidated financial statements.

In March 2016, the FASB issued updated guidance which requires excess tax benefits and deficiencies on share-based payments to be recorded as income tax expense or benefit in the income statement rather than being recorded in additional paid-in capital. It also requires the presentation of employee taxes as financing activities on consolidated statements of cash flows, which was previously classified as operating activities. This guidance was effective for annual and interim periods beginning after December 15, 2016 (first quarter of fiscal 2018 for us), with early adoption permitted. In the first quarter of fiscal 2017, we adopted this guidance. At the beginning of fiscal 2019, we revised the presentation of “Net cash provided by operating activities” and “Net cash (used in) provided by financing activities” in the consolidated statement of cash flows for prior period to correct the presentation of “Taxes paid on vested restricted stock” and appropriately reflect such amounts as financing activities. The correction resulted in an increase of net cash provided by operating activities of \$8.8 million and a decrease of net cash provided by financing activities of \$8.8

million for the six months ended April 1, 2018. We assessed the materiality of these errors on our consolidated financial statements for prior periods and concluded that the amounts were not material to any prior interim or annual periods. We elected to revise the presentation for comparability purposes.

In August 2016, the FASB issued guidance to address eight specific cash flow issues to reduce the existing diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The guidance was effective for fiscal years and interim periods within those fiscal years, beginning after December 15, 2017 (first quarter of fiscal 2019 for us). The adoption of this guidance had no material impact on our consolidated financial statements.

In October 2016, the FASB issued updated guidance which requires entities to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. The guidance was effective for fiscal reporting periods and interim reporting periods within those fiscal reporting periods, beginning after December 15, 2017 (first quarter of fiscal 2019 for us). The adoption of this guidance had no material impact on our consolidated financial statements.

In November 2016, the FASB issued updated guidance which provides amendments to address the classification and presentation of changes in restricted cash in the statement of cash flows. The guidance was effective for fiscal years and interim periods within those fiscal years, beginning after December 15, 2017 (first quarter of fiscal 2019 for us). The adoption of this guidance had no material impact on our consolidated financial statements. We updated certain captions in our consolidated statements of cash flows to include restricted cash, which is reported in our "Prepaid expenses and other current assets" on the consolidated balance sheets.

In May 2017, the FASB issued updated guidance to clarify when changes to the terms or conditions of a share-based payment award must be accounted for as modifications. Under the updated guidance, modification accounting is required only if the fair value, the vesting conditions, or the classification of the award changes because of a change in terms or conditions. The guidance was effective for fiscal years and interim periods within those fiscal years, beginning after December 15, 2017 (first quarter of fiscal 2019 for us), on a prospective basis. The adoption of this guidance had no impact on our consolidated financial statements.

In August 2018, the Securities and Exchange Commission ("SEC") published Release No. 33-10532, Disclosure Update and Simplification, which adopted amendments to certain disclosure requirements that have become redundant, duplicative, overlapping, outdated or superseded, considering other SEC disclosure requirements, U.S. GAAP, or changes in the information environment. While most of the amendments eliminate outdated or duplicative disclosure requirements, the final rule amends the interim financial statement requirements to include a reconciliation of changes in stockholders' equity in the notes or as a separate statement for each period for which a statement of comprehensive income is required to be filed. The new interim reconciliation of changes in stockholders' equity is included herein as a separate statement. Additionally, we removed the disclosure on cash dividends paid per share from our consolidated statements of income.

Recently Issued Accounting Standards Not Yet Adopted

In February 2016, the FASB issued guidance that requires the rights and obligations associated with leasing arrangements be reflected on the balance sheet to increase transparency and comparability among organizations. Under the guidance, lessees will be required to recognize a right-of-use asset and a liability to make lease payments and disclose key information about leasing arrangements. The guidance is effective for fiscal years and interim periods within those fiscal years, beginning after December 15, 2018 (first quarter of fiscal 2020 for us). Early adoption is permitted, and the standard must be adopted using a modified retrospective approach. In July 2018, the FASB issued updated guidance, which provides entities with an additional transition method to adopt the lease accounting guidance. Under the new transition method, an entity initially applies the new standard at the adoption date, versus at the beginning of the earliest period presented, and recognizes a cumulative-effective adjustment to the opening balance of retained earnings in the period of adoption, if any. While we are currently evaluating the impact that this guidance will have on our consolidated financial statements, we currently expect that the adoption of the new guidance will result in a significant increase in the assets and liabilities on our consolidated balance sheets and will likely have no impact on our consolidated statements of income and cash flows.

In June 2016, the FASB issued updated guidance which requires entities to estimate all expected credit losses for certain types of financial instruments, including trade receivables, held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. The updated guidance also expands the disclosure requirements to enable users of financial statements to understand the entity's assumptions, models and methods for estimating expected credit losses. This guidance is effective for fiscal years and interim periods within those fiscal years, beginning after December 15, 2019 (first quarter of fiscal 2021 for us). Early adoption is permitted. We are currently evaluating the impact that this guidance will have on our consolidated financial statements.

In August 2017, the FASB issued accounting guidance on hedging activities. The amendment better aligns an entity's risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. The guidance is effective for fiscal years and interim periods within those fiscal years, beginning after December 15, 2018 (first quarter of fiscal 2020 for us). Early adoption is permitted. We are currently evaluating the impact that this guidance will have on our consolidated financial statements.

In February 2018, the FASB issued guidance on reclassification of certain tax effects from accumulated comprehensive income, which allows for a reclassification of stranded tax effects from the Tax Cuts and Jobs Act ("TCJA") from accumulated other comprehensive income to retained earnings. The guidance is effective for fiscal years beginning after December 15, 2018 (first quarter of fiscal 2020 for us). We are currently evaluating the impact that this guidance will have on our consolidated financial statements.

3. Revenue Recognition

On October 1, 2018, we adopted ASC 606, which supersedes most current revenue recognition guidance, including industry-specific guidance. We adopted the standard on a modified retrospective basis which results in no restatement of the comparative periods presented and a cumulative effect adjustment to retained earnings as of the date of adoption. As part of our adoption, the new standard was applied only to those contracts that were not substantially completed as of the date of adoption.

To determine the proper revenue recognition method for contracts under ASC 606, we evaluate whether multiple contracts should be combined and accounted for as a single contract and whether the combined or single contract should be accounted for as having more than one performance obligation. The decision to combine a group of contracts or separate a combined or single contract into multiple performance obligations may impact the amount of revenue recorded in a given period. Contracts are considered to have a single performance obligation if the promises are not separately identifiable from other promises in the contracts.

At contract inception, we assess the goods or services promised in a contract and identify, as a separate performance obligation, each distinct promise to transfer goods or services to the customer. The identified performance obligations represent the “unit of account” for purposes of determining revenue recognition. In order to properly identify separate performance obligations, we apply judgment in determining whether each good or service provided is: (a) capable of being distinct, whereby the customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer, and (b) distinct within the context of the contract, whereby the transfer of the good or service to the customer is separately identifiable from other promises in the contract.

Contracts are often modified to account for changes in contract specifications and requirements. We consider contract modifications to exist when the modification either creates new or changes the existing enforceable rights and obligations. Most of our contract modifications are for goods or services that are not distinct from existing contracts due to the significant integration provided or significant interdependencies in the context of the contract and are accounted for as if they were part of the original contract. The effect of a contract modification on the transaction price and our measure of progress for the performance obligation to which it relates, is recognized as an adjustment to revenue (either as an increase in or a reduction of revenue) on a cumulative catch-up basis.

We account for contract modifications as a separate contract when the modification results in the promise to deliver additional goods or services that are distinct and the increase in price of the contract is for the same amount as the stand-alone selling price of the additional goods or services included in the modification.

The transaction price represents the amount of consideration to which we expect to be entitled in exchange for transferring promised goods or services to our customers. The consideration promised within a contract may include fixed amounts, variable amounts, or both. The nature of our contracts gives rise to several types of variable consideration, including claims, award fee incentives, fiscal funding clauses, and liquidated damages. We recognize revenue for variable consideration when it is probable that a significant reversal in the amount of cumulative revenue recognized for the contract will not occur. We estimate the amount of revenue to be recognized on variable consideration using either the expected value or the most likely amount method, whichever is expected to better predict the amount of consideration to be received. Project mobilization costs are generally charged to project costs as incurred when they are an integrated part of the performance obligation being transferred to the client.

Claims are amounts in excess of agreed contract prices that we seek to collect from our clients or other third parties for delays, errors in specifications and designs, contract terminations, change orders in dispute or unapproved as to both scope and price, or other causes of unanticipated additional costs. Revenue on claims is recognized only to the

extent that contract costs related to the claims have been incurred and when it is probable that any significant revenue recognized related to the claim will not be reversed. Factors considered in determining whether revenue associated with claims (including change orders in dispute and unapproved change orders in regard to both scope and price) should be recognized include the following: (a) the contract or other evidence provides a legal basis for the claim, (b) additional costs were caused by circumstances that were unforeseen at the contract date and not the result of deficiencies in our performance, (c) claim-related costs are identifiable and considered reasonable in view of the work performed, and (d) evidence supporting the claim is objective and verifiable. This can lead to a situation in which costs are recognized in one period and revenue is recognized in a subsequent period when a client agreement is obtained, or a claims resolution occurs. In some cases, contract retentions are withheld by clients until certain conditions are met or the project is completed, which may be several months or years. In these cases, we have not identified a significant financing component under ASC 606 as the timing difference in payment compared to delivery of obligations under the contract is not for purposes of financing.

For contracts with multiple performance obligations, we allocate the transaction price to each performance obligation using a best estimate of the standalone selling price of each distinct good or service in the contract. The standalone selling price is typically determined using the estimated cost of the contract plus a margin approach. For contracts containing variable consideration, we allocate the variability to a specific performance obligation within the contract if such variability relates specifically to our efforts to satisfy the performance obligation or transfer the distinct good or service, and the allocation depicts the amount of consideration to which we expect to be entitled.

We recognize revenue over time as the related performance obligation is satisfied by transferring control of a promised good or service to our customers. Progress toward complete satisfaction of the performance obligation is primarily measured using a cost-to-cost measure of progress method. The cost input is based primarily on contract cost incurred to date compared to total estimated contract cost. This measure includes forecasts based on the best information available and reflects our judgment to faithfully depict the value of the services transferred to the customer. For certain on-call engineering or consulting and similar contracts, we recognize revenue in the amount which we have the right to invoice the customer if that amount corresponds directly with the value of our performance completed to date.

Due to uncertainties inherent in the estimation process, it is possible that estimates of costs to complete a performance obligation will be revised in the near-term. For those performance obligations for which revenue is recognized using a cost-to-cost measure of progress method, changes in total estimated costs, and related progress towards complete satisfaction of the performance obligation, are recognized on a cumulative catch-up basis in the period in which the revisions to the estimates are made. When the current estimate of total costs for a performance obligation indicate a loss, a provision for the entire estimated loss on the unsatisfied performance obligation is made in the period in which the loss becomes evident.

Contract Types

Our services are performed under three principal types of contracts: fixed-price, time-and-materials and cost-plus. Customer payments on contracts are typically due within 60 days of billing, depending on the contract.

Fixed-Price. Under fixed-price contracts, clients pay us an agreed fixed-amount negotiated in advance for a specified scope of work.

Time-and-Materials. Under time-and-materials contracts, we negotiate hourly billing rates and charge our clients based on the actual time that we spend on a project. In addition, clients reimburse us for our actual out-of-pocket costs for materials and other direct incidental expenditures that we incur in connection with our performance under the contract. Most of our time-and-material contracts are subject to maximum contract values, and also may include annual billing rate adjustment provisions.

Cost-Plus. Under cost-plus contracts, we are reimbursed for allowed or otherwise defined costs incurred plus a negotiated fee. The contracts may also include incentives for various performance criteria, including quality, timeliness, ingenuity, safety and cost-effectiveness. In addition, our costs are generally subject to review by our clients and regulatory audit agencies, and such reviews could result in costs being disputed as non-reimbursable under the terms of the contract.

Adoption

Upon adoption on October 1, 2018, under the modified retrospective method, we recorded a cumulative effect adjustment to decrease retained earnings by \$2.8 million on October 1, 2018, as well as the following cumulative effect adjustments:

- A decrease to contract assets of \$5.0 million
- A decrease to contract liabilities of \$1.1 million
- An increase to deferred tax assets of \$1.1 million

The decrease in retained earnings primarily resulted from a change in the way we determine the unit of account for projects (i.e. performance obligations). Under previous guidance, we typically accounted for a contract as a single unit of revenue recognition. Upon adoption of ASC 606, we assess the nature of the promises in the contract and recognize revenue based on performance obligations within the respective contract or combined contract.

The following table presents how the adoption of ASC 606 affected certain line items in our consolidated statements of income for the three and six months ended March 31, 2019:

| | Three Months Ended | | | Six Months Ended | | |
|--|-------------------------------------|-----------------------------------|---------------------------|-------------------------------------|-----------------------------------|---------------------------|
| | Recognition Under Previous Guidance | Impact of the Adoption of ASC 606 | Recognition Under ASC 606 | Recognition Under Previous Guidance | Impact of the Adoption of ASC 606 | Recognition Under ASC 606 |
| | (in thousands) | | | | | |
| Revenue | \$723,666 | \$ (1,045) | \$ 722,621 | \$ 1,438,894 | \$ 1,158 | \$ 1,440,052 |
| Income from operations | 48,590 | (1,045) | 47,545 | 102,098 | 1,158 | 103,256 |
| Income tax benefit (expense) | 11,317 | 246 | 11,563 | 1,061 | (280) | 781 |
| Net income (loss) attributable to Tetra Tech | 56,710 | (799) | 55,911 | 97,028 | 879 | 97,907 |

The following table presents how the adoption of ASC 606 affected certain line items in our consolidated balance sheet as of March 31, 2019:

| | Recognition Under Previous Guidance | Impact of the Adoption of ASC 606 | Recognition Under ASC 606 |
|-------------------------------------|-------------------------------------|-----------------------------------|---------------------------|
| | (in thousands) | | |
| Assets | | | |
| Accounts receivable - net | \$634,972 | \$(5,375) | \$629,597 |
| Contract assets ⁽¹⁾ | 165,530 | (7,612) | 157,918 |
| Deferred tax assets | 29,461 | 1,120 | 30,581 |
| Liabilities and equity | | | |
| Contract liabilities ⁽²⁾ | \$164,868 | \$(10,259) | \$154,609 |
| Income taxes payable | 1,597 | 280 | 1,877 |
| Equity ⁽³⁾ | | | |
| Retained earnings | \$1,028,724 | \$(1,888) | \$1,026,836 |

⁽¹⁾ Previously included in "Account receivable - net".

⁽²⁾ Previously presented as "Billings in excess of costs on uncompleted contracts".

⁽³⁾ Includes \$2.8 million of cumulative catch-up adjustment to retained earnings on October 1, 2018 upon adoption of ASC 606.

The following table presents how the adoption of ASC 606 affected certain line items in our consolidated statement of cash flows for the six months ended March 31, 2019:

| | Recognition Under Previous Guidance | Impact of the Adoption of ASC 606 | Recognition Under ASC 606 |
|---------------------------------------|-------------------------------------|-----------------------------------|---------------------------|
| | (in thousands) | | |
| Cash flows from operating activities: | | | |
| Net income | \$97,097 | \$ 879 | \$ 97,976 |

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| | | | |
|---|----------|-----------|----------|
| Accounts receivable and contract assets | 32,716 | 15,325 | 48,041 |
| Contract liabilities | 21,598 | (16,484) | 5,114 |
| Income taxes receivable/payable | (4,231) | 280 | (3,951) |
| Net cash provided by operating activities | 99,248 | — | 99,248 |

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Contract Assets and Contract Liabilities

We invoice customers based on the contractual terms of each contract. However, the timing of revenue recognition may differ from the timing of invoice issuance.

As part of the adoption of ASC 606, contract assets have been bifurcated from billed and unbilled receivables. Contract assets represent revenue recognized in excess of the amounts for which we have the contractual right to bill our customers. Such amounts are recoverable from customers based upon various measures of performance, including achievement of certain milestones or completion of a contract. In addition, many of our time and materials arrangements are billed in arrears pursuant to contract terms that are standard within the industry, resulting in contract assets and/or unbilled receivables being recorded, as revenue is recognized in advance of billings.

Contract liabilities consist of billings in excess of revenue recognized. Contract liabilities decrease as we recognize revenue from the satisfaction of the related performance obligation and increase as billings in advance of revenue recognition occur. Contract assets and liabilities are reported in a net position on a contract-by-contract basis at the end of each reporting period. There were no substantial non-current contract assets or liabilities for the periods presented. Net contract liabilities/assets consisted of the following:

| | Balance at | |
|-----------------------------------|----------------|------------|
| | March | September |
| | 31, 2019 | 30, 2018 |
| | (in thousands) | |
| Contract assets | \$ 157,918 | \$ 142,882 |
| Contract liabilities | 154,609 | 143,270 |
| Net contract assets (liabilities) | \$ 3,309 | \$ (388) |

We recognized \$74.2 million of revenue during the first half of fiscal 2019 that was included in contract liabilities as of September 30, 2018. The amount of revenue recognized from changes in transaction price associated with performance obligations satisfied in prior periods during the first half of fiscal 2019 was not material. The change in transaction price primarily relates to reimbursement of costs incurred in prior periods.

We recognize revenue from contracts primarily utilizing the cost-to-cost measure of progress method, to estimate the progress towards completion to determine the amount of revenue and profit to recognize. Changes in those estimates could result in the recognition of cumulative catch-up adjustments to the contract's inception-to-date revenue, costs and profit in the period in which such changes are made. As a result, we recognized net unfavorable operating income adjustments of \$2.8 million and \$3.2 million for the second quarter and first half of fiscal 2019, respectively, compared to \$0.7 million and \$1.4 million for the prior-year periods in the Commercial/International Services Group ("CIG") segment. Changes in revenue and cost estimates could also result in a projected loss, determined at the contract level, which would be recorded immediately in earnings. As of March 31, 2019 and September 30, 2018, our consolidated balance sheets included liabilities for anticipated losses of \$11.7 million and \$13.6 million, respectively. The estimated cost to complete the related contracts as of March 31, 2019 was \$11.7 million.

Disaggregation of Revenue

We disaggregate revenue by client sector and contract type, as we believe it best depicts how the nature, timing, and uncertainty of revenue and cash flows are affected by economic factors. The following tables provide information about disaggregated revenue and a reconciliation of the disaggregated revenue:

| | Three Months | | Six Months Ended | |
|--|-------------------|------------------|-------------------|------------------|
| | Ended | | | |
| | March 31, 2019 | April 1, 2018 | March 31, 2019 | April 1, 2018 |
| Client Sector | | | | |
| U.S. state and local government | \$129,868 | \$104,905 | \$253,147 | \$256,659 |
| U.S. federal government ⁽¹⁾ | 216,498 | 236,951 | 441,256 | 473,199 |
| U.S. commercial | 165,970 | 180,398 | 338,758 | 387,184 |
| International ⁽²⁾ | 210,285 | 178,008 | 406,891 | 342,968 |
| Total | \$722,621 | \$700,262 | \$1,440,052 | \$1,460,010 |

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

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

Other than the U.S. federal government, no single client accounted for more than 10% of our revenue for the three and six months ended March 31, 2019 and April 1, 2018.

| Contract Type | Three Months | | Six Months Ended | |
|--------------------|-------------------|------------------|-------------------|------------------|
| | Ended | | | |
| | March 31, 2019 | April 1, 2018 | March 31, 2019 | April 1, 2018 |
| | (in thousands) | | | |
| Fixed-price | \$247,831 | \$224,878 | \$488,764 | \$460,298 |
| Time-and-materials | 345,626 | 333,590 | 682,163 | 710,362 |
| Cost-plus | 129,164 | 141,794 | 269,125 | 289,350 |
| Total | \$722,621 | \$700,262 | \$1,440,052 | \$1,460,010 |

Remaining Unsatisfied Performance Obligations (“RUPOs”)

Our RUPOs represent a measure of the total dollar value of work to be performed on contracts awarded and in progress. We had \$2.8 billion of RUPOs as of March 31, 2019. RUPOs increase with awards from new contracts or additions on existing contracts and decrease as work is performed and revenue is recognized on existing contracts. RUPOs may also decrease when projects are canceled or modified in scope. We include a contract within our RUPOs when the contract is awarded and an agreement on contract terms has been reached.

We expect to satisfy our RUPOs as of March 31, 2019 over the following periods:

| | Amount (in thousands) |
|------------------|-----------------------------|
| Within 12 months | \$1,807,078 |
| Beyond | 993,344 |
| Total | \$2,800,422 |

Although RUPOs reflect business that is considered to be firm, cancellations, deferrals or scope adjustments may occur. RUPOs are adjusted to reflect any known project cancellations, revisions to project scope and cost, foreign currency exchange fluctuations and project deferrals, as appropriate. Our operations and maintenance contracts can generally be terminated by the clients without a substantive financial penalty. Therefore, the remaining performance

obligations on such contracts are limited to the notice period required for the termination (usually 30, 60, or 90 days).

4. Accounts Receivable - Net

Net accounts receivable consisted of the following:

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| | March 31, 2019 | September 30, 2018 |
|---|-------------------|-----------------------|
| | (in thousands) | |
| Billed | \$439,480 | \$ 464,062 |
| Unbilled | 234,577 | 267,739 |
| Total accounts receivable – gross | 674,057 | 731,801 |
| Allowance for doubtful accounts (44,460) (37,580) | | |
| Total accounts receivable – net | \$629,597 | \$ 694,221 |

Billed accounts receivable represent amounts billed to clients that have not been collected. Unbilled accounts receivable, which represent an unconditional right to payment subject only to the passage of time, include unbilled amounts typically resulting from revenue recognized but not yet billed pursuant to contract terms or billed after the period end date. Most of our unbilled receivables at March 31, 2019 are expected to be billed and collected within 12 months. The allowance for doubtful accounts represents amounts that are expected to become uncollectible or unrealizable in the future. We determine an estimated allowance for uncollectible accounts based on management's consideration of trends in the actual and forecasted credit quality of our clients, including delinquency and payment history; type of client, such as a government agency or a commercial sector client; and general economic and industry conditions that may affect a client's ability to pay.

Once contract performance is underway, we may experience changes in conditions, client requirements, specifications, designs, materials and expectations regarding the period of performance. Such changes result in change orders and may be initiated by us or by our clients. In many cases, agreement with the client as to the terms of change orders is reached prior to work commencing; however, sometimes circumstances require that work progress without a definitive client agreement. Revenue and any corresponding receivable in these cases is recognized based on the policy described in Note 3, "Revenue Recognition" above.

The total accounts receivable at both March 31, 2019 and September 30, 2018 included approximately \$53 million and \$74 million, respectively, related to claims, including requests for equitable adjustment, on contracts that provide for price redetermination. We regularly evaluate all unsettled claim amounts and record appropriate adjustments to operating earnings when it is probable that the claim will result in a different contract value than the amount previously estimated. In the first half of fiscal 2019 (all in the second quarter), we recognized reductions of revenue of \$4.8 million and \$3.6 million and related losses in operating income of \$5.9 million and \$3.6 million in our RCM and CIG segments, respectively. We recorded no material gains or losses related to claims in the first half of fiscal 2018.

On U.S. federal government contracts, billed accounts receivable were \$76.2 million and \$81.5 million at March 31, 2019 and September 30, 2018, respectively. The total of unbilled receivables and contract assets were \$101.9 million and \$102.7 million at March 31, 2019 and September 30, 2018, respectively. Other than the U.S. federal government, no single client accounted for more than 10% of our accounts receivable at March 31, 2019 and September 30, 2018.

5. Acquisitions and Divestitures

At the end of second quarter of fiscal 2019, we acquired eGlobalTech ("eGT"), a high-end information technology solutions, cloud migration, cybersecurity, and management consulting firm based in Arlington, Virginia. eGT is part of our Government Services Group ("GSG") segment. The fair value of the purchase price was \$48.4 million. This amount was comprised of a \$24.7 million promissory note issued to the sellers (which was subsequently paid in full in the third quarter of fiscal 2019), \$2.6 million of payables related to estimated post-closing adjustments for net assets acquired, and \$21.1 million for the estimated fair value of contingent earn-out obligations, with a maximum of \$25.0 million, based upon the achievement of specified operating income targets in each of the three years following the acquisition.

In the first quarter of fiscal 2018, we acquired Glumac, headquartered in Portland, Oregon. Glumac is a leader in sustainable infrastructure design with more than 300 employees and is part of our GSG segment. The fair value of the purchase price for Glumac was \$38.4 million. This amount was comprised of \$20.0 million of initial cash payments made to the sellers and \$18.4 million for the estimated fair value of contingent earn-out obligations, with a maximum of \$20.0 million payable, based upon the achievement of specified operating income targets in each of the three years following the acquisition.

In the second quarter of fiscal 2018, we completed the acquisition of Norman Disney & Young (“NDY”), a leader in sustainable infrastructure engineering design. NDY is an Australian-based global engineering design firm with more than 700 professionals operating in offices throughout Australia, the Asia-Pacific region, the United Kingdom, and Canada and is part of

our CIG segment. The fair value of the purchase price for NDY was \$56.1 million. This amount was comprised of \$46.9 million of initial cash payments made to the sellers, \$1.6 million held in escrow, and \$7.6 million for the estimated fair value of contingent earn-out obligations, with a maximum amount of \$20.2 million, based upon the achievement of specified operating income targets in each of the three years following the acquisition.

In the third quarter of fiscal 2018, we divested our non-core utility field services operations in the CIG segment for net proceeds after transaction costs of \$30.2 million. This operation generated approximately \$70 million in annual revenue primarily from our U.S. commercial clients. These non-core divestitures resulted in a pre-tax loss of \$1.7 million, which was included in "Selling, general and administrative expenses" ("SG&A") in the third quarter of fiscal 2018.

Goodwill additions resulting from the above business combinations are primarily attributable to the existing workforce of the acquired companies and the synergies expected to arise after the acquisitions. The goodwill addition related to our fiscal 2018 acquisitions primarily represent the value of a workforce with distinct expertise in the sustainable infrastructure design market. The fiscal 2019 goodwill addition represents the value of a workforce with emerging technology and new techniques that incorporate artificial intelligence, data analytics and advanced cybersecurity solutions for government and commercial clients. In addition, these acquired capabilities, when combined with our existing global consulting and engineering business, result in opportunities that allow us to provide services under contracts that could not have been pursued individually by either us or the acquired companies. The results of these acquisitions were included in our consolidated financial statements from their respective closing dates. These acquisitions were not considered material to our consolidated financial statements. As a result, no pro forma information has been provided.

Backlog, client relations and trade name intangible assets include the fair value of existing contracts and the underlying customer relationships with lives ranging from 1 to 10 years, and trade names with lives ranging from 3 to 5 years. For detailed information regarding our intangible assets, see Note 6, "Goodwill and Intangible Assets".

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

We measure our contingent earn-out liabilities at fair value on a recurring basis using significant unobservable inputs classified within Level 3 of the fair value hierarchy. We use a probability-weighted discounted income approach as a valuation technique to convert future estimated cash flows to a single present value amount. The significant unobservable inputs used in the fair value measurements are operating income projections over the earn-out period (generally two or three years), and the probability outcome percentages we assign to each scenario. Significant increases or decreases to either of these inputs in isolation would result in a significantly higher or lower liability, with a higher liability capped by the contractual maximum of the contingent earn-out obligation. Ultimately, the liability will be equivalent to the amount paid, and the difference between the fair value estimate and amount paid will be

recorded in earnings. The amount paid that is less than or equal to the contingent earn-out liability on the acquisition date is reflected as cash used in financing activities in our consolidated statements of cash flows. Any amount paid in excess of the contingent earn-out liability on the acquisition date is reflected as cash used in operating activities in our consolidated statement of cash flows.

We review and re-assess the estimated fair value of contingent consideration on a quarterly basis, and the updated fair value could differ materially from the initial estimates. Changes in the estimated fair value of our contingent earn-out liabilities related to the time component of the present value calculation are reported in interest expense. Adjustments to the estimated fair value related to changes in all other unobservable inputs are reported in operating income. During the first half of fiscal 2019, we recorded an immaterial adjustment related to NDY contingent earn-out liability and reported the related loss in operating income. During the first half of fiscal 2018 (all in the second quarter), we recorded increases in our contingent earn-out liabilities related to Eco Logical Australia and Cornerstone Environmental Group and reported related losses in operating income totaling \$1.9 million.

At March 31, 2019, there was a total potential maximum of \$62.7 million of outstanding contingent consideration related to acquisitions. Of this amount, \$45.9 million was estimated as the fair value and accrued on our consolidated balance sheet.

6. Goodwill and Intangible Assets

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

| | GSG | CIG | Total |
|-------------------------------|----------------|-----------|-----------|
| | (in thousands) | | |
| Balance at September 30, 2018 | \$389,741 | \$409,079 | \$798,820 |
| Acquisition activity | 38,680 | — | 38,680 |
| Translation and other | (1,751) | (8,073) | (9,824) |
| Balance at March 31, 2019 | \$426,670 | \$401,006 | \$827,676 |

The goodwill addition in GSG relates to our eGT acquisition completed in the second quarter of fiscal 2019. The purchase price allocation for this acquisition is preliminary and subject to adjustment based upon the final determination of the net assets acquired and information to perform the final valuation. Our goodwill was impacted by foreign currency translation related to our foreign subsidiaries with functional currencies that are different than our reporting currency. The goodwill amounts above are presented net of any reductions from historical impairment adjustments. The gross amounts of goodwill for GSG were \$444.4 million and \$407.4 million at March 31, 2019 and September 30, 2018, respectively, excluding \$17.7 million of accumulated impairment. The gross amounts of goodwill for CIG were \$498.9 million and \$507.0 million at March 31, 2019 and September 30, 2018, respectively, excluding \$97.9 million of accumulated impairment.

We perform our annual goodwill impairment review at the beginning of our fiscal fourth quarter. Our most recent annual review at July 2, 2018 (i.e. the first day of our fourth quarter in fiscal 2018) indicated that we had no impairment of goodwill, and all of our reporting units had estimated fair values that exceeded their carrying values, including goodwill, by more than 30%.

We regularly evaluate whether events and circumstances have occurred that may indicate a potential change in the recoverability of goodwill. We perform interim goodwill impairment reviews between our annual reviews if certain events and circumstances have occurred, such as a deterioration in general economic conditions; an increase in the competitive environment; a change in management, key personnel, strategy, or customers; negative or declining cash flows; or a decline in actual or planned revenue or earnings compared with actual and projected results of relevant prior periods.

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

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

| | March 31, 2019 | September 30, 2018 | | | |
|------------------------|--|--------------------|-----------------------------|-----------------|-----------------------------|
| | Weighted- Average Remaining Life (in Years) | Gross Amount | Accumulated Amortization | Gross Amount | Accumulated Amortization |
| | | (\$ in thousands) | | | |
| Non-compete agreements | — | \$— | \$— | \$83 | \$ (83) |
| Client relations | 2.6 | 54,277 | (48,733) | 54,639 | (46,449) |
| Backlog | 0.8 | 25,042 | (22,552) | 23,371 | (20,007) |
| Trade names | 2.8 | 8,028 | (4,364) | 8,144 | (3,575) |
| Total | | \$87,347 | \$ (75,649) | \$86,237 | \$ (70,114) |

Amortization expense for the three and six months ended March 31, 2019 was \$2.2 million and \$6.2 million, respectively, compared to \$5.0 million and \$9.7 million for the prior-year periods. Estimated amortization expense for the remainder of fiscal 2019 and succeeding years is as follows:

| Amount (in thousands) |
|--------------------------|
| 2019 \$ 3,691 |
| 2020 4,295 |
| 2021 2,256 |
| 2022 1,026 |
| 2023 430 |
| Total \$ 11,698 |

7. Property and Equipment

Property and equipment consisted of the following:

| | March 31, 2019 | September 30, 2018 |
|-----------------------------------|-------------------|-----------------------|
| | (in thousands) | |
| Equipment, furniture and fixtures | \$ 133,593 | \$ 131,521 |
| Leasehold improvements | 31,915 | 31,430 |
| Land and buildings | 411 | 413 |
| Total property and equipment | 165,919 | 163,364 |
| Accumulated depreciation | (124,259) | (120,086) |
| Property and equipment, net | \$41,660 | \$ 43,278 |

The depreciation expense related to property and equipment was \$4.2 million and \$8.5 million for the three and six months ended March 31, 2019, respectively, compared to \$5.1 million and \$10.3 million for the prior-year periods.

8. Stock Repurchase and Dividends

On November 5, 2018, the Board of Directors authorized a new stock repurchase program under which we could repurchase up to \$200 million of our common stock in addition to the \$25 million remaining under the previous stock repurchase program. In the first quarter of fiscal 2019, we expended the remaining \$25 million under the previous program by repurchasing 430,559 shares through open market purchases at an average price of \$58.06. In fiscal 2018, we repurchased through open market purchases under the previous program a total of 1,491,569 shares at an average

price of \$50.28 for a total cost of \$75 million. In

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the second quarter of fiscal 2019, we repurchased through open market purchases under the new program a total of 449,055 shares at an average price of \$55.67 for a total cost of \$25 million.

The following table summarizes dividend declared and paid in the first half of fiscal 2019 and 2018:

| Declare Date | Dividend Paid Per Share | Record Date | Payment Date | Dividend Paid |
|--|-------------------------------|-------------------|-------------------|------------------|
| (in thousands, except per share data) | | | | |
| November 5, 2018 | \$ 0.12 | November 30, 2018 | December 14, 2018 | \$ 6,654 |
| January 28, 2019 | \$ 0.12 | February 13, 2019 | February 28, 2019 | 6,616 |
| Total dividend paid as of March 31, 2019 | | | | \$ 13,270 |
| November 6, 2017 | \$ 0.10 | November 30, 2017 | December 15, 2017 | \$ 5,589 |
| January 29, 2018 | \$ 0.10 | February 14, 2018 | March 2, 2018 | 5,583 |
| Total dividend paid as of April 1, 2018 | | | | \$ 11,172 |

Subsequent Event. On April 29, 2019, the Board of Directors declared a quarterly cash dividend of \$0.15 per share payable on May 31, 2019 to stockholders of record as of the close of business on May 15, 2019.

9. Stockholders' Equity and Stock Compensation Plans

We recognize the fair value of our stock-based 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 31, 2019 was \$4.1 million and \$8.6 million, respectively, compared to \$4.7 million and \$8.7 million for the same periods last year. Most of these amounts were included in SG&A in our consolidated statements of income. There were no material stock compensation awards in the second quarter of fiscal 2019. In the first half of fiscal 2019, we awarded 89,816 performance share units ("PSUs") to our non-employee directors and executive officers at a fair value of \$80.41 per share on the award date. All of the PSUs are performance-based and vest, if at all, after the conclusion of the three-year performance period. The number of PSUs that ultimately vest is based 50% on the growth in our diluted earnings per share and 50% on our total shareholder return relative to a peer group of companies and a stock market index over the vesting period. Additionally, we awarded 176,491 restricted stock units ("RSUs") to our non-employee directors, executive officers and employees at the fair value of \$66.11 per share on the award date. All of the executive officer and employee RSUs have time-based vesting over a four-year period, and the non-employee director RSUs vest after one year.

10. 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 presents the number of weighted-average shares used to compute basic and diluted EPS:

| | Three Months | | Six Months | |
|--|----------------------------|------------------|----------------------------|------------------|
| | Ended March 31, 2019 | April 1, 2018 | Ended March 31, 2019 | April 1, 2018 |
| (in thousands, except per share data) | | | | |
| Net income attributable to Tetra Tech | \$55,911 | \$28,725 | \$97,907 | \$74,759 |
| Weighted-average common shares outstanding – basic | 55,143 | 55,841 | 55,237 | 55,900 |
| Effect of dilutive stock options and unvested restricted stock | 842 | 832 | 924 | 925 |
| Weighted-average common shares outstanding – diluted | 55,985 | 56,673 | 56,161 | 56,825 |
| Earnings per share attributable to Tetra Tech: | | | | |
| Basic | \$1.01 | \$0.51 | \$1.77 | \$1.34 |
| Diluted | \$1.00 | \$0.51 | \$1.74 | \$1.32 |

For both the three and six months of fiscal 2019, 0.1 million options and restricted stock units were excluded from the calculation of dilutive potential common shares, compared to no options for the prior-year periods because the assumed proceeds per share exceeded the average market price per share during the periods. Therefore, their inclusion would have been anti-dilutive.

11. Income Taxes

The effective tax rates for the first half of fiscal 2019 and 2018 were (0.8)% and 11.0%, respectively. The tax rates for fiscal 2019 and 2018 reflect the impact of the comprehensive tax legislation enacted by the U.S. government on December 22, 2017, which is commonly referred to as the Tax Cuts and Jobs Act ("TCJA"). The TCJA significantly revised the U.S. corporate income tax regime by, among other things, lowering the U.S. corporate tax rate from 35% to 21% effective January 1, 2018, while also repealing the deduction for domestic production activities, limiting the deductibility of certain executive compensation, and implementing a modified territorial tax system with the introduction of the Global Intangible Low-Taxed Income ("GILTI") tax rules. The TCJA also imposes a one-time transition tax on deemed repatriation of historical earnings of foreign subsidiaries. Based on our analysis of tax earnings and profits and tax deficits at the prescribed measurement dates, we have a cumulative net tax deficit and do not have any tax liability related to this tax. As we have a September 30 fiscal year-end, our U.S. federal corporate income tax rate was blended in fiscal 2018, resulting in a statutory federal rate of approximately 24.5% (3 months at 35% and 9 months at 21%), and will be 21% for fiscal 2019 and subsequent fiscal years.

U.S. GAAP requires that the impact of tax legislation be recognized in the period in which the tax law was enacted. As a result of the TCJA, we reduced our deferred tax liabilities and recorded a one-time deferred tax benefit of approximately \$10.1 million in the first quarter of fiscal 2018 to reflect our estimate of temporary differences in the United States that would be recovered or settled in fiscal 2018 based on the 24.5% blended corporate tax rate or based on the 21% tax rate in fiscal 2019 and beyond versus the previous enacted 35% corporate tax rate. We finalized this analysis in the first quarter of fiscal 2019 and recorded an additional deferred tax benefit of \$2.6 million.

Valuation allowances of \$22.3 million in Australia were released due to sufficient positive evidence obtained during the second quarter of fiscal 2019. The valuation allowances are primarily related to net operating loss and R&D credit carryforwards and other temporary differences. We evaluated the positive evidence against any negative evidence and determined that it is more likely than not that the deferred tax assets will be realized. The factors used to assess the likelihood of realization were the past performance of the related entities, our forecast of future taxable income, and

available tax planning strategies that could be implemented to realize the deferred tax assets. Excluding the net deferred tax benefits from the TCJA and valuation allowance releases, our effective tax rate in the first half of fiscal 2019 was 24.8% compared to 23.0% in first half of fiscal 2018.

We have completed our measurement of the tax effects of the TCJA with respect to the one-time revaluation of our deferred tax liabilities and the one-time transition tax on foreign earnings pursuant to Staff Accounting Bulletin No. 118 in the first quarter of fiscal 2019. The amounts recorded for these two items incorporate assumptions made based on our current interpretation of the TCJA and should not materially change.

With respect to the GILTI provisions of the TCJA, we have analyzed our structure and expected global results of operations and do not expect to have any adjustment related to potential GILTI tax in our consolidated financial statements. Because of the

complexity of the new GILTI tax rules, we will continue to evaluate the impact of this provision and the application of Accounting Standards Codification 740, Income Taxes.

As of March 31, 2019 and September 30, 2018, the liability for income taxes associated with uncertain tax positions was \$12.1 million and \$9.4 million, respectively. These uncertain tax positions substantially relate to ongoing examinations, which are reasonably likely to be resolved within the next 12 months.

12. Reportable Segments

We manage our operations under two reportable segments. Our GSG reportable segment primarily includes activities with U.S. government clients (federal, state and local) and all activities with development agencies worldwide. Our CIG reportable segment primarily includes activities with U.S. commercial clients and all international activities other than work for development agencies. Additionally, we will continue to report the results of the wind-down of our non-core construction activities in the Remediation and Construction Management ("RCM") segment. As of March 31, 2019, there was no remaining backlog for RCM as the projects were complete.

GSG provides consulting and engineering services primarily to U.S. government clients (federal, state and local) and development agencies worldwide. GSG supports U.S. government civilian and defense agencies with services in water, environment, infrastructure, information technology, and disaster response and recovery planning services. GSG also provides engineering design services for municipal and commercial clients, especially in water infrastructure, solid waste, and high-end sustainable infrastructure designs. GSG also leads our support for development agencies worldwide, especially in the United States, United Kingdom, and Australia.

CIG provides consulting and engineering services primarily to U.S. commercial clients and international clients, both commercial and government. CIG supports commercial clients across the Fortune 500, oil and gas, energy utilities, manufacturing, aerospace, and mining markets. CIG also provides infrastructure and related environmental and geotechnical services, testing, engineering and project management services to commercial and local government clients across Canada, in Asia Pacific (primarily Australia and New Zealand), as well as Brazil and Chile.

Management evaluates the performance of these reportable segments based upon their respective segment operating income before the effect of amortization expense related to acquisitions, and other unallocated corporate expenses. We account for inter-segment revenues and transfers as if they were to third parties; that is, by applying a negotiated fee onto the costs of the services performed. All significant intercompany balances and transactions are eliminated in consolidation.

Reportable Segments

The following tables summarize financial information regarding our reportable segments:

| | Three Months Ended | | Six Months Ended | |
|--------------------------------------|--------------------|------------------|-------------------|------------------|
| | March 31, 2019 | April 1, 2018 | March 31, 2019 | April 1, 2018 |
| (in thousands) | | | | |
| Revenue | | | | |
| GSG | \$417,526 | \$406,027 | \$829,497 | \$848,799 |
| CIG | 322,458 | 309,704 | 640,252 | 641,217 |
| RCM | (4,645) | 1,480 | (3,192) | 8,286 |
| Elimination of inter-segment revenue | (12,718) | (16,949) | (26,505) | (38,292) |
| Total | \$722,621 | \$700,262 | \$1,440,052 | \$1,460,010 |
| Income from operations | | | | |
| GSG | \$44,803 | \$34,177 | \$82,217 | \$73,302 |
| CIG | 20,869 | 18,400 | 47,968 | 39,693 |
| RCM | (5,938) | (489) | (5,934) | (1,647) |
| Corporate ⁽¹⁾ | (12,189) | (9,372) | (20,995) | (20,043) |
| Total | \$47,545 | \$42,716 | \$103,256 | \$91,305 |

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

| | March 31, 2019 | September 30, 2018 |
|--------------------------|-------------------|-----------------------|
| (in thousands) | | |
| Total Assets | | |
| GSG | \$524,796 | \$468,010 |
| CIG | 410,918 | 478,197 |
| RCM | 17,213 | 25,683 |
| Corporate ⁽¹⁾ | 998,938 | 987,531 |
| Total | \$1,951,865 | \$1,959,421 |

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

13. Fair Value Measurements

The fair value of long-term debt was determined using the present value of future cash flows based on the borrowing rates currently available for debt with similar terms and maturities (Level 2 measurement, as described in “Critical Accounting Policies and Estimates” in our Annual Report on Form 10-K for the fiscal year ended September 30, 2018). The carrying value of our long-term debt approximated fair value at March 31, 2019 and September 30, 2018. At March 31, 2019, we had borrowings of \$243.8 million outstanding under our Amended Credit Agreement, which were used to fund our business acquisitions, working capital needs, stock repurchases, dividends, capital expenditures and contingent earn-outs.

14. Derivative Financial Instruments

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

We recognize derivative instruments as either assets or liabilities on the accompanying consolidated balance sheets at fair value. We record changes in the fair value (i.e., gains or losses) of the derivatives that have been designated as cash flow hedges in our consolidated balance sheets as accumulated other comprehensive income, and in our consolidated statements of income for those derivatives designated as fair value hedges.

In the fourth quarter of fiscal 2018, we entered into five interest rate swap agreements that we designated as cash flow hedges to fix the interest rate on the borrowings under our term loan facility. As of March 31, 2019, the notional principal of our outstanding interest swap agreements was \$243.8 million. The interest rate swaps have a fixed interest rate of 2.79% and expire in July 2023. At March 31, 2019 and September 30, 2018, the fair value of the effective portion of our interest rate swap agreements designated as cash flow hedges before tax effect was \$5.5 million and \$(1.3) million, respectively, of which we expect to reclassify \$1.0 million from accumulated other comprehensive income to interest expense within the next twelve months.

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

| Balance Sheet Location | Fair Value of Derivative Instruments as of | | | |
|-------------------------------|---|-----------------------|-----------|----------|
| | March 31, 2019 | September 30, 2018 | | |
| Interest rate swap agreements | Other current (liabilities) | assets | \$(5,530) | \$ 1,244 |

The impact of the effective portions of derivative instruments in cash flow hedging relationships and fair value relationships on other comprehensive income was \$(6.8) million for the first half of fiscal 2019 and was immaterial for the first half of fiscal 2018, respectively. Additionally, there were no ineffective portions of derivative instruments. Accordingly, no amounts were excluded from effectiveness testing for our interest rate swap agreements.

15. Reclassifications Out of Accumulated Other Comprehensive Income

The accumulated balances and reporting period activities for the three and six months ended March 31, 2019 and April 1, 2018 related to reclassifications out of accumulated other comprehensive income are summarized as follows:

| | Three Months Ended | | |
|--|---|---|---|
| | Foreign Currency Translation Adjustments (in thousands) | Gain (Loss) on Derivative Instruments | Accumulated Other Comprehensive Loss |
| Balances at December 31, 2017 | \$(102,413) | \$ 512 | \$ (101,901) |
| Other comprehensive loss before reclassifications | (16,116) | (136) | (16,252) |
| Amounts reclassified from accumulated other comprehensive income | | | |
| Interest rate contracts, net of tax ⁽¹⁾ | — | 109 | 109 |
| Net current-period other comprehensive loss | (16,116) | (27) | (16,143) |
| Balances at April 1, 2018 | \$(118,529) | \$ 485 | \$ (118,044) |
| | | | |
| Balances at December 30, 2018 | \$(151,936) | \$ (2,757) | \$ (154,693) |
| Other comprehensive loss before reclassifications | 9,245 | (2,504) | 6,741 |
| Amounts reclassified from accumulated other comprehensive income | | | |
| Interest rate contracts, net of tax ⁽¹⁾ | — | (265) | (265) |
| Net current-period other comprehensive income (loss) | 9,245 | (2,769) | 6,476 |
| Balance at March 31, 2019 | \$(142,691) | \$ (5,526) | \$ (148,217) |
| | | | |
| | Six Months Ended | | |
| | Foreign Currency Translation Adjustments (in thousands) | Gain (Loss) on Derivative Instruments | Accumulated Other Comprehensive Loss |
| Balances at October 1, 2017 | \$(98,946) | \$ 446 | \$ (98,500) |
| Other comprehensive loss before reclassifications | (19,583) | (52) | (19,635) |
| Amounts reclassified from accumulated other comprehensive income | | | |
| Interest rate contracts, net of tax ⁽¹⁾ | — | 91 | 91 |
| Net current-period other comprehensive (loss) income | (19,583) | 39 | (19,544) |
| Balances at April 1, 2018 | \$(118,529) | \$ 485 | \$ (118,044) |
| | | | |
| Balances at September 30, 2018 | \$(128,602) | \$ 1,252 | \$ (127,350) |
| Other comprehensive loss before reclassifications | (14,089) | (6,287) | (20,376) |
| Amounts reclassified from accumulated other comprehensive income | | | |
| Interest rate contracts, net of tax ⁽¹⁾ | — | (491) | (491) |
| Net current-period other comprehensive loss | (14,089) | (6,778) | (20,867) |
| Balances at March 31, 2019 | \$(142,691) | \$ (5,526) | \$ (148,217) |

(1) This accumulated other comprehensive component is reclassified to “Interest expense” in our consolidated statements of income. See Note 14, “Derivative Financial Instruments”, for more information.

16. Commitments and Contingencies

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

On January 14, 2019, the Civil Division of the United States Attorney's Office ("USAO") filed complaints in intervention in three qui tam actions filed against our subsidiary, Tetra Tech EC, Inc. ("TtEC"), in the U.S. District Court for the Northern District of California. The complaints allege False Claims Act violations and breach of contract related to TtEC's contracts to perform environmental remediation services at the former Hunters Point Naval Shipyard in San Francisco, California. TtEC disputes the claims and will defend this matter vigorously. We are currently unable to determine the probability of the outcome of this matter or the range of reasonably possible loss, if any.

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

FORWARD-LOOKING STATEMENTS

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

GENERAL OVERVIEW

Tetra Tech, Inc. is a leading global provider of high-end consulting and engineering services that focuses on water, environment, infrastructure, resource management, energy, and international development. We are a global company that leads with science and is renowned for our expertise in providing water-related solutions for public and private clients. We typically begin at the earliest stage of a project by identifying technical solutions and developing execution plans tailored to our clients’ needs and resources. Our solutions may span the entire life cycle of consulting and engineering projects and include applied science, data analysis, research, engineering, design, construction management, and operations and maintenance.

Our reputation for high-end consulting and engineering services and our ability to apply our skills to develop solutions for water and environmental management has supported our growth for over 50 years since the founding of our predecessor company. By combining ingenuity and practical experience, we have helped to advance sustainable solutions for managing water, protecting the environment, providing energy, and engineering the infrastructure for our cities and communities.

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

The following table presents the percentage of our revenue by client sector:

| Client Sector | Three Months Ended | | Six Months Ended | |
|---------------|--------------------|---------------|------------------|---------------|
| | March 31, 2019 | April 1, 2018 | March 31, 2019 | April 1, 2018 |
| | | | | |

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| | | | | |
|--|--------|--------|--------|--------|
| U.S. state and local government | 18.0 % | 15.0 % | 17.6 % | 17.6 % |
| U.S. federal government ⁽¹⁾ | 29.9 | 33.8 | 30.6 | 32.4 |
| U.S. commercial | 23.0 | 25.8 | 23.5 | 26.5 |
| International ⁽²⁾ | 29.1 | 25.4 | 28.3 | 23.5 |
| Total | 100.0% | 100.0% | 100.0% | 100.0% |

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

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

We manage our operations under two reportable segments. Our Government Services Group ("GSG") reportable segment primarily includes activities with U.S. government clients (federal, state and local) and all activities with development agencies worldwide. Our Commercial/International Services Group ("CIG") reportable segment primarily includes activities with U.S. commercial clients and all international activities other than work for development agencies. Additionally, we continued to report the results of the wind-down of our non-core construction activities in the Remediation and Construction Management ("RCM")

segment for the second quarter of fiscal 2019. As of March 31, 2019, there was no remaining backlog for RCM as the projects were complete.

Our reportable segments are as follows:

Government Services Group (“GSG”). GSG provides consulting and engineering services primarily to U.S. government clients (federal, state and local) and development agencies worldwide. GSG supports U.S. government civilian and defense agencies with services in water, environment, infrastructure, information technology, and disaster response and recovery planning services. GSG also provides engineering design services for U.S. municipal and commercial clients, especially in water infrastructure, solid waste, and high-end sustainable infrastructure designs. GSG also leads our support for development agencies worldwide, especially in the United States, United Kingdom, and Australia.

Commercial/International Services Group (“CIG”). CIG primarily provides consulting and engineering services to U.S. commercial clients and international clients, both commercial and government. CIG supports commercial clients across the Fortune 500, oil and gas, energy utilities, manufacturing, aerospace, and mining markets. CIG also provides infrastructure and related environmental and geotechnical services, testing, engineering and project management services to commercial and local government clients across Canada, in Asia Pacific (primarily Australia and New Zealand), as well as Brazil and Chile.

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

| Reportable Segment | Three Months Ended | | Six Months Ended | |
|---------------------------|--------------------|---------------|------------------|---------------|
| | March 31, 2019 | April 1, 2018 | March 31, 2019 | April 1, 2018 |
| GSG | 57.8 % | 58.0 % | 57.6 % | 58.1 % |
| CIG | 44.6 | 44.2 | 44.4 | 43.9 |
| RCM | (0.6) | 0.2 | (0.2) | 0.6 |
| Inter-segment elimination | (1.8) | (2.4) | (1.8) | (2.6) |
| Total | 100.0 % | 100.0 % | 100.0 % | 100.0 % |

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

| Contract Type | Three Months Ended | | Six Months Ended | |
|--------------------|--------------------|---------------|------------------|---------------|
| | March 31, 2019 | April 1, 2018 | March 31, 2019 | April 1, 2018 |
| Fixed-price | 34.3 % | 32.1 % | 33.9 % | 31.5 % |
| Time-and-materials | 47.8 | 47.6 | 47.4 | 48.7 |
| Cost-plus | 17.9 | 20.3 | 18.7 | 19.8 |
| Total | 100.0 % | 100.0 % | 100.0 % | 100.0 % |

Under fixed-price contracts, the client agrees to pay a specified price for our performance of the entire contract or a specified portion of the contract. Under time-and-materials contracts, we are paid for labor at negotiated hourly billing rates and also paid for other expenses. Under cost-plus contracts, some of which are subject to a contract ceiling amount, we are reimbursed for allowable costs and fees, which may be fixed or performance-based. Profitability on these contracts is driven by billable headcount and our control. We recognize revenue from contracts using the

cost-to-cost measure of progress method to estimate the progress towards completion to determine the amount of revenue and profit to recognize. Changes in those estimates could result in the recognition of cumulative catch-up adjustments to the contract's inception-to-date revenue, costs and profit in the period in which such changes are made. On a quarterly basis, we review and assess our revenue and cost estimates for each significant contract. Changes in revenue and cost estimates could also result in a projected loss that would be recorded immediately in earnings.

Other contract costs include professional compensation and related benefits, together with certain direct and indirect overhead costs such as rents, utilities, and travel. Professional compensation represents a large portion of these costs. Our "Selling, general and administrative expenses" ("SG&A") are comprised primarily of marketing and bid and proposal costs, and our corporate headquarters' costs related to the executive offices, finance, accounting, administration, and information technology. Our SG&A

expenses also include a portion of stock-based compensation and depreciation of property and equipment related to our corporate headquarters, and the amortization of identifiable intangible assets. Most of these costs are unrelated to specific clients or projects, and can vary as expenses are incurred to support company-wide activities and initiatives.

We experience seasonal trends in our business. Our revenue and operating income are typically lower in the first half of our fiscal year, primarily due to the Thanksgiving (in the United States), 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 in the northern hemisphere's temperate and arctic regions. These occurrences result in fewer billable hours worked on projects and, correspondingly, less revenue recognized.

ACQUISITIONS AND DIVESTITURES

Acquisitions. We continuously evaluate the marketplace for acquisition opportunities to further our strategic growth plans. Due to our reputation, size, financial resources, geographic presence and range of services, we have numerous opportunities to acquire privately and publicly held companies or selected portions of such companies. We evaluate an acquisition opportunity based on its ability to strengthen our leadership in the markets we serve, broaden our service offerings, add new geographies, and provide complementary skills. Also, during our evaluation, we examine an acquisition's ability to drive organic growth, its accretive effect on long-term earnings, and its ability to generate return on investment. Generally, we proceed with an acquisition if we believe that it will strategically expand our service offerings, improve our long-term financial performance, and increase shareholder returns.

We view acquisitions as a key component in the execution of our growth strategy, and we intend to use cash, debt or equity, as we deem appropriate, to fund acquisitions. We may acquire other businesses that we believe are synergistic and will ultimately increase our revenue and net income, strengthen our ability to achieve our strategic goals, provide critical mass with existing clients, and further expand our lines of service. We typically pay a purchase price that results in the recognition of goodwill, generally representing the intangible value of a successful business with an assembled workforce specialized in our areas of interest. Acquisitions are inherently risky, and no assurance can be given that our previous or future acquisitions will be successful or will not have a material adverse effect on our financial position, results of operations, or cash flows. All acquisitions require the approval of our Board of Directors.

Divestitures. 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 or wind-down certain non-core businesses and reallocate our resources to businesses that better align with our long-term strategic direction.

For detailed information regarding acquisitions and divestitures, see Note 5, "Acquisitions and Divestitures" of the "Notes to Consolidated Financial Statements".

OVERVIEW OF RESULTS AND BUSINESS TRENDS

General. In the first half of fiscal 2019, our revenue decreased 1.4% compared to the prior-year period. Our revenue for the first half of fiscal 2018 included \$36.7 million of revenue from our non-core utility field services operations that was divested in the third quarter of fiscal 2018. In the second quarter of fiscal 2018, we acquired Norman Disney & Young ("NDY"), which contributed \$21.6 million of revenue in the first quarter of fiscal 2019. Excluding the net impact from these transactions, our revenue was comparable to the same period last year.

U.S. State and Local Government. Our U.S. state and local government revenue decreased 1.4% in the first half of fiscal 2019 compared to last-year period. Excluding the impact of RCM, our revenue increased 3.0% as we continue

to experience broad-based growth in our U.S. state and local government project-related infrastructure revenue, particularly with increased revenue from municipal water infrastructure work in the metropolitan areas of California, Texas, and Florida. The increase also includes higher revenue from disaster response and recovery planning activities. We expect our U.S. state and local government business to grow in fiscal 2019.

U.S. Federal Government. Our U.S. federal government revenue decreased 6.8% in the first half of fiscal 2019 compared to the prior-year period. This decline primarily reflects disrupted activity due to the thirty-day partial U.S. government shutdown that commenced in late December 2018. During periods of economic volatility, our U.S. federal government clients have historically been the most stable and predictable. Despite the recent shutdown, we anticipate modest revenue growth in U.S. federal government revenue in fiscal 2019; however, if there is another prolonged U.S. federal government shutdown, our U.S. federal government business could be adversely impacted.

U.S. Commercial. Our U.S. commercial revenue decreased 12.5% in the first half of fiscal 2019 compared to the prior-year period. Excluding the reduction from the divestiture of our non-core utility field services operations, our U.S. commercial business decreased 3.6% in first half of fiscal 2019 compared to the same period last year. This decline reflects higher subcontractor activity in the first half of fiscal 2018. Also excluding subcontractor activity, our U.S. commercial business increased 2.8% in the first half of fiscal 2019 compared to the first half of last year. We expect our U.S. commercial revenue to grow in fiscal 2019, adjusted for the impact of the divestiture, primarily due to increased activities for industrial water treatment, environmental programs, and high performance buildings.

International. Our international revenue increased 18.6% in the first half of fiscal 2019 compared to the prior-year period. Excluding the first quarter of fiscal 2019 contribution from NDY, our revenue grew 12.3% in the first half of fiscal 2019 compared to the same period last-year. The revenue growth reflects increased activity in Canada, particularly in Western Canada. Additionally, we experienced an improvement in our infrastructure work in Australia, New Zealand, and Asia-Pacific. We anticipate our total international revenue to grow in fiscal 2019.

RESULTS OF OPERATIONS

Consolidated Results of Operations

| | Three Months Ended | | | | Six Months Ended | | | |
|---|--------------------|------------------|--------------|--------|-------------------|------------------|--------------|--------|
| | March 31, 2019 | April 1, 2018 | Change \$ | % | March 31, 2019 | April 1, 2018 | Change \$ | % |
| | (\$ in thousands) | | | | | | | |
| Revenue | \$722,621 | \$700,262 | \$22,359 | 3.2% | \$1,440,052 | \$1,460,010 | \$(19,958) | (1.4)% |
| Subcontractor costs | (137,237) | (167,469) | 30,232 | 18.1 | (301,305) | (382,370) | 81,065 | 21.2 |
| Revenue, net of subcontractor costs ⁽¹⁾ | 585,384 | 532,793 | 52,591 | 9.9 | 1,138,747 | 1,077,640 | 61,107 | 5.7 |
| Other costs of revenue | (488,913) | (441,368) | (47,545) | (10.8) | (943,592) | (892,070) | (51,522) | (5.8) |
| Gross profit | 96,471 | 91,425 | 5,046 | 5.5 | 195,155 | 185,570 | 9,585 | 5.2 |
| Selling, general and administrative expenses | (48,898) | (46,791) | (2,107) | (4.5) | (91,871) | (92,347) | 476 | 0.5 |
| Contingent consideration - fair value adjustments | (28) | (1,918) | 1,890 | 98.5 | (28) | (1,918) | 1,890 | 98.5 |
| Income from operations | 47,545 | 42,716 | 4,829 | 11.3 | 103,256 | 91,305 | 11,951 | 13.1 |
| Interest expense | (3,164) | (4,092) | 928 | 22.7 | (6,061) | (7,252) | 1,191 | 16.4 |
| Income before income tax benefit (expense) | 44,381 | 38,624 | 5,757 | 14.9 | 97,195 | 84,053 | 13,142 | 15.6 |
| Income tax benefit (expense) | 11,563 | (9,877) | 21,440 | 217.1 | 781 | (9,254) | 10,035 | 108.4 |
| Net income | 55,944 | 28,747 | 27,197 | 94.6 | 97,976 | 74,799 | 23,177 | 31.0 |
| Net income attributable to noncontrolling interests | (33) | (22) | (11) | (50.0) | (69) | (40) | (29) | (72.5) |
| Net income attributable to Tetra Tech | \$55,911 | \$28,725 | \$27,186 | 94.6 | \$97,907 | \$74,759 | \$23,148 | 31.0 |
| Diluted earnings per share | \$1.00 | \$0.51 | \$0.49 | 96.1 | \$1.74 | \$1.32 | \$0.42 | 31.8 |

⁽¹⁾ We believe that the presentation of “Revenue, net of subcontractor costs”, which is a non-U.S. GAAP financial measure, enhances investors’ ability to analyze our business trends and performance because it substantially measures the work performed by our employees. While providing services, we routinely subcontract various services and, under certain U.S. Agency for International Development programs, issue grants. Generally, these subcontractor costs and grants are passed through to our clients and, in accordance with U.S. 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.

The following table reconciles our reported results to non-U.S. GAAP adjusted results, which exclude the RCM results and certain non-operating accounting-related adjustments. The effective tax rates applied to the adjustments to earnings per share (“EPS”) to arrive at adjusted EPS averaged 24.0% and 29.0% for the first half of fiscal 2019 and 2018, respectively. We applied the relevant marginal statutory tax rate based on the nature of the adjustments and tax jurisdiction in which they occurred. Both EPS and adjusted EPS were calculated using diluted weighted-average common shares outstanding for the respective periods as reflected in our consolidated statements of income.

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| | Three Months Ended | | | | Six Months Ended | | | |
|---|--------------------|------------------|--------------|-------|-------------------|------------------|--------------|--------|
| | March 31, 2019 | April 1, 2018 | Change \$ | % | March 31, 2019 | April 1, 2018 | Change \$ | % |
| | (\$ in thousands) | | | | | | | |
| Revenue | \$722,621 | \$700,262 | \$22,359 | 3.2% | \$1,440,052 | \$1,460,010 | \$(19,958) | (1.4)% |
| RCM | 4,645 | (1,480) | 6,125 | NM | 3,192 | (8,286) | 11,478 | NM |
| Adjusted revenue | \$727,266 | \$698,782 | \$28,484 | 4.1 | \$1,443,244 | \$1,451,724 | \$(8,480) | (0.6) |
| Revenue, net of subcontractor costs | \$585,384 | \$532,793 | \$52,591 | 9.9 | \$1,138,747 | \$1,077,640 | \$61,107 | 5.7 |
| RCM | 4,741 | (369) | 5,110 | NM | 4,165 | (1,521) | 5,686 | NM |
| Adjusted revenue, net of subcontractor costs | \$590,125 | \$532,424 | \$57,701 | 10.8 | \$1,142,912 | \$1,076,119 | \$66,793 | 6.2 |
| Income from operations | \$47,545 | \$42,716 | \$4,829 | 11.3 | \$103,256 | \$91,305 | \$11,951 | 13.1 |
| Contingent consideration - compensation | 1,000 | — | 1,000 | NM | 1,000 | — | 1,000 | NM |
| Contingent consideration - fair value adjustments | 28 | 1,918 | (1,890) | NM | 28 | 1,918 | (1,890) | NM |
| RCM | 5,938 | 489 | 5,449 | NM | 5,934 | 1,647 | 4,287 | NM |
| Adjusted income from operations | \$54,511 | \$45,123 | \$9,388 | 20.8 | \$110,218 | \$94,870 | \$15,348 | 16.2 |
| EPS | \$1.00 | \$0.51 | \$0.49 | 96.1 | \$1.74 | \$1.32 | \$0.42 | 31.8% |
| Contingent consideration | 0.01 | 0.03 | (0.02) | NM | 0.01 | 0.03 | (0.02) | NM |
| RCM | 0.08 | — | 0.08 | NM | 0.08 | 0.01 | 0.07 | NM |
| Non-recurring tax benefits | (0.39) | — | (0.39) | NM | (0.43) | (0.18) | (0.25) | NM |
| Adjusted EPS | \$0.70 | \$0.54 | \$0.16 | 29.6% | \$1.40 | \$1.18 | \$0.22 | 18.6% |

NM = not meaningful

Revenue increased \$22.4 million, or 3.2%, in the second quarter and decreased \$20.0 million, or 1.4%, in the first half of fiscal 2019 compared to the same periods last year. These year-over-year comparisons primarily reflect lower subcontractor use for disaster response and environmental remediation activities in both periods of fiscal 2019 compared to last year.

Revenue, net of subcontractor costs, and adjusted revenue, net of subcontractor costs, increased \$52.6 million, or 9.9%, and \$57.7 million, or 10.8%, respectively, in the second quarter of fiscal 2019 compared to the prior-year quarter. These increases reflect continued broad-based growth in our U.S. state and local government project-related infrastructure revenue. In addition, our revenue from disaster response and recovery planning projects increased compared to last year's second quarter. Overall, our U.S. state and local government adjusted revenue, net of subcontractor costs, increased \$29.0 million, or 38.7%, in the second quarter of fiscal 2019 compared to the prior-year quarter. Additionally, in the second quarter of fiscal 2019, our international adjusted revenue, net of subcontractor costs, increased \$34.6 million, or 23.2%, compared to last-year quarter, primarily due to increased oil and gas and infrastructure activity. These increases were partially offset by the impact of the third quarter fiscal 2018 divestiture of our non-core utility field services operations.

Revenue, net of subcontractor costs, and adjusted revenue, net of subcontractor costs, increased \$61.1 million, or 5.7%, and \$66.8 million, or 6.2%, respectively, in the first half of fiscal 2019 compared to the year-ago period. These

increases reflect similar trends to the quarterly results described above. Our U.S. state and local government and international adjusted revenue, net of subcontractor costs, increased 13.9% and 23.0%, respectively, for the first six months of fiscal 2019 compared to the same period last year. These increases were also partially offset by the impact of the third quarter fiscal 2018 divestiture of our non-core utility field services operations.

Our operating income increased \$4.8 million and \$12.0 million in the second quarter and first half of fiscal 2019, respectively, compared to the prior-year periods. The loss from exited construction activities in our RCM segment was \$5.9 million for both the second quarter and first six months of fiscal 2019 compared to losses of \$0.5 million and \$1.6 million in the same periods of fiscal 2018, respectively. Our RCM results are described below under "Remediation and Construction Management." Excluding RCM and non-operating contingent consideration losses, adjusted operating income increased \$9.4 million, or 20.8%, and \$15.3 million, or 16.2%, in the second quarter and first half of 2019, respectively, compared to the same periods last year. The

increases in our adjusted operating income reflect improved results in both our GSG segment and CIG segment. GSG's operating income increased \$10.6 million and \$8.9 million in the second quarter and first six months of fiscal 2019, respectively, compared to the same periods last year. These results are described below under "Government Services Group." CIG's operating income increased \$2.5 million and \$8.3 million in the second quarter and first six months of fiscal 2019, respectively, compared to the same periods last year. These results are described below under "Commercial/International Services Group."

Interest expense, net was \$3.2 million and \$6.1 million in the second quarter and first half of fiscal 2019, compared to \$4.1 million and \$7.3 million in the prior-year periods, respectively. The decreases reflect reduced borrowings, partially offset by higher interest rates (primarily LIBOR).

The effective tax rates for the first half of fiscal 2019 and 2018 were (0.8)% and 11.0%, respectively. The tax rates for fiscal 2019 and 2018 reflect the impact of the comprehensive tax legislation enacted by the U.S. government on December 22, 2017, which is commonly referred to as the Tax Cuts and Jobs Act ("TCJA"). The TCJA significantly revised the U.S. corporate income tax regime by, among other things, lowering the U.S. corporate tax rate from 35% to 21% effective January 1, 2018. As we have a September 30 fiscal year-end, our U.S. federal corporate income tax rate was blended in fiscal 2018, resulting in a statutory federal rate of approximately 24.5% (3 months at 35% and 9 months at 21%), and will be 21% for fiscal 2019 and subsequent fiscal years.

U.S. GAAP requires that the impact of tax legislation be recognized in the period in which the tax law was enacted. As a result of the TCJA, we reduced our deferred tax liabilities and recorded a one-time deferred tax benefit of approximately \$10.1 million in the first quarter of fiscal 2018 to reflect our estimate of temporary differences in the United States that would be recovered or settled in fiscal 2018 based on the 24.5% blended corporate tax rate or based on the 21% tax rate in fiscal 2019 and beyond versus the previous enacted 35% corporate tax rate. We finalized this analysis in the first quarter of fiscal 2019 and recorded an additional deferred tax benefit of \$2.6 million. In addition, valuation allowances of \$22.3 million in Australia were released due to sufficient positive evidence obtained during the second quarter of fiscal 2019. The valuation allowances are related to net operating loss and R&D credit carryforwards and other temporary differences. Excluding the net deferred tax benefits from the TCJA and valuation allowance releases, our effective tax rate in the first half of fiscal 2019 was 24.8% compared to 23.0% in first half of fiscal 2018.

Our EPS was \$1.00 and \$1.74 in the second quarter and first half of fiscal 2019, compared to \$0.51 and \$1.32 in last-year periods, respectively. On an adjusted basis, which excludes RCM results, contingent consideration adjustments, and non-recurring tax benefits, EPS was \$0.70 and \$1.40 in the second quarter and first half of fiscal 2019, compared to \$0.54 and \$1.18 in prior-year periods, respectively.

Segment Results of Operations

Government Services Group

| | Three Months Ended | | | | Six Months Ended | | | |
|-------------------------------------|--------------------|---------------|-----------|----------|------------------|---------------|------------|----------|
| | March 31, 2019 | April 1, 2018 | Change \$ | Change % | March 31, 2019 | April 1, 2018 | Change \$ | Change % |
| | (\$ in thousands) | | | | | | | |
| Revenue | \$417,526 | \$406,027 | \$11,499 | 2.8% | \$829,497 | \$848,799 | \$(19,302) | (2.3)% |
| Subcontractor costs | (101,485) | (115,463) | 13,978 | 12.1 | (210,175) | (248,269) | 38,094 | 15.3 |
| Revenue, net of subcontractor costs | \$316,041 | \$290,564 | \$25,477 | 8.8 | \$619,322 | \$600,530 | \$18,792 | 3.1 |
| Income from operations | \$44,803 | \$34,177 | \$10,626 | 31.1 | \$82,217 | \$73,302 | \$8,915 | 12.2 |

Revenue and revenue, net of subcontractor costs, increased \$11.5 million, or 2.8%, and \$25.5 million, or 8.8%, respectively, in the second quarter of fiscal 2019 compared to the year-ago quarter. For the first half of fiscal 2019, revenue and revenue, net of subcontractor costs, decreased \$19.3 million, or 2.3%, and increased \$18.8 million, or 3.1%, respectively, compared to the year-ago period. The year-over-year revenue comparisons primarily reflect lower subcontractor use for disaster response activities in both periods of fiscal 2019 compared to last year. The increases in revenue, net of subcontractor costs, reflect continued broad-based growth in our U.S. state and local government project-related infrastructure revenue. In addition, our revenue from disaster

response and recovery planning projects increased compared to last year's second quarter. Overall, our U.S. state and local government adjusted revenue, net of subcontractor costs, increased \$22.9 million, or 35.5%, in the second quarter of fiscal 2019 and \$17.0 million, or 11.4%, respectively, in the first six months of fiscal 2019 compared to the same periods of fiscal 2018.

Operating income increased \$10.6 million in the second quarter and \$8.9 million in the first half of fiscal 2019 compared to the same periods last year, primarily reflecting the higher U.S. state and local revenue. In addition, our operating margin, based on revenue, net of subcontractor costs, increased to 13.3% in the first half of fiscal 2019 from 12.2% in the first half of last year.

Commercial/International Services Group

| | Three Months Ended | | | | Six Months Ended | | | |
|-------------------------------------|--------------------|---------------|-----------|----------|------------------|---------------|-----------|----------|
| | March 31, 2019 | April 1, 2018 | Change \$ | Change % | March 31, 2019 | April 1, 2018 | Change \$ | Change % |
| | (\$ in thousands) | | | | | | | |
| Revenue | \$322,458 | \$309,704 | \$12,754 | 4.1% | \$640,252 | \$641,217 | \$(965) | (0.2)% |
| Subcontractor costs | (48,374) | (67,844) | 19,470 | 28.7 | (116,662) | (165,628) | 48,966 | 29.6 |
| Revenue, net of subcontractor costs | \$274,084 | \$241,860 | \$32,224 | 13.3 | \$523,590 | \$475,589 | \$48,001 | 10.1 |
| Income from operations | \$20,869 | \$18,400 | \$2,469 | 13.4 | \$47,968 | \$39,693 | \$8,275 | 20.8 |

Revenue and revenue, net of subcontractor costs, increased \$12.8 million, or 4.1%, and \$32.2 million, or 13.3%, respectively, in the second quarter of fiscal 2019 compared to the year-ago quarter. For the first half of fiscal 2019, revenue and revenue, net of subcontractor costs, decreased \$1.0 million, or 0.2%, and increased \$48.0 million, or 10.1%, respectively, compared to the year-ago period. These amounts include the aforementioned contribution from our NDY acquisition. In addition, these year-over-year comparisons were impacted by the divestiture of our non-core utility field services operations in the third quarter of fiscal 2018. Excluding the net impact of the acquisition/divestiture, revenue increased 10.2% and 2.3% in the second quarter and first half of fiscal 2019, respectively, compared to the same periods last year. On the same basis, revenue, net of subcontractor costs, increased 19.9% and 11.9% in the second quarter and first half of fiscal 2019, respectively, compared to the same periods last year. These increases primarily reflect increased international revenue, particularly for oil and gas and infrastructure activities in Western Canada.

Operating income increased \$2.5 million and \$8.3 million in the second quarter and first six months of fiscal 2019, respectively, compared to the same periods in fiscal 2018 reflecting the higher revenue, net of subcontractor costs. In addition, our operating margin, based on revenue, net of subcontractor costs, improved to 9.2% in the first half of fiscal 2019 from 8.3% in the first half of last year. Operating income in the second quarter of fiscal 2019 included a loss of \$3.6 million for the settlement of a claim related to a project that was completed in fiscal 2017. Excluding this charge from a prior-year project, our operating margin in the first half of fiscal 2019 was 9.8%.

Remediation and Construction Management

| | Three Months Ended | | | | Six Months Ended | | | |
|---------------------|--------------------|---------------|-----------|----------|------------------|---------------|------------|----------|
| | March 31, 2019 | April 1, 2018 | Change \$ | Change % | March 31, 2019 | April 1, 2018 | Change \$ | Change % |
| | (\$ in thousands) | | | | | | | |
| Revenue | \$(4,645) | \$1,480 | \$(6,125) | (413.9)% | \$(3,192) | \$8,286 | \$(11,478) | (138.5)% |
| Subcontractor costs | (96) | (1,111) | 1,015 | 91.4 | (973) | (6,765) | 5,792 | 85.6 |

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| | | | | | | | | |
|-------------------------------------|-----------|----------|-----------|-----------|-----------|-----------|------------|---------|
| Revenue, net of subcontractor costs | \$(4,741) | \$369 | \$(5,110) | (1,384.8) | \$(4,165) | \$1,521 | \$(5,686) | (373.8) |
| Loss from operations | \$(5,938) | \$(489) | \$(5,449) | (1,114.3) | \$(5,934) | \$(1,647) | \$(4,287) | (260.3) |

RCM's projects were substantially complete at the end of fiscal 2018. The revenue of \$(4.6) million and \$(3.2) million in the second quarter and first half of fiscal 2019, respectively, reflects reductions of revenue and related operating losses based on updated evaluations of unsettled claim amounts for two construction projects that were completed last year. We recorded no material gains or losses related to claims in the first half of fiscal 2018.

ASC 606

Prior to the adoption of Accounting Standards Codification Topic 606, "Revenue from Contracts with Customers" ("ASC 606") and the related disclosures of remaining unsatisfied performance obligations ("RUPOs"), we had reported backlog on a quarterly basis. Backlog is not a term recognized under United States generally accepted accounting principles; however, it is a common measurement used in our industry. Backlog generally represents the dollar amount of revenues we expect to realize in the future when we perform the work. RUPOs differ from our backlog.

The following table provides a reconciliation between RUPOs and backlog as of March 31, 2019:

| | Amount (in thousands) |
|--------------------------------|-----------------------------|
| RUPOs | \$2,800,422 |
| Items impacting comparability: | |
| Contract term | 13,655 |
| Backlog | \$2,814,077 |

The most significant difference between RUPOs and backlog relates to contract terms. Specifically, our backlog does not consider the impact of termination for convenience clauses within the contracts. The contract term and thus remaining performance obligation on certain of our operations and maintenance contracts, are limited to the notice period required for contract termination (usually 30, 60, or 90 days).

Financial Condition, Liquidity and Capital Resources

Capital Requirements. Our primary sources of liquidity are cash flows from operations and borrowings under our credit facilities. Our primary uses of cash are to fund working capital, capital expenditures, stock repurchases, cash dividends and repayment of debt, as well as to fund acquisitions and earn-out obligations from prior acquisitions. We believe that our existing cash and cash equivalents, operating cash flows and borrowing capacity under our credit agreement, as described below, will be sufficient to meet our capital requirements for at least the next 12 months. On November 5, 2018, the Board of Directors authorized a new stock repurchase program under which we could repurchase up to \$200 million of our common stock in addition to the \$25 million remaining under the previous stock repurchase program. In the first half of fiscal 2019, we expended the remaining \$25 million under the previous stock purchase program and an additional \$25 million under the new program. As a result, we have \$175 million of stock purchase authorization remaining as of March 31, 2019.

On November 5, 2018, the Board of Directors declared a quarterly cash dividend of \$0.12 per share payable on December 14, 2018 to stockholders of record as of the close of business on November 30, 2018. On January 28, 2019, the Board of Directors declared a quarterly cash dividend of \$0.12 per share payable on February 28, 2019 to stockholders of record as of the close of business on February 13, 2019.

Subsequent Event. On April 29, 2019, the Board of Directors declared a quarterly cash dividend of \$0.15 per share payable on May 31, 2019 to stockholders of record as of the close of business on May 15, 2019.

We use a variety of tax planning and financing strategies to manage our worldwide cash and deploy funds to locations where they are needed. Historically, we indefinitely reinvested our foreign earnings, and did not need to repatriate these earnings. However, in fiscal 2018, we evaluated our global tax planning and financing strategies impacted by the recent changes in U.S. tax law. As a result, we completed a one-time repatriation of a portion of our foreign earnings totaling approximately \$117 million in fiscal 2018. We paid down debt in the United States with most of these funds during the fourth quarter of fiscal 2018. This transaction resulted in an immaterial net repatriation tax on a global basis. We have no need or plans to repatriate additional foreign earnings in the foreseeable future.

Cash and Cash Equivalents. As of March 31, 2019, cash and cash equivalents were \$130.7 million, a decrease of \$15.5 million compared to the fiscal 2018 year-end. The decrease resulted from net cash used in financing and investing activities including net repayments on long-term debt, share repurchases, dividends, contingent earn-out and capital expenditures. The net cash used in these activities was largely offset by net cash provided by operating activities.

Operating Activities. For the first half of fiscal 2019, net cash provided by operating activities was \$99.2 million, an increase of \$75.7 million compared to the prior-year period. The increase resulted from cash collections from accounts receivable including settlement payments on claims in the first half of fiscal 2019.

Investing Activities. For the first half of fiscal 2019, net cash used in investing activities was \$3.4 million, a decrease of \$64.0 million compared to the year-ago period, due to the acquisitions of Glumac and NDY in the prior year.

Subsequent Event. In April 2019, we used cash of approximately \$40 million for acquisition activities.

Financing Activities. For the first half of fiscal 2019, net cash used in financing activities was \$110.7 million, compared to net cash provided by financing activities of \$59.0 million in the prior-year period. The related decrease in cash was primarily due to higher net repayments of long-term debt of \$151.3 million and increased contingent earn-out payments of \$10.2 million in the first half of fiscal 2019, compared to the same period last year.

Debt Financing. On July 30, 2018, we entered into a Second Amended and Restated Credit Agreement (“Amended Credit Agreement”) with a total borrowing capacity of \$1 billion that will mature in July 2023. The Amended Credit Agreement is a \$700 million senior secured, five-year facility that provides for a \$250 million term loan facility (the “Amended Term Loan Facility”), a \$450 million revolving credit facility (the “Amended Revolving Credit Facility”), and a \$300 million accordion feature that allows us to increase the Amended Credit Agreement to \$1 billion subject to lender approval. The Amended Credit Agreement allows us to, among other things, (i) refinance indebtedness under our Credit Agreement dated as of May 7, 2013; (ii) finance certain permitted open market repurchases of our common stock, permitted acquisitions, and cash dividends and distributions; and (iii) utilize the proceeds for working capital, capital expenditures and other general corporate purposes. The Amended Revolving Credit Facility includes a \$100 million sublimit for the issuance of standby letters of credit, a \$20 million sublimit for swingline loans, and a \$200 million sublimit for multicurrency borrowings and letters of credit.

The entire Amended Term Loan Facility was drawn on July 30, 2018. The Amended Term Loan Facility is subject to quarterly amortization of principal at 5% annually beginning December 31, 2018. We may borrow on the Amended Revolving Credit Facility, at our option, at either (a) a Eurocurrency rate plus a margin that ranges from 1.00% to 1.75% per annum, or (b) a base rate for loans in U.S. dollars (the highest of the U.S. federal funds rate plus 0.50% per annum, the bank’s prime rate or the Eurocurrency rate plus 1.00%) plus a margin that ranges from 0% to 0.75% per annum. In each case, the applicable margin is based on our Consolidated Leverage Ratio, calculated quarterly. The Amended Term Loan Facility is subject to the same interest rate provisions. The Amended Credit Agreement expires on July 30, 2023, or earlier at our discretion upon payment in full of loans and other obligations.

As of March 31, 2019, we had \$243.8 million in outstanding borrowings under the Amended Credit Agreement, which was comprised of \$243.8 million under the Term Loan Facility and no borrowings outstanding under the Amended Revolving Credit Facility at a year-to-date weighted-average interest rate of 3.67% per annum. In addition, we had \$0.9 million in standby letters of credit under the Amended Credit Agreement. Our average effective weighted-average interest rate on borrowings outstanding during the year-to-date period ending March 31, 2019 under the Amended Credit Agreement, including the effects of interest rate swap agreements described in Note 14, “Derivative Financial Instruments” of the “Notes to Consolidated Financial Statements”, was 3.95%. At March 31, 2019, we had \$449.1 million of available credit under the Amended Revolving Credit Facility, all of which could be

borrowed without a violation of our debt covenants.

The Amended Credit Agreement contains certain affirmative and restrictive covenants, and customary events of default. The financial covenants provide for a maximum Consolidated Leverage Ratio of 3.00 to 1.00 (total funded debt/EBITDA, as defined in the Amended Credit Agreement) and a minimum Consolidated Interest Coverage Ratio of 3.00 to 1.00 (EBITDA/Consolidated Interest Charges, as defined in the Amended Credit Agreement). Our obligations under the Amended Credit Agreement are guaranteed by certain of our domestic subsidiaries and are secured by first priority liens on (i) the equity interests of certain of our subsidiaries, including those subsidiaries that are guarantors or borrowers under the Amended Credit Agreement, and (ii) the accounts receivable, general intangibles and intercompany loans, and those of our subsidiaries that are guarantors or borrowers.

At March 31, 2019, we were in compliance with these covenants with a consolidated leverage ratio of 1.16x and a consolidated interest coverage ratio of 17.4x. Our obligations under the Amended Credit Agreement are guaranteed by certain of

our subsidiaries and are secured by first priority liens on (i) the equity interests of certain of our subsidiaries, including those subsidiaries that are guarantors or borrowers under the Amended Credit Agreement, and (ii) our accounts receivable, general intangibles and intercompany loans, and those of our subsidiaries that are guarantors or borrowers.

In addition to the credit facility, we entered into agreements to issue standby letters of credit. The aggregate amount of standby letters of credit outstanding under these additional agreements and other bank guarantees was \$23.1 million, of which \$4.0 million was issued in currencies other than the U.S. dollar.

We maintain at our Australian subsidiary an AUD\$30 million credit facility, which may be used for bank overdrafts, short-term cash advances and bank guarantees. This facility expires in March 2020 and is secured by a parent guarantee. At March 31, 2019, there were no borrowings outstanding under this facility and bank guarantees outstanding of USD\$5.9 million, which were issued in currencies other than the U.S. dollar.

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.

Dividends. Our Board of Directors has authorized the following dividends in fiscal 2019:

| | Dividend Per Share | Record Date | Total Maximum Payment | Payment Date |
|------------------|---------------------------------------|-------------------|--------------------------|-------------------|
| | (in thousands, except per share data) | | | |
| November 5, 2018 | \$0.12 | November 30, 2018 | \$ 6,654 | December 14, 2018 |
| January 28, 2019 | \$0.12 | February 13, 2019 | \$ 6,616 | February 28, 2019 |
| April 29, 2019 | \$0.15 | May 15, 2019 | N/A | May 31, 2019 |

Income Taxes

We evaluate the realizability of our deferred tax assets by assessing the valuation allowance and adjust the allowance, if necessary. The factors used to assess the likelihood of realization are our forecast of future taxable income and available tax planning strategies that could be implemented to realize the net deferred tax assets. The ability or failure to achieve the forecasted taxable income in the applicable taxing jurisdictions could affect the ultimate realization of deferred tax assets. Based on future operating results in certain jurisdictions, it is possible that the current valuation allowance positions of those jurisdictions could be adjusted in the next 12 months.

As of March 31, 2019 and September 30, 2018, the liability for income taxes associated with uncertain tax positions was \$12.1 million and \$9.4 million, respectively.

It is reasonably possible that the amount of the unrecognized benefit with respect to certain of our unrecognized tax positions may significantly decrease within the next 12 months. These changes would be the result of ongoing examinations.

Off-Balance Sheet Arrangements

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

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

Letters of credit and bank guarantees are used primarily to support project performance and insurance programs. We are required to reimburse the issuers of letters of credit and bank guarantees for any payments they make under the outstanding letters of credit or bank guarantees. Our Amended Credit Agreement and additional letter of credit facilities cover the issuance of our standby letters of credit and bank guarantees and are critical for our normal operations. If we default on the Amended Credit Agreement or additional credit facilities, our inability to issue or renew standby letters of credit and bank guarantees would impair our ability to maintain normal operations. At March 31, 2019, we had \$0.9 million in standby letters of credit outstanding under our Amended Credit Agreement,

\$23.1 million in standby letters of credit outstanding under our additional letter of credit facilities and \$5.9 million of bank guarantees under our Australian facility.

From time to time, we provide guarantees and indemnifications related to our services. If our services under a guaranteed or indemnified project are later determined to have resulted in a material defect or other material deficiency, then we may be responsible for monetary damages or other legal remedies. When sufficient information about claims on guaranteed or indemnified projects is available and monetary damages or other costs or losses are determined to be probable, we recognize such guaranteed losses.

In the ordinary course of business, we enter into various agreements as part of certain unconsolidated subsidiaries, joint ventures, and other jointly executed contracts where we are jointly and severally liable. We enter into these agreements primarily to support the project execution commitments of these entities. The potential payment amount of an outstanding performance guarantee is typically the remaining cost of work to be performed by or on behalf of third parties under engineering and construction contracts. However, we are not able to estimate other amounts that may be required to be paid in excess of estimated costs to complete contracts and, accordingly, the total potential payment amount under our outstanding performance guarantees cannot be estimated. For cost-plus contracts, amounts that may become payable pursuant to guarantee provisions are normally recoverable from the client for work performed under the contract. For lump sum or fixed-price contracts, this amount is the cost to complete the contracted work less amounts remaining to be billed to the client under the contract. Remaining billable amounts could be greater or less than the cost to complete. In those cases where costs exceed the remaining amounts payable under the contract, we may have recourse to third parties, such as owners, co-venturers, subcontractors or vendors, for claims.

In the ordinary course of business, our clients may request that we obtain surety bonds in connection with contract performance obligations that are not required to be recorded in our consolidated balance sheets. We are obligated to reimburse the issuer of our surety bonds for any payments made thereunder. Each of our commitments under performance bonds generally ends concurrently with the expiration of our related contractual obligation.

Critical Accounting Policies

On October 1, 2018, we adopted ASC 606, which supersedes most current revenue recognition guidance, including industry-specific guidance. We adopted the standard on a modified retrospective basis which results in no restatement of the comparative periods presented and a cumulative effect adjustment to retained earnings as of the date of adoption. As part of our adoption, the new standard was applied only to those contracts that were not substantially completed as of the date of adoption.

To determine the proper revenue recognition method for contracts under ASC 606, we evaluate whether multiple contracts should be combined and accounted for as a single contract and whether the combined or single contract should be accounted for as having more than one performance obligation. The decision to combine a group of contracts or separate a combined or single contract into multiple performance obligations may impact the amount of revenue recorded in a given period. Contracts are considered to have a single performance obligation if the promises are not separately identifiable from other promises in the contracts. For more information, see “Notes to Consolidated Financial Statements” included in Part I, Item 1 of this Quarterly Report.

Our other critical accounting policies are disclosed in our Annual Report on Form 10-K for the fiscal year ended September 30, 2018. To date, there have been no other material changes in our critical accounting policies as reported in our 2018 Annual Report on Form 10-K.

New Accounting Pronouncements

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

Financial Market Risks

We do not enter 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 and Australian dollar.

We are exposed to interest rate risk under our Amended Credit Agreement. We can borrow, at our option, under both the Amended Term Loan Facility and Amended Revolving Credit Facility. We may borrow on the Amended Revolving Credit Facility, at our option, at either (a) a Eurocurrency rate plus a margin that ranges from 1.00% to 1.75% per annum, or (b) a base rate for loans in U.S. dollars (the highest of the U.S. federal funds rate plus 0.50% per annum, the bank's prime rate or the Eurocurrency rate plus 1.00%) plus a margin that ranges from 0% to 0.75% 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 180 days and may be prepaid without penalty. 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 July 30, 2023. At March 31, 2019, we had borrowings outstanding under the Credit Agreement of \$243.8 million at a year-to-date weighted-average interest rate of 3.67% per annum.

In August 2018, we entered five interest rate swaps with five banks to fix the variable interest rate on \$250 million of our Amended Term Loan Facility. The objective of these interest rate swaps was to eliminate the variability of our cash flows on the amount of interest expense we pay under our Credit Agreement. Our year-to-date average effective interest rate on borrowings outstanding under the Credit Agreement, including the effects of interest rate swap agreements, at March 31, 2019, was 3.95%. For more information, see Note 14, "Derivative Financial Instruments" of the "Notes to Consolidated Financial Statements".

Most of our transactions are in U.S. dollars; however, some of our subsidiaries conduct business in foreign currencies, primarily the Canadian and Australian 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 revenue and expenses in the same currency for our contracts. Foreign currency gains and losses were immaterial for both first half of fiscal 2019 and 2018. Foreign currency gains and losses are reported as part of "Selling, general and administrative expenses" in our consolidated statements of income.

We have foreign currency exchange rate exposure in our results of operations and equity primarily because of the currency translation related to our foreign subsidiaries where the local currency is the functional currency. To the extent the U.S. dollar strengthens against foreign currencies, the translation of these foreign currency denominated transactions will result in reduced revenue, operating expenses, assets and liabilities. Similarly, our revenue, operating expenses, assets and liabilities will increase if the U.S. dollar weakens against foreign currencies. For the first half of fiscal 2019 and 2018, 28.3% and 23.5% of our consolidated revenue, respectively, was generated by our international business. For the six-month periods ended March 31, 2019 and April 1, 2018, the effect of foreign exchange rate translation on the consolidated balance sheets was a decrease in equity of \$14.1 million and \$19.6 million, respectively. These amounts were recognized as an adjustment to equity through other comprehensive income.

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 31, 2019, 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 were no changes in our internal control over financial reporting that occurred during the quarter ended March 31, 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

We are subject to certain claims and lawsuits typically filed against the consulting and engineering profession, alleging primarily professional errors or omissions. We carry professional liability insurance, subject to certain deductibles and policy limits, against such claims. However, in some actions, parties are seeking damages that exceed our insurance coverage or for which

we are not insured. While management does not believe that the resolution of these claims will have a material adverse effect, individually or in aggregate, on our financial position, results of operations or cash flows, management acknowledges the uncertainty surrounding the ultimate resolution of these matters.

On January 14, 2019, the Civil Division of the United States Attorney's Office ("USAO") filed complaints in intervention in three qui tam actions filed against our subsidiary, Tetra Tech EC, Inc. ("TtEC"), in the U.S. District Court for the Northern District of California. The complaints allege False Claims Act violations and breach of contract related to TtEC's contracts to perform environmental remediation services at the former Hunters Point Naval Shipyard in San Francisco, California. TtEC disputes the claims and will defend this matter vigorously. We are currently unable to determine the probability of the outcome of this matter or the range of reasonably possible loss, if any.

Item 1A. Risk Factors

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

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

The last several years have been periodically marked by political and economic concerns, including decreased consumer confidence, the lingering effects of international conflicts, energy costs and inflation. Although certain indices and economic data have shown signs of stabilization in the United States and certain global markets, there can be no assurance that these improvements will be broad-based or sustainable. This instability can make it extremely difficult for our clients, our vendors and us to accurately forecast and plan future business activities, and could cause constrained spending on our services, delays and a lengthening of our business development efforts, the demand for more favorable pricing or other terms, and/or difficulty in collection of our accounts receivable. Our government clients may face budget deficits that prohibit them from funding proposed and existing projects. Further, ongoing economic instability in the global markets could limit our ability to access the capital markets at a time when we would like, or need, to raise capital, which could have an impact on our ability to react to changing business conditions or new opportunities. If economic conditions remain uncertain or weaken, or government spending is reduced, our revenue and profitability could be adversely affected.

Changes in applicable tax regulations could negatively affect our financial results.

We are subject to taxation in the United States and numerous foreign jurisdictions. On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the TCJA. The changes to U.S. tax law implemented by the TCJA are broad and complex. The final impacts of the TCJA may differ from the estimates provided elsewhere in this report, possibly materially, due to, among other things, changes in interpretations of the TCJA, any legislative action to address questions that arise because of the TCJA, any changes in accounting standards for income taxes or related interpretations in response to the TCJA, or any updates or changes in estimates we have utilized to calculate the impacts, including impacts from changes to current year earnings estimates and foreign exchange rates.

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

Demand for our services is cyclical, and vulnerable to economic downturns and reductions in government and private industry spending. Such downturns or reductions may result in clients delaying, curtailing or canceling proposed and existing projects. Our business traditionally lags the overall recovery in the economy; therefore, our business may not recover immediately when the economy improves. If economic growth slows, government fiscal conditions worsen, or client spending declines, then our revenue, profits and overall financial condition may deteriorate. Our government clients may face budget deficits that prohibit them from funding new or existing projects. In addition, our existing and potential clients may either postpone entering into new contracts or request price concessions. Difficult financing and economic conditions may cause some of our clients to demand better pricing terms or delay payments for services we perform, thereby increasing the average number of days our receivables are outstanding, and the potential of increased

credit losses of uncollectible invoices. Further, these conditions may result in the inability of some of our clients to pay us for services that we have already performed. If we are not able to reduce our costs quickly enough to respond to the revenue decline from these clients, our operating results may be adversely affected. Accordingly, these factors affect our ability to forecast our future revenue and earnings from business areas that may be adversely impacted by market conditions.

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

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

- prices, and expectations about future prices, of oil and natural gas;
- domestic and foreign supply of and demand for oil and natural gas;
- the cost of exploring for, developing, producing and delivering oil and natural gas;
- transportation capacity, including but not limited to train transportation capacity and its future regulation;
- available pipeline, storage and other transportation capacity;
- availability of qualified personnel and lead times associated with acquiring equipment and products;
- federal, state, provincial and local regulation of oilfield activities;
- environmental concerns regarding the methods our customers use to produce hydrocarbons;
- the availability of water resources and the cost of disposal and recycling services; and
- seasonal limitations on access to work locations.

Anticipated future prices for natural gas and crude oil are a primary factor affecting spending by our customers. Lower prices or volatility in prices for oil and natural gas typically decrease spending, which can cause rapid and material declines in demand for our services and in the prices, we are able to charge for our services. Worldwide political, economic, military and terrorist events, as well as natural disasters and other factors beyond our control, contribute to oil and natural gas price levels and volatility and are likely to continue to do so in the future.

Further, the businesses of our global mining clients are, to varying degrees, cyclical and have experienced declines over the last three years due to lower global growth expectations and the associated decline in market prices. For example, depending on the market prices of uranium, precious metals, aluminum, copper, iron ore, and potash, our mining company clients may cancel or curtail their mining projects, which could result in a corresponding decline in the demand for our services among these clients. Accordingly, the cyclical nature of the mining industry could adversely affect our business, operating results or financial condition.

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

In the second quarter of fiscal 2019, we generated 29.1% of our revenue from our international operations, primarily in Canada and Australia, and from international clients for work that is performed by our domestic operations. International business is subject to a variety of risks, including:

- imposition of governmental controls and changes in laws, regulations, or policies;
- lack of developed legal systems to enforce contractual rights;
- greater risk of uncollectible accounts and longer collection cycles;
- currency exchange rate fluctuations, devaluations, and other conversion restrictions;
- uncertain and changing tax rules, regulations, and rates;
- the potential for civil unrest, acts of terrorism, force majeure, war or other armed conflict, and greater physical security risks, which may cause us to have to leave a country quickly;
- logistical and communication challenges;
- changes in regulatory practices, including tariffs and taxes;

• changes in labor conditions;
• general economic, political, and financial conditions in foreign markets; and
• exposure to civil or criminal liability under the U.S. Foreign Corrupt Practices Act (“FCPA”), the U.K. Bribery Act, the Canadian Corruption of Foreign Public Officials Act, the Brazilian Clean Companies Act, the anti-boycott rules, trade and export control regulations, as well as other international regulations.

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

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

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

In the second quarter of fiscal 2019, we generated 47.9% of our revenue from contracts with U.S. federal, and state and local government agencies. A significant amount of this revenue is derived under multi-year contracts, many of which are appropriated on an annual basis. As a result, at the beginning of a project, the related contract may be only partially funded, and additional funding is normally committed only as appropriations are made in each subsequent year. These appropriations, and the timing of payment of appropriated amounts, may be influenced by numerous factors as noted below. Our backlog includes only the projects that have funding appropriated.

The demand for our U.S. government-related services is generally driven by the level of government program funding. Accordingly, the success and further development of our business depends, in large part, upon the continued funding of these U.S. government programs, and upon our ability to obtain contracts and perform well under these programs. Under the Budget Control Act of 2011, an automatic sequestration process, or across-the-board budget cuts (a large portion of which was defense-related), was triggered. The sequestration began on March 1, 2013. Although the Bipartisan Budget Act of 2013 provided some sequester relief through the end of fiscal year 2015, the sequestration requires reduced U.S. federal government spending through fiscal year 2021. A significant reduction in federal government spending, the absence of a bipartisan agreement on the federal government budget, a partial or full federal government shutdown, or a change in budgetary priorities could reduce demand for our services, cancel or delay federal projects, result in the closure of federal facilities and significant personnel reductions, and have a material and adverse impact on our business, financial condition, results of operations and cash flows.

There are several additional factors that could materially affect our U.S. government contracting business, which could cause U.S. government agencies to delay or cancel programs, to reduce their orders under existing contracts, to exercise their rights to terminate contracts or not to exercise contract options for renewals or extensions. Such factors, which include the following, could have a material adverse effect on our revenue or the timing of contract payments from U.S. government agencies:

- the failure of the U.S. government to complete its budget and appropriations process before its fiscal year-end, which would result in the funding of government operations by means of a continuing resolution that authorizes agencies to continue to operate but does not authorize new spending initiatives. As a result, U.S. government agencies may delay the procurement of services;

- changes in and delays or cancellations of government programs, requirements or appropriations;

- budget constraints or policy changes resulting in delay or curtailment of expenditures related to the services we provide;

- re-compete of government contracts;

- the timing and amount of tax revenue received by federal, and state and local governments, and the overall level of government expenditures;

- curtailment in the use of government contracting firms;

- delays associated with insufficient numbers of government staff to oversee contracts;

- the increasing preference by government agencies for contracting with small and disadvantaged businesses;

-

competing political priorities and changes in the political climate regarding the funding or operation of the services we provide;

- the adoption of new laws or regulations affecting our contracting relationships with the federal, state or local governments;
- unsatisfactory performance on government contracts by us or one of our subcontractors, negative government audits or other events that may impair our relationship with federal, state or local governments;
- a dispute with or improper activity by any of our subcontractors; and
- general economic or political conditions.

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

U.S. government contracts are awarded through a regulated procurement process. The U.S. federal government has increasingly relied upon multi-year contracts with pre-established terms and conditions, such as indefinite delivery/indefinite

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

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

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

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

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

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

We must comply with and are affected by U.S. federal, state, local, and foreign laws and regulations relating to the formation, administration and performance of government contracts. For example, we must comply with Federal Acquisition Regulation (“FAR”), the Truth in Negotiations Act, Cost Accounting Standards (“CAS”), the American Recovery and Reinvestment Act of 2009, the Services Contract Act, and the DoD security regulations, as well as

many other rules and regulations. In addition, we must comply with other government regulations related to employment practices, environmental protection, health and safety, tax, accounting, and anti-fraud measures, as well as many other regulations in order to maintain our government contractor status. These laws and regulations affect how we do business with our clients and, in some instances, impose additional costs on our business operations. Although we take precautions to prevent and deter fraud, misconduct, and non-compliance, we face the risk that our employees or outside partners may engage in misconduct, fraud, or other improper activities. U.S. government agencies, such as the Defense Contract Audit Agency ("DCAA"), routinely audit and investigate government contractors. These government agencies review and audit a government contractor's performance under its contracts and cost structure, and evaluate compliance with applicable laws, regulations, and standards. In addition, during the course of its audits, the DCAA may question our incurred project costs. If the DCAA believes we have accounted for such costs in a manner inconsistent with the requirements for FAR or CAS, the DCAA auditor may recommend to our U.S. government corporate administrative contracting officer that such costs be disallowed. Historically, we have not experienced significant disallowed costs as a result of government audits. However, we can provide no assurance that the DCAA or other government audits will not result in material disallowances for incurred costs in the future. In addition, U.S. government contracts are subject to various other requirements relating to the formation, administration, performance, and accounting for these contracts. We may also be subject to qui tam litigation brought by private individuals on behalf of the U.S. government under the Federal Civil False Claims Act, which could include claims for treble damages. For

example, as discussed elsewhere in this report, on January 14, 2019, the Civil Division of the United States Attorney's Office ("USAO") filed complaints in intervention in three qui tam actions filed against our subsidiary, Tetra Tech EC, Inc. ("TtEC"), in the U.S. District Court for the Northern District of California. The complaints allege False Claims Act violations and breach of contract related to TtEC's contracts to perform environmental remediation services at the former Hunters Point Naval Shipyard in San Francisco, California. TtEC disputes the claims and will defend this matter vigorously. U.S. government contract violations could result in the imposition of civil and criminal penalties or sanctions, contract termination, forfeiture of profit, and/or suspension of payment, any of which could make us lose our status as an eligible government contractor. We could also suffer serious harm to our reputation. Any interruption or termination of our U.S. government contractor status could reduce our profits and revenue significantly.

If we extend a significant portion of our credit to clients in a specific geographic area or industry, we may experience disproportionately high levels of collection risk and nonpayment if those clients are adversely affected by factors particular to their geographic area or industry.

Our clients include public and private entities that have been, and may continue to be, negatively impacted by the changing landscape in the global economy. While outside of the U.S. federal government no one client accounted for over 10% of our revenue for the second quarter of fiscal 2019, we face collection risk as a normal part of our business where we perform services and subsequently bill our clients for such services. In the event that we have concentrated credit risk from clients in a specific geographic area or industry, continuing negative trends or a worsening in the financial condition of that specific geographic area or industry could make us susceptible to disproportionately high levels of default by those clients. Such defaults could materially adversely impact our revenues and our results of operations.

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

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.

If we fail to conduct due diligence on our potential targets effectively, we may, for example, not identify problems at target companies, or fail to recognize incompatibilities or other obstacles to successful integration. Our inability to

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

- issues in integrating information, communications, and other systems;
- incompatibility of logistics, marketing, and administration methods;
- maintaining employee morale and retaining key employees;
- integrating the business cultures of both companies;
- preserving important strategic client relationships;

consolidating corporate and administrative infrastructures, and eliminating duplicative operations; and
coordinating and integrating geographically separate organizations.

In addition, even if the operations of an acquisition are integrated successfully, we may not realize the full benefits of the acquisition, including the synergies, cost savings or growth opportunities that we expect. These benefits may not be achieved within the anticipated time frame, or at all.

Further, acquisitions may 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 fund 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;
- record goodwill and non-amortizable intangible assets that are subject to impairment testing 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 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 at acquisition, we may be exposed to material unanticipated liabilities, which could have a material adverse effect on our business.

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

Because we have historically acquired a significant number of companies, goodwill and intangible assets represent a substantial portion of our assets. As of March 31, 2019, our goodwill was \$827.7 million and other intangible assets were \$11.7 million. We are required to perform a goodwill impairment test for potential impairment at least on an annual basis. We also assess the recoverability of the unamortized balance of our intangible assets when indications of impairment are present based on expected future profitability and undiscounted expected cash flows and their contribution to our overall operations. The goodwill impairment test requires us to determine the fair value of our reporting units, which are the components one level below our reportable segments. In determining fair value, we make significant judgments and estimates, including assumptions about our strategic plans with regard to our operations. We also analyze current economic indicators and market valuations to help determine fair value. 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. We had no goodwill impairment in fiscal 2017, fiscal 2018, or the first six months of fiscal 2019.

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

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

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

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

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

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

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

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

key individuals could impair our ability to provide services to our clients and conduct our business effectively.

Our revenue and growth prospects may be harmed if we or our employees are unable to obtain government granted eligibility or other qualifications we and they need to perform services for our customers.

A number of government programs require contractors to have certain kinds of government granted eligibility, such as security clearance credentials. Depending on the project, eligibility can be difficult and time-consuming to obtain. If we or our employees are unable to obtain or retain the necessary eligibility, we may not be able to win new business, and our existing customers could terminate their contracts with us or decide not to renew them. To the extent we cannot obtain or maintain the required security clearances for our employees working on a particular contract, we may not derive the revenue or profit anticipated from such contract.

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

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

- the application of the percentage-of-completion method of accounting and revenue recognition on contracts, change orders, and contract claims, including related unbilled accounts receivable;
- unbilled accounts receivable, including amounts related to requests for equitable adjustment to contracts that provide for price redetermination, primarily with the U.S. federal government. These amounts are recorded only when they can be reliably estimated, and realization is probable;
- provisions for uncollectible receivables, client claims, and recoveries of costs from subcontractors, vendors, and others;
- provisions for income taxes, research and development tax credits, valuation allowances, and unrecognized tax benefits;
- value of goodwill and recoverability of intangible assets;
- valuations of assets acquired and liabilities assumed in connection with business combinations;
- valuation of contingent earn-out liabilities recorded in connection with business combinations;
- valuation of employee benefit plans;
 - valuation of stock-based compensation expense; and
- accruals for estimated liabilities, including litigation and insurance reserves.

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

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 operating units;

- our ability to manage attrition;
- our need to devote time and resources to training, business development, professional development, and other non-chargeable activities; and
- our ability to match the skill sets of our employees to the needs of the marketplace.

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

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

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

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

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

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

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

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

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

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

We have brought claims against clients for additional costs exceeding the contract price or for amounts not included in the original contract price. These types of claims occur due to matters such as client-caused delays or changes from the initial

project scope, both of which may result in additional cost. Often, these claims can be the subject of lengthy arbitration or litigation proceedings, and it is difficult to accurately predict when these claims will be fully resolved. When these types of events occur and unresolved claims are pending, we have used working capital in projects to cover cost overruns pending the resolution of the relevant claims. A failure to promptly recover on these types of claims could have a negative impact on our liquidity and profitability. Total accounts receivable at March 31, 2019 included approximately \$53 million related to such claims.

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

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

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 to effectively manage our growth or the inability of our employees to achieve anticipated performance could have a material adverse effect on our business.

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

Our backlog at March 31, 2019 was \$2.8 billion, an increase of \$150.3 million, or 5.6%, compared to the end of fiscal 2018. 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. As a result of these factors, our backlog as of any particular date is an uncertain indicator of our future earnings.

Cyber security breaches of our systems and information technology could adversely impact our ability to operate.

We develop, install and maintain information technology systems for ourselves, as well as for customers. Client contracts for the performance of information technology services, as well as various privacy and securities laws, require us to manage and protect sensitive and confidential information, including federal and other government information, from disclosure. We also need to protect our own internal trade secrets and other business confidential information, as well as personal data of our employees and contractors, from disclosure. For example, the European's Union General Data Protection Regulation, which became effective in May 2018, extends the scope of the European Union data protection laws to all companies processing data of European Union residents, regardless of the company's

location. We face the threat to our computer systems of unauthorized access, computer hackers, computer viruses, malicious code, organized cyber-attacks and other security problems and system disruptions, including possible unauthorized access to our and our clients' proprietary or classified information. We rely on industry-accepted security measures and technology to securely maintain all confidential and proprietary information on our information systems. In the ordinary course of business, we have been targeted by malicious cyber-attacks. We have devoted and will continue to devote significant resources to the security of our computer systems, but they may still be vulnerable to these threats. A user who circumvents security measures could misappropriate confidential or proprietary information, including information regarding us, our personnel and/or our clients, or cause interruptions or malfunctions in operations. As a result, we may be required to expend significant resources to protect against the threat of these system disruptions and security breaches or to alleviate problems caused by these disruptions and breaches. We also rely in part on third-party software and information technology vendors to run our critical accounting, project management and financial information systems. We depend on our software and information technology vendors to provide long-term software and hardware support for our information systems. Our software and information technology vendors may decide to discontinue further development, integration or long-term software and hardware support for our information systems, in which case we may need to abandon one or more of our current information systems and migrate some or all of our accounting, project management and financial information to other systems, thus increasing our operational expense, as well as

disrupting the management of our business operations. Any of these events could damage our reputation and have a material adverse effect on our business, financial condition, results of operations and cash flows.

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, joint ventures, 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. In addition, when we operate through a joint venture in which we are a minority holder, we have limited control over many project decisions, including decisions related to the joint venture's internal controls, which may not be subject to the same internal control procedures that we employ. If these unaffiliated third parties do not fulfill their contract obligations, the partnerships or joint ventures may be unable to adequately perform and deliver their contracted services. Under these circumstances, we may be obligated to pay financial penalties, provide additional services to ensure the adequate performance and delivery of the contracted services, and may be jointly and severally liable for the other's actions or contract performance. These additional obligations could result in reduced profits and revenues or, in some cases, significant losses for us with respect to the joint venture, which could also affect our reputation in the industries we serve.

If our contractors and subcontractors 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 a subcontractor fails to deliver on a timely basis the agreed-upon supplies, fails to perform the agreed-upon services, or goes out of business, then we may be required to purchase the services or supplies from another source at a higher price, and our ability to fulfill our obligations as a prime contractor may be jeopardized. This may reduce the profit to be realized or result in a loss on a project for which the services or supplies are needed.

We also rely on relationships with other contractors when we act as their subcontractor or joint venture partner. The absence of qualified subcontractors with which 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.

Our failure to meet contractual schedule or performance requirements that we have guaranteed could adversely affect our operating results.

In certain circumstances, we can incur liquidated or other damages if we do not achieve project completion by a scheduled date. If we or an entity for which we have provided a guarantee subsequently fails to complete the project as scheduled and the matter cannot be satisfactorily resolved with the client, we may be responsible for cost impacts to the client resulting from any delay or the cost to complete the project. Our costs generally increase from schedule delays and/or could exceed our projections for a particular project. In addition, project performance can be affected by a number of factors beyond our control, including unavoidable delays from governmental 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. As a

result, material performance problems for existing and future contracts could cause actual results of operations to differ from those anticipated by us and also could cause us to suffer damage to our reputation within our industry and client base.

New legal requirements could adversely affect our operating results.

Our business and results of operations could be adversely affected by U.S. health care reform, climate change, defense, environmental and infrastructure industry specific and other legislation and regulations. We are continually assessing the impact that health care reform could have on our employer-sponsored medical plans. Growing concerns about climate change may result in the imposition of additional environmental regulations. For example, legislation, international protocols, regulation or other restrictions on emissions could increase the costs of projects for our clients or, in some cases, prevent a project from going forward, thereby potentially reducing the need for our services. In addition, relaxation or repeal of laws and regulations, or changes in governmental policies regarding environmental, defense, infrastructure or other industries we serve could result in a decline in

demand for our services, which could in turn negatively impact our revenues. We cannot predict when or whether any of these various proposals may be enacted or what their effect will be on us or on our customers.

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

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, environmental, 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 revenue.

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 the revolving credit facility under our credit agreement. Unfavorable financial or economic conditions could impact certain lenders' 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 limits or 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, which could result in reduced revenue, profitability and market share.

We are engaged in a highly competitive business. The markets we serve are highly fragmented and we compete with many regional, national and international companies. Certain of these competitors have greater financial and other resources than we do. Others are smaller and more specialized and concentrate their resources in particular areas of expertise. The extent of our competition varies according to certain markets and geographic area. In addition, the technical and professional aspects of some of our services generally do not require large upfront capital expenditures and provide limited barriers against new competitors. The degree and type of competition we face is also influenced by the type and scope of a particular project. Our clients make competitive determinations based upon qualifications,

experience, performance, reputation, technology, customer relationships and ability to provide the relevant services in a timely, safe and cost-efficient manner. This competitive environment could force us to make price concessions or otherwise reduce prices for our services. If we are unable to maintain our competitiveness and win bids for future projects, our market share, revenue, and profits will decline.

Legal proceedings, investigations, and disputes could result in substantial monetary penalties and damages, especially if such penalties and damages exceed or are excluded from existing insurance coverage.

We engage in consulting, engineering, program management, construction management, construction, and technical services that can result in substantial injury or damages that may expose us to legal proceedings, investigations, and disputes. For example, in the ordinary course of our business, we may be involved in legal disputes regarding personal injury claims, employee or labor disputes, professional liability claims, and general commercial disputes involving project cost overruns and liquidated damages, as well as other claims. In addition, in the ordinary course of our business, we frequently make professional judgments and recommendations about environmental and engineering conditions of project sites for our clients, and we may be deemed to

be responsible for these judgments and recommendations if they are later determined to be inaccurate. Any unfavorable legal ruling against us could result in substantial monetary damages or even criminal violations. We maintain insurance coverage as part of our overall legal and risk management strategy to minimize our potential liabilities; however, insurance coverage contains exclusions and other limitations that may not cover our potential liabilities. Generally, our insurance program covers workers' compensation and employer's liability, general liability, automobile liability, professional errors and omissions liability, property, and contractor's pollution liability (in addition to other policies for specific projects). Our insurance program includes deductibles or self-insured retentions for each covered claim that may increase over time. In addition, our insurance policies contain exclusions that insurance providers may use to deny or restrict coverage. Excess liability and professional liability insurance policies provide for coverage on a "claims-made" basis, covering only claims actually made and reported during the policy period currently in effect. If we sustain liabilities that exceed or that are excluded from our insurance coverage, or for which we are not insured, it could have a material adverse impact on our financial condition, results of operations and cash flows.

Unavailability or cancellation of third-party insurance coverage would increase our overall risk exposure as well as disrupt the management of our business operations.

We maintain insurance coverage 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. In addition, there can be no assurance that any of our existing insurance coverage will be renewable upon the expiration of the coverage period or that future coverage will be affordable at the required limits.

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

Certain 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 certain 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 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 revenue and business prospects.

Employee, agent, or partner misconduct, or our failure to comply with anti-bribery and other laws or regulations, could harm our reputation, reduce our revenue 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. For example, as previously noted, the FCPA and similar anti-bribery laws in other jurisdictions

generally prohibit companies and their intermediaries from making improper payments to non-U.S. officials for the purpose of obtaining or retaining business. Our policies mandate compliance with these regulations and laws, and we take precautions to prevent and detect misconduct. However, since our internal controls are subject to inherent limitations, including human error, it is possible that these controls could be intentionally circumvented or become inadequate because of changed conditions. As a result, we cannot assure that our controls will protect us from reckless or criminal acts committed by our employees or agents. 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 revenue 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 from war, civil unrest, criminal activity, acts of terrorism, or public health crises. For example, we currently have employees working in high security risk countries such as Afghanistan and Iraq. As a result, we risk

loss of or injury to our employees and may be subject to costs related to employee death or injury, repatriation, or other unforeseen circumstances. We may choose or be forced to leave a country with little or no warning due to physical security risks.

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

Our project sites often put our employees and others in close proximity with mechanized equipment, moving vehicles, chemical and manufacturing processes, and highly regulated materials. On some project sites, we may be responsible for safety, and, accordingly, we have an obligation to implement effective safety procedures. 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, including the U.S. Mine Safety and Health Administration (“MSHA”), and rating bureaus, and may be evaluated by certain clients in cases in which safety requirements have been established in our contracts. Our failure to meet these requirements or our failure to properly implement and comply with our safety program could result in reduced profitability, the loss of projects or clients, or potential litigation, and could have 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.

If our reports and opinions are not in compliance with professional standards and other regulations, we could be subject to monetary damages and penalties.

We issue reports and opinions to clients based on our professional engineering expertise, as well as our other professional credentials. Our reports and opinions may need to comply with professional standards, licensing requirements, securities regulations, and other laws and rules governing the performance of professional services in the jurisdiction in which the services are performed. In addition, we could be liable to third parties who use or rely upon our reports or opinions even if we are not contractually bound to those third parties. For example, if we deliver an inaccurate report or one that is not in compliance with the relevant standards, and that report is made available to a third party, we could be subject to third-party liability, resulting in monetary damages and penalties.

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

Our services are subject to numerous U.S. and international environmental protection laws and regulations that are complex and stringent. For example, we must comply with a number of U.S. federal government 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 U.S. federal environmental, health, and safety laws affecting us include, but are not limited to, the Resource Conservation and Recovery Act, National Environmental Policy Act, the Clean Air Act, the Occupational Safety and Health Act, the Federal Mine Safety and Health Act of 1977 (the "Mine 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. Further, past business practices at companies that we have acquired may also expose us to future unknown environmental liabilities. 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, civil or criminal sanctions, and 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.

Force majeure events, including natural disasters and terrorist 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 or extraordinary events beyond the control of the contracting parties, such as natural and man-made disasters, as well as terrorist actions, could negatively impact the economies in which we operate by causing the closure of offices, interrupting projects, and forcing the relocation of employees. 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 could 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.

Our stock price could become more volatile and stockholders' investments could lose value.

In addition to the macroeconomic factors that have affected the prices of many securities generally, all of the factors discussed in this section could affect our stock price. Our common stock has previously experienced substantial price volatility. In addition, the stock market has experienced extreme price and volume fluctuations that have affected the market price of many companies, and that have often been unrelated to the operating performance of these companies. The overall market and the price of our common stock may fluctuate greatly. The trading price of our common stock may be significantly affected by various factors, including quarter-to-quarter variations in our financial results, such as revenue, profits, days sales outstanding, backlog, and other measures of financial performance or financial condition (which factors may, themselves, be affected by the factors described below):

- loss of key employees;
- the number and significance of client contracts commenced and completed during a quarter;
- creditworthiness and solvency of clients;
- the ability of our clients to terminate contracts without penalties;
- general economic or political conditions;
- unanticipated changes in contract performance that may affect profitability, particularly with contracts that are fixed-price or have funding limits;
- contract negotiations on change orders, requests for equitable adjustment, and collections of related billed and unbilled accounts receivable;
- seasonality of the spending cycle of our public sector clients, notably the U.S. federal government, the spending patterns of our commercial sector clients, and weather conditions;
- budget constraints experienced by our U.S. federal, and state and local government clients;
- integration of acquired companies;

- changes in contingent consideration related to acquisition earn-outs;
- divestiture or discontinuance of operating units;
- employee hiring, utilization and turnover rates;
- delays incurred in connection with a contract;
- the size, scope and payment terms of contracts;
- the timing of expenses incurred for corporate initiatives;
- reductions in the prices of services offered by our competitors;
- threatened or pending litigation;
- legislative and regulatory enforcement policy changes that may affect demand for our services;
- the impairment of goodwill or identifiable intangible assets;
- the fluctuation of a foreign currency exchange rate;
- stock-based compensation expense;

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

- success in executing our strategy and operating plans;
- changes in tax laws or regulations or accounting rules;
- results of income tax examinations;
- the timing of announcements in the public markets regarding new services or potential problems with the performance of services by us or our competitors, or any other material announcements;
- speculation in the media and analyst community, changes in recommendations or earnings estimates by financial analysts, changes in investors' or analysts' valuation measures for our stock, and market trends unrelated to our stock;
- our announcements concerning the payment of dividends or the repurchase of our shares;
- resolution of threatened or pending litigation;
- changes in investors' and analysts' perceptions of our business or any of our competitors' businesses;
- changes in environmental legislation;
- broader market fluctuations; and
- general economic or political conditions.

A significant drop in the price of our stock could expose us to the risk of securities class action lawsuits, which could result in substantial costs and divert management's attention and resources, which could adversely affect our business. 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 awarded equity securities, the value of which is dependent on the performance of our stock price.

Delaware law and our charter documents may impede or discourage a merger, takeover, or other business combination even if the business combination would have been in the short-term best interests of our stockholders.

We are a Delaware corporation and the anti-takeover provisions of Delaware law impose various impediments to the ability of a third party to acquire control of Tetra Tech, even if a change in control would be beneficial to our stockholders. In addition, our Board of Directors has the power, without stockholder approval, to designate the terms of one or more series of preferred stock and issue shares of preferred stock, which could be used defensively if a takeover is threatened. Our incorporation under Delaware law, the ability of our Board of Directors to create and issue a new series of preferred stock, and provisions in our certificate of incorporation and bylaws, such as those relating to advance notice of certain stockholder proposals and nominations, could impede a merger, takeover, or other business combination involving us, or discourage a potential acquirer from making a tender offer for our common stock, even if the business combination would have been in the best interests of our current stockholders.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

On November 5, 2018, the Board of Directors authorized a new stock repurchase program under which we could repurchase up to \$200 million of our common stock in addition to the \$25 million remaining under the previous stock repurchase program. As of September 30, 2018, we repurchased through open market purchases a total of 3,757,966 shares at an average price of \$46.57 for a total cost of \$175.0 million. In the first six months of fiscal 2019, we also repurchased through open market purchases a total of 879,614 shares at an average price of \$56.84 for a total cost of \$50.0 million under this program.

A summary of the repurchase activity for the six months ended March 31, 2019 is as follows:

| Period | Total Number of Shares | Average Price Paid per Share | Total Number of Shares | Maximum Dollar Value |
|--------|------------------------|------------------------------|------------------------|----------------------|
|--------|------------------------|------------------------------|------------------------|----------------------|

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| | Purchased | | Purchased as | that May Yet |
|---------------------------------------|-----------|-------|------------------|---------------|
| | | | Part of Publicly | be Purchased |
| | | | Announced | Under the |
| | | | Plans or | Plans or |
| | | | Programs | Programs |
| October 1, 2018 – October 28, 2018 | — | \$ | — | \$225,000,591 |
| October 29, 2018 – November 25, 2018 | 85,938 | 65.97 | 85,938 | 219,331,078 |
| November 26, 2018 – December 30, 2018 | 344,621 | 56.09 | 344,621 | 200,000,634 |
| December 31, 2018 - January 27, 2019 | 128,657 | 52.23 | 128,657 | 193,281,097 |
| January 28, 2019 - February 24, 2019 | 145,703 | 54.76 | 145,703 | 185,301,729 |
| February 25, 2019 - March 31, 2019 | 174,695 | 58.97 | 174,695 | 175,000,645 |

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Item 4. Mine Safety Disclosure

Section 1503 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”) requires domestic mine operators to disclose violations and orders issued under the Mine Act by MSHA. We do not act as the owner of any mines, but we may act as a mining operator as defined under the Mine Act where we may be an independent contractor performing services or construction at such mine. Information concerning mine safety violations or other regulatory matters required by Section 1503(a) of the Dodd-Frank Act and Item 104 Regulations S-K is included in Exhibit 95.

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.

95 Mine Safety Disclosure.

101 The following financial information from our Company’s Quarterly Report on Form 10-Q, for the period ended March 31, 2019, formatted in eXtensible Business Reporting Language: (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Income, (iii) Consolidated Statements of Comprehensive Income, (iv) Consolidated Statements of Cash Flows, (v) Notes to Consolidated Financial Statements.

SIGNATURES

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

Dated: May 3, 2019 TETRA TECH, INC.

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

By: /s/ Steven M. Burdick
Steven M. Burdick
Chief Financial Officer
(Principal Financial Officer)

By: /s/ Brian N. Carter
Brian N. Carter
Senior Vice President, Corporate Controller
(Principal Accounting Officer)