

TETRA TECH INC  
Form 10-Q  
August 03, 2018

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 July 1, 2018

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 (I.R.S. Employer  
incorporation or organization) Identification Number)

3475 East Foothill Boulevard, Pasadena, California 91107

(Address of principal executive offices) (Zip Code)

(626) 351-4664

(Registrant's telephone number, including area code)

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

Yes  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  (Do not check if a smaller reporting company)  
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

As of July 30, 2018, 55,333,840 shares of the registrant's common stock were outstanding.

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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)

ASSETS	July 1, 2018	October 1, 2017
Current assets:		
Cash and cash equivalents	\$214,040	\$189,975
Accounts receivable – net	847,211	788,767
Prepaid expenses and other current assets	60,115	49,969
Income taxes receivable	12,577	13,312
Total current assets	1,133,943	1,042,023
Property and equipment – net	44,719	56,835
Investments in unconsolidated joint ventures	2,560	2,700
Goodwill	795,752	740,886
Intangible assets – net	15,378	26,688
Deferred tax assets	6,201	1,763
Other long-term assets	35,277	31,850
Total assets	\$2,033,830	\$1,902,745
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	\$131,752	\$177,638
Accrued compensation	144,119	143,408
Billings in excess of costs on uncompleted contracts	163,696	117,499
Current portion of long-term debt	18,737	15,588
Current contingent earn-out liabilities	12,134	2,024
Other current liabilities	92,645	81,511
Total current liabilities	563,083	537,668
Deferred tax liabilities	41,687	43,781
Long-term debt	418,950	341,283
Long-term contingent earn-out liabilities	19,081	414
Other long-term liabilities	54,736	50,975
Commitments and contingencies (Note 15)		
Equity:		
Preferred stock - authorized, 2,000 shares of \$0.01 par value; no shares issued and outstanding at July 1, 2018 and October 1, 2017	—	—
Common stock - authorized, 150,000 shares of \$0.01 par value; issued and outstanding, 55,332 and 55,873 shares at July 1, 2018 and October 1, 2017, respectively	553	559
Additional paid-in capital	144,470	193,835
Accumulated other comprehensive loss	(131,738)	(98,500)
Retained earnings	922,806	832,559

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Tetra Tech stockholders' equity	936,091	928,453
Noncontrolling interests	202	171
Total stockholders' equity	936,293	928,624
Total liabilities and stockholders' equity	\$2,033,830	\$1,902,745

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		Nine Months Ended	
	July 1, 2018	July 2, 2017	July 1, 2018	July 2, 2017
Revenue	\$764,795	\$685,539	\$2,224,805	\$2,018,171
Subcontractor costs	(194,443 )	(187,061 )	(576,813 )	(518,188 )
Other costs of revenue	(460,758 )	(408,228 )	(1,352,827 )	(1,247,369 )
Gross profit	109,594	90,250	295,165	252,614
Selling, general and administrative expenses	(53,906 )	(44,366 )	(146,254 )	(131,068 )
Contingent consideration – fair value adjustments	(192 )	—	(2,110 )	7,149
Income from operations	55,496	45,884	146,801	128,695
Interest expense	(4,345 )	(2,795 )	(11,597 )	(8,802 )
Income before income tax expense	51,151	43,089	135,204	119,893
Income tax expense	(17,806 )	(13,114 )	(27,060 )	(36,462 )
Net income	33,345	29,975	108,144	83,431
Net (income) loss attributable to noncontrolling interests	(23 )	8	(62 )	(24 )
Net income attributable to Tetra Tech	\$33,322	\$29,983	\$108,082	\$83,407
Earnings per share attributable to Tetra Tech:				
Basic	\$0.60	\$0.52	\$1.94	\$1.46
Diluted	\$0.59	\$0.52	\$1.91	\$1.44
Weighted-average common shares outstanding:				
Basic	55,537	57,184	55,780	57,108
Diluted	56,390	58,161	56,681	58,116
Cash dividends paid per share	\$0.12	\$0.10	\$0.32	\$0.28

See Notes to Consolidated Financial Statements.

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

	Three Months Ended		Nine Months Ended	
	July 1, 2018	July 2, 2017	July 1, 2018	July 2, 2017
Net income	\$33,345	\$29,975	\$108,144	\$83,431
Other comprehensive income (loss), net of tax				
Foreign currency translation adjustments	(13,209 )	14,049	(32,792 )	7,190
Gain (loss) on cash flow hedge valuations	(485 )	138	(446 )	1,586
Other comprehensive income (loss) attributable to Tetra Tech	(13,694 )	14,187	(33,238 )	8,776
Other comprehensive income (loss) attributable to noncontrolling interests	(2 )	1	(10 )	189
Comprehensive income	\$19,649	\$44,163	\$74,896	\$92,396
Comprehensive income attributable to Tetra Tech	\$19,628	\$44,170	\$74,844	\$92,183
Comprehensive income (loss) attributable to noncontrolling interests	21	(7 )	52	213
Comprehensive income	\$19,649	\$44,163	\$74,896	\$92,396

See Notes to Consolidated Financial Statements.

Tetra Tech, Inc.  
Consolidated Statements of Cash Flows  
(unaudited – in thousands)

	Nine Months Ended	
	July 1, 2018	July 2, 2017
Cash flows from operating activities:		
Net income	\$ 108,144	\$ 83,431
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	30,592	34,377
Equity in income of unconsolidated joint ventures	(3,604 )	(3,504 )
Distributions of earnings from unconsolidated joint ventures	3,701	2,747
Non-cash stock compensation	15,519	10,037
Deferred income taxes	(8,266 )	27,886
Provision for doubtful accounts	5,841	(1,891 )
Fair value adjustments to contingent consideration	2,110	(7,149 )
Loss (gain) on sale of assets	1,938	(369 )
Changes in operating assets and liabilities, net of effects of business acquisitions and divestitures:		
Accounts receivable	(58,713 )	(9,485 )
Prepaid expenses and other assets	(20,539 )	(14,806 )
Accounts payable	(44,279 )	(2,484 )
Accrued compensation	(7,300 )	(13,390 )
Billings in excess of costs on uncompleted contracts	35,666	36,401
Other liabilities	7,786	(5,523 )
Income taxes receivable/payable	(1,149 )	(64,705 )
Net cash provided by operating activities	67,447	71,573
Cash flows from investing activities:		
Payments for business acquisitions, net of cash acquired	(65,901 )	(8,039 )
Capital expenditures	(6,346 )	(7,018 )
Proceeds from sale of divested business	36,250	—
Proceeds from sale of property and equipment	3,145	507
Net cash used in investing activities	(32,852 )	(14,550 )
Cash flows from financing activities:		
Proceeds from borrowings	293,756	199,574
Payments on long-term debt	(217,259 )	(220,845 )
Repurchases of common stock	(75,000 )	(60,000 )
Net proceeds from issuance of common stock	13,200	17,992
Dividends paid	(17,836 )	(16,039 )
Payments of contingent earn-out liabilities	(854 )	—
Net cash used in financing activities	(3,993 )	(79,318 )
Effect of exchange rate changes on cash	(6,537 )	608
Net increase (decrease) in cash and cash equivalents	24,065	(21,687 )
Cash and cash equivalents at beginning of period	189,975	160,459
Cash and cash equivalents at end of period	\$ 214,040	\$ 138,772



Supplemental information:

Cash paid during the period for:

Interest

\$11,391 \$8,770

Income taxes, net of refunds received of \$0.5 million and \$1.6 million

\$36,620 \$70,146

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 (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. They do not include all of the information and footnotes required by GAAP for complete financial statements and, therefore, should be read in conjunction with the audited consolidated financial statements and related notes contained in our Annual Report on Form 10-K for the fiscal year ended October 1, 2017.

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. Beginning in fiscal 2018, we aligned our operations to better serve our clients and markets, resulting in two renamed 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. This alignment allows us to capitalize on our growing market opportunities and enhance the development of high-end consulting and technical solutions to meet our growing client demand. We continue to report the results of the wind-down of our non-core construction activities in the Remediation and Construction Management (“RCM”) segment. Prior year amounts for reportable segments have been revised to conform to the current-year presentation.

## 2. Accounts Receivable and Revenue Recognition

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

	July 1, 2018	October 1, 2017
	(in thousands)	
Billed	\$456,626	\$376,287
Unbilled	406,206	404,899
Contract retentions	21,960	39,840
Total accounts receivable – gross	884,792	821,026
Allowance for doubtful accounts	(37,581 )	(32,259 )
Total accounts receivable – net	\$847,211	\$788,767

Billings in excess of costs on uncompleted contracts \$163,696 \$117,499

Billed accounts receivable represent amounts billed to clients that have not been collected. Unbilled accounts receivable represent revenue recognized but not yet billed pursuant to contract terms or billed after the period end date. Except for amounts related to claims as discussed below, most of our unbilled receivables at July 1, 2018 are expected to be billed and collected within 12 months. Contract retentions represent amounts withheld by clients until certain conditions are met or the project is completed, which may be several months or years. The allowance for doubtful accounts represents amounts that are expected to become uncollectible or unrealizable in the future. We determine an estimated allowance for uncollectible accounts based on management's consideration of trends in the actual and forecasted credit quality of our clients, including delinquency and payment history; type of client, such as a

government agency or a commercial sector client; and general economic and particular industry conditions that may affect a client's ability to pay. Billings in excess of costs on uncompleted contracts represent the amount of cash collected from clients and billings to clients on contracts in advance of revenue recognized. The majority of billings in excess of costs on uncompleted contracts will be earned within 12 months.

Once contract performance is underway, we may experience changes in conditions, client requirements, specifications, designs, materials and expectations regarding the period of performance. Such changes result in change orders and may be initiated

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

Total accounts receivable at July 1, 2018 and October 1, 2017 included \$68 million and \$59 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. We recorded no material gains or losses related to claims during the first nine months of fiscal 2018. In the third quarter and first nine months of fiscal 2017, we recognized a reduction of revenue of \$0.4 million and \$4.9 million, respectively, and related losses in operating income of \$0.4 million and \$3.6 million, respectively, all in our RCM segment.

Billed accounts receivable related to U.S. federal government contracts were \$93.5 million and \$45.4 million at July 1, 2018 and October 1, 2017, respectively. U.S. federal government contracts unbilled receivables were \$98.0 million and \$109.7 million at July 1, 2018 and October 1, 2017, respectively. Other than the U.S. federal government, no single client accounted for more than 10% of our accounts receivable at July 1, 2018 and October 1, 2017.

We recognize revenue from contracts using the percentage-of-completion method, primarily utilizing the cost-to-cost approach, to estimate the progress towards completion in order to determine the amount of revenue and profit to recognize. Changes in those estimates could result in the recognition of cumulative catch-up adjustments to the contract's inception-to-date revenue, costs and profit in the period in which such changes are made. As a result, we recognized net unfavorable operating income adjustments of \$1.0 million and \$2.4 million for the third quarter and first nine months of fiscal 2018, respectively, in the CIG segment. We recognized immaterial operating income adjustments during the third quarter of fiscal 2017, and net unfavorable operating income adjustments of \$8.0 million (\$2.3 million in the CIG segment and \$5.7 million in the RCM segment) during the first nine months of fiscal 2017. Changes in revenue and cost estimates could also result in a projected loss that would be recorded immediately in earnings. As of July 1, 2018 and October 1, 2017, our consolidated balance sheets included liabilities for anticipated losses of \$5.0 million and \$8.1 million, respectively. The estimated cost to complete the related contracts as of July 1, 2018 was \$10.8 million.

### 3. Acquisitions and Divestitures

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 is 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 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 is 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 2017, we acquired Eco Logical Australia (“ELA”), headquartered in Sydney, Australia. ELA is a multi-disciplinary consulting firm with over 160 staff that provides innovative, high-end environmental and ecological services, and is part of our CIG segment. The fair value of the purchase price for ELA was \$9.9 million. This amount consists of \$8.3 million of cash payments made to the sellers and \$1.6 million for the estimated fair value of contingent earn-out obligations, with a maximum of \$1.7 million payable, based upon the achievement of specified operating income targets in each of the two years following the acquisition.

In the third quarter of fiscal 2018, we divested our non-core utility field services operations in the CIG reportable 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. We also divested of other non-core assets during the third quarter of fiscal 2018

further described in Note 5. "Property and Equipment." These non-core divestitures resulted in a pre-tax loss of \$3.4 million, which is included in selling, general and administrative expenses for the third quarter and first nine months 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 the fiscal 2018 acquisitions primarily represent the value of a workforce with distinct expertise in the sustainable infrastructure design market. The goodwill addition related to the fiscal 2017 acquisition primarily represents the value of a workforce with distinct expertise in the environmental and ecological markets. 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 4, "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 our 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.

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. For the

third quarter and first nine months of fiscal 2018 (substantially all in the second quarter), we recorded increases in our contingent earn-out liabilities related to ELA and Cornerstone Environmental Group ("CEG"), which resulted in charges to operating income totaling \$0.2 million and \$2.1 million, respectively. During the first nine months of fiscal 2017 (all in the second quarter), we recorded decreases in our contingent earn-out liabilities related to INDUS Corporation ("INDUS") and CEG, which resulted in gains in operating income totaling \$7.1 million (\$5.0 million for INDUS and \$2.1 million for CEG).

The acquisition agreement for INDUS included a contingent earn-out agreement based on the achievement of operating income thresholds in each of the first two years beginning on the acquisition date, which was in the second quarter of fiscal 2016. The maximum earn-out obligation over the two-year earn-out period was \$8.0 million (\$4.0 million in each year). These amounts could be earned on a pro-rata basis starting at 50% of the earn-out maximum for operating income within a predetermined range in each year. INDUS was required to meet a minimum operating income threshold in each year to earn any contingent consideration. These minimum thresholds were \$3.2 million and \$3.6 million in years one and two, respectively. In order to earn the maximum contingent consideration, INDUS needed to generate operating income of \$3.6 million in year one and \$4.0 million in year two.

The determination of the fair value of the purchase price for INDUS on the acquisition date included our estimate of the fair value of the related contingent earn-out obligation. The initial valuation was primarily based on probability-weighted internal estimates of INDUS' operating income during each earn-out period. As a result of these estimates, we calculated an initial fair value at the acquisition date of INDUS' contingent earn-out liability of \$4.7 million in the second quarter of fiscal 2016. This amount had increased to \$4.9 million at the end of fiscal 2016 due to the passage of time for the present value calculation. In determining that INDUS would earn 59% of the maximum potential earn-out, we considered several factors including INDUS' recent historical revenue and operating income levels and growth rates. We also considered the recent trend in INDUS' backlog level.

INDUS' annual financial performance in the first earn-out period was below our original expectation at the acquisition date. As a result, in the second quarter of fiscal 2017, we evaluated our estimate of INDUS' contingent consideration liability for both earn-out periods. This assessment included a review of INDUS' financial results in the first earn-out period, the status of ongoing projects in INDUS' backlog, and the inventory of prospective new contract awards. As a result of this assessment, we concluded that INDUS' operating income in both the first and second earn-out periods would be lower than the minimum requirements of \$3.2 million and \$3.6 million, respectively, to earn any contingent consideration. Accordingly, in the second quarter of fiscal 2017, we reduced the INDUS contingent earn-out liability to \$0, which resulted in a gain of \$5.0 million.

At July 1, 2018, there was a total potential maximum of \$48.5 million of outstanding contingent consideration related to acquisitions. Of this amount, \$31.2 million was estimated as the fair value and accrued on our consolidated balance sheet.

#### 4. Goodwill and Intangible Assets

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

	GSG	CIG	Total
	(in thousands)		
Balance at October 1, 2017	\$361,761	\$379,125	\$740,886
Acquisition activity	28,681	62,034	90,715
Divestiture activity	—	(12,160 )	(12,160 )
Translation and other	(1,568 )	(22,121 )	(23,689 )
Balance at July 1, 2018	\$388,874	\$406,878	\$795,752

During the first nine months of fiscal 2018, we recorded goodwill additions as a result of our recent acquisitions. The purchase price allocations for these acquisitions are preliminary, and subject to adjustments based upon the final determination of the net assets acquired and information to perform the final valuation. Additionally, we reported a goodwill reduction of \$12.2 million as a result of the divestiture of our non-core utility field services operations. Our goodwill was also impacted by foreign exchange related to our foreign subsidiaries with functional currencies that are different than our reporting currency. The gross amounts of goodwill for GSG were \$406.6 million and \$379.5 million at July 1, 2018 and October 1, 2017, respectively, excluding \$17.7 million of accumulated impairment. The gross amounts of goodwill for CIG were \$504.8 million and \$477.0 million at July 1, 2018 and October 1, 2017, 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 3, 2017 (i.e. the first day of our fourth quarter in fiscal 2017) indicated that we had no impairment of goodwill, and all of our reporting units had estimated fair values that were in excess of their carrying values, including goodwill.



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.

The reorganization of our core operations, described in Note 1, “Basis of Presentation” and Note 10, “Reportable Segments”, also impacted the composition of our reporting units for goodwill impairment testing. As a result, on October 2, 2017, we performed impairment testing for goodwill under our new segment structure and determined that the estimated fair value of each new reporting unit exceeded its corresponding carrying amount including recorded goodwill. Although we believe that our

estimates of fair value for our reporting units are reasonable, if financial performance for our reporting units falls significantly below our expectations or market prices for similar businesses decline, the goodwill for our reporting units could become impaired.

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:

	July 1, 2018			October 1, 2017	
	Weighted- Average Remaining Life (in Years)	Gross Amount	Accumulated Amortization	Gross Amount	Accumulated Amortization
	(\$ in thousands)				
Non-compete agreements	0.0	\$81	\$ (81 )	\$495	\$ (493 )
Client relations	2.6	54,446	(44,589 )	90,297	(75,074 )
Backlog	0.8	22,620	(19,301 )	21,518	(13,301 )
Trade names	2.5	5,107	(2,905 )	6,685	(3,439 )
Total		\$82,254	\$ (66,876 )	\$ 118,995	\$ (92,307 )

The gross amount and accumulated amortization for client relations decreased due to the full amortization of assets as of fiscal 2017 year-end. Amortization expense for the three and nine months ended July 1, 2018 was \$5.2 million and \$14.9 million, respectively, compared to \$5.6 million and \$17.4 million for the prior-year periods. Estimated amortization expense for the remainder of fiscal 2018 and succeeding years is as follows:

	Amount (in thousands)
2018	\$ 4,043
2019	6,295
2020	2,758
2021	1,642
2022	411
Beyond 2022	
Total	\$ 15,378

## 5. Property and Equipment

Property and equipment consisted of the following:

	July 1, 2018	October 1, 2017
	(in thousands)	
Equipment, furniture and fixtures	\$ 129,954	\$ 150,026
Leasehold improvements	29,911	27,689
Land and buildings	594	3,680
Total property and equipment	160,459	181,395
Accumulated depreciation	(115,740 )	(124,560 )
Property and equipment, net	\$44,719	\$56,835

The depreciation expense related to property and equipment was \$4.9 million and \$15.1 million for the three and nine months ended July 1, 2018, respectively, compared to \$5.3 million and \$16.4 million for the prior-year periods. Our land and buildings declined \$3.0 million in the third quarter of fiscal 2018 due to the actual and planned divestitures of certain non-core assets. Additionally, our net property and equipment declined \$4.0 million in the third quarter of fiscal 2018 as a result of the divestiture of our non-core utility field services operations in our CIG reportable segment.

#### 6. Stock Repurchase and Dividends

On November 7, 2016, the Board of Directors authorized a new stock repurchase program under which we could repurchase up to \$200 million of our common stock. In fiscal 2017, we repurchased through open market purchases under this program a total of 2,266,397 shares at an average price of \$44.12 for a total cost of \$100.0 million. In the first nine months of fiscal 2018, we repurchased an additional 1,491,569 shares through an open market under this program at an average price of \$50.28 for a total cost of \$75.0 million.

The following table summarizes dividend declared and paid in fiscal 2018 and 2017:

Declare Date	Dividend Paid Per Share	Record Date	Payment Date	Dividend Paid
(in thousands, except per share data)				
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
April 30, 2018	\$ 0.12	May 16, 2018	June 1, 2018	6,664
Total dividend paid as of July 1, 2018				\$ 17,836
November 7, 2016	\$ 0.09	December 1, 2016	December 14, 2016	\$ 5,144
January 30, 2017	\$ 0.09	February 17, 2017	March 3, 2017	5,157
May 1, 2017	\$ 0.10	May 18, 2017	June 2, 2017	5,738
Total dividend paid as of July 2, 2017				\$ 16,039

Subsequent Event. On July 30, 2018, the Board of Directors declared a quarterly cash dividend of \$0.12 per share payable on August 31, 2018 to stockholders of record as of the close of business on August 16, 2018.

#### 7. Stockholders' Equity and Stock Compensation Plans

We recognize the fair value of our stock-based compensation awards as compensation expense on a straight-line basis over the requisite service period in which the award vests. Stock-based compensation expense for the three and nine months ended July 1, 2018 was \$6.8 million and \$15.5 million, respectively, compared to \$3.4 million and \$10.0 million for the same periods last year. The majority of these amounts were included in "Selling, general and

administrative (“SG&A”) expenses” in our consolidated statements of income. There were no material stock compensation awards in the third quarter of fiscal 2018. In the nine months ended July 1, 2018, we granted 170,222 stock options with an exercise price of \$47.95 per share and an estimated weighted-average fair value of \$14.79 per share to our non-employee directors and executive officers. The executive officer options vest over a four-year period, and the non-employee director options vest after one year. In addition, we awarded 98,599 performance

shares units (“PSUs”) to our non-employee directors and executive officers at a fair value of \$57.37 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 196,651 restricted stock units (“RSUs”) to our non-employee directors, executive officers and employees at the fair value of \$48.02 per share on the award date. All of the executive officer and employee RSUs have time-based vesting over a four-year period, and the non-employee director RSUs vest after one year.

#### 8. Earnings per Share (“EPS”)

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

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

	Three Months Ended		Nine Months Ended	
	July 1, 2018	July 2, 2017	July 1, 2018	July 2, 2017
	(in thousands, except per share data)			
Net income attributable to Tetra Tech	\$33,322	\$29,983	\$108,082	\$83,407
Weighted-average common shares outstanding – basic	55,537	57,184	55,780	57,108
Effect of dilutive stock options and unvested restricted stock	853	977	901	1,008
Weighted-average common stock outstanding – diluted	56,390	58,161	56,681	58,116
Earnings per share attributable to Tetra Tech:				
Basic	\$0.60	\$0.52	\$1.94	\$1.46
Diluted	\$0.59	\$0.52	\$1.91	\$1.44

#### 9. Income Taxes

The effective tax rates for the first nine months of fiscal 2018 and 2017 were 20.0% and 30.4%, respectively. The fiscal 2018 tax rate reflects 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. The TCJA also imposes a one-time transition tax on deemed repatriation of historical earnings of foreign subsidiaries. We analyzed this provision of the TCJA and our related foreign earnings accumulated under legacy tax laws during the first nine months of fiscal 2018. Based on our preliminary analysis of tax earnings and profits and tax deficits at the prescribed measurement dates, we have a cumulative net tax deficit and do not believe we 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 will be 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 subsequent fiscal years.

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 will 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. Excluding this tax benefit, our effective tax rate in the first nine months of fiscal 2018 was 27.4%.

The one-time revaluation of our deferred tax liabilities and our estimate of the one-time transition tax on foreign earnings are both preliminary and subject to adjustment as we refine the information necessary to record the final values. The provisional amounts incorporate assumptions made based on our current interpretation of the TCJA and may change as we receive additional clarification on the implementation guidance. Additionally, in order to complete the valuation of our deferred tax liabilities, additional information related to the timing of the recovery or settlement of our deferred tax assets and liabilities and the effective tax rates (including state tax rates) that will apply needs to be obtained and analyzed. Similarly, information related to the computation of our foreign earnings and profits subject to the one-time transition tax requires further analysis before we make a final determination that we have no related liability. The U.S. Securities and Exchange Commission (“SEC”) has issued rules that would allow for a measurement period of up to one year after the enactment date of the TCJA to finalize the recording of the related tax impacts. We currently anticipate finalizing and recording any resulting adjustments by the end of our current fiscal year ending September 30, 2018.

The third quarter divestitures of our non-core utility field services operations and other non-core assets resulted in a pre-tax loss of \$3.4 million and incremental tax expense of \$2.6 million due to a book/tax basis difference primarily related to the \$12.2 million of associated goodwill. In the third quarter of fiscal 2018, the Internal Revenue Service (“IRS”) concluded their examination for fiscal years 2014 through 2016 and other state examinations were also completed. As a result, we recognized a net \$0.4 million tax benefit in the third quarter of fiscal 2018, and we made payments to the IRS of approximately \$7.6 million. In the second quarter of fiscal 2017, the IRS concluded their examination for fiscal years 2010 through 2013. As a result, we recognized a \$1.2 million tax benefit in the second quarter of fiscal 2017, and we made payments to the IRS of approximately \$21.5 million in the third quarter of fiscal 2017 that represented the acceleration of a deferred tax liability. In the second quarter of fiscal 2017, we also recognized a tax expense of \$2.3 million to establish a reserve for an international tax position that is under examination. Excluding these discrete amounts from both periods and the one-time impacts of the TCJA, the effective tax rates for the first nine months of fiscal 2018 and 2017 were 25.0% and 29.5%, respectively.

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.

Because of the complexity of the new Global Intangible Low-Taxed Income (“GILTI”) tax rules, we continue to evaluate this provision of the TCJA and the application of Accounting Standards Codification 740, Income Taxes. Under GAAP, we are allowed to make an accounting policy choice of either: 1) treating taxes due on future U.S. inclusions in taxable income related to GILTI as a current period expense when incurred or 2) factoring such amounts into our measurement of our deferred taxes. Our selection of an accounting policy with respect to the new GILTI tax rules will depend, in part, on analyzing our global income to determine whether we expect to have future U.S. inclusions in taxable income related to GILTI and, if so, what the impact is expected to be. Whether we expect to have future U.S. inclusions in taxable income related to GILTI depends on not only our current structure and estimated future results of global operations, but also our intent and ability to modify our structure. We are currently in the process of analyzing our structure and, as a result, we are not yet able to reasonably estimate the effect of this provision of the TCJA. Therefore, we have not made any adjustments related to potential GILTI tax in our consolidated financial statements, and have not made a policy decision regarding whether to record deferred taxes on GILTI.

As of July 1, 2018 and October 1, 2017, the liability for income taxes associated with uncertain tax positions was \$8.9 million and \$6.0 million, respectively. These uncertain tax positions substantially relate to ongoing examinations, which are reasonably likely to be resolved within the next 12 months.

10. Reportable Segments

Beginning in fiscal 2018, we aligned our operations to better serve our clients and markets, resulting in two renamed 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. This alignment allows us to capitalize on our growing market opportunities and enhance the development of high-end consulting and technical solutions to meet our growing client demand. We will continue to report the results of the wind-down of our non-core construction activities in the RCM segment. Prior year amounts for reportable segments have been revised to conform to the current-year presentation.



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 emergency management services. GSG also provides engineering design services for municipal and commercial clients, especially in water infrastructure, solid waste, and high-end sustainable infrastructure designs. Additionally, GSG provides a wide range of support to development agencies worldwide.

CIG provides consulting and engineering services primarily to U.S. commercial clients and international clients, both commercial and local government. CIG supports commercial clients across the Fortune 500, oil and gas, energy utilities, 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. CIG also provides field construction management activities in the United States and Western Canada.

We report the results of the wind-down of our non-core construction activities in the RCM reportable segment. The remaining backlog for RCM as of July 1, 2018 was immaterial as the related projects are substantially complete.

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 set forth summarize financial information regarding our reportable segments:

	Three Months Ended		Nine Months Ended	
	July 1, 2018	July 2, 2017	July 1, 2018	July 2, 2017
	(in thousands)			
Revenue				
GSG	\$423,912	\$379,292	\$1,272,712	\$1,099,265
CIG	352,631	318,195	993,849	965,393
RCM	3,336	4,192	11,622	12,401
Elimination of inter-segment revenue	(15,084 )	(16,140 )	(53,378 )	(58,888 )
Total revenue	\$764,795	\$685,539	\$2,224,805	\$2,018,171
Income (loss) from operations				
GSG	\$44,372	\$32,047	\$117,674	\$95,647
CIG	27,892	24,082	67,585	64,085
RCM	(485 )	(1,251 )	(2,132 )	(12,759 )
Corporate <sup>(1)</sup>	(16,283 )	(8,994 )	(36,326 )	(18,278 )
Total income from operations	\$55,496	\$45,884	\$146,801	\$128,695

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



	July 1, 2018	October 1, 2017
	(in thousands)	
Total Assets		
GSG	\$483,327	\$378,839
CIG	485,595	518,697
RCM	26,938	33,620
Corporate <sup>(1)</sup>	1,037,970	971,589
Total assets	\$2,033,830	\$1,902,745

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

### Major Clients

Other than the U.S. federal government, no single client accounted for more than 10% of our revenue. For the three and nine months ended July 1, 2018 and July 2, 2017, GSG and CIG generated revenue from all client sectors.

The following table represents our revenue by client sector:

Client Sector	Three Months Ended		Nine Months Ended	
	July 1, 2018	July 2, 2017	July 1, 2018	July 2, 2017
	(in thousands)			
U.S. state and local government	\$103,169	\$83,716	\$359,828	\$250,392
U.S. federal government <sup>(1)</sup>	245,982	224,343	719,181	665,086
U.S. commercial	208,507	199,065	595,691	554,707
International <sup>(2)</sup>	207,137	178,415	550,105	547,986
Total	\$764,795	\$685,539	\$2,224,805	\$2,018,171

(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.

### 11. Fair Value Measurements

The fair value of long-term debt was determined using the present value of future cash flows based on the borrowing rates currently available for debt with similar terms and maturities (Level 2 measurement, as described in “Critical Accounting Policies and Estimates” in our Annual Report on Form 10-K for the fiscal year ended October 1, 2017). The carrying value of our long-term debt approximated fair value at July 1, 2018 and October 1, 2017. As of July 1, 2018, we had borrowings of \$434.2 million outstanding under our credit agreement, which were used to fund our business acquisitions, working capital needs, stock repurchases, dividends, capital expenditures and contingent earn-outs.

### 12. Credit Facility

Subsequent Event. On July 30, 2018, we entered into a Second Amended and Restated Credit Agreement (“Amended Credit Agreement”) that will mature in July 2023 with a total borrowing capacity of \$1 billion. 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”) and a \$450 million revolving credit facility (the “Amended Revolving Credit Facility”). In addition, the Amended Credit Agreement includes 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 the 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. 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.

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.

### 13. Derivative Financial Instruments

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

We recognize derivative instruments as either assets or liabilities on our 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 (loss), and in our consolidated statements of income for those derivatives designated as fair value hedges.

In fiscal 2013, we entered into three interest rate swap agreements that we designated as cash flow hedges to fix the variable interest rates on a portion of borrowings under our term loan facility. In the first quarter of fiscal 2014, we entered into two interest rate swap agreements that we designated as cash flow hedges to fix the variable interest rates on the borrowings under our term loan facility. All of these interest rate swap agreements expired in May 2018. At July 1, 2018, we did not have any outstanding interest rate swap agreements.

The impact of the effective portions of derivative instruments in cash flow hedging relationships and fair value relationships on income and other comprehensive income was immaterial for the first nine months of fiscal 2018 and the fiscal year ended October 1, 2017. Additionally, there were no ineffective portions of derivative instruments. Accordingly, no amounts were excluded from effectiveness testing for our interest rate swap agreements.

## 14. Reclassifications Out of Accumulated Other Comprehensive Income (Loss)

The accumulated balances and reporting period activities for the three and nine months ended July 1, 2018 and July 2, 2017 related to reclassifications out of accumulated other comprehensive loss are summarized as follows:

	Three Months Ended		Accumulated Other Comprehensive Loss
	Foreign Currency Translation Adjustments (in thousands)	Gain (Loss) on Derivative Instruments	
Balances at April 2, 2017	\$(133,703)	\$ 284	\$ (133,419 )
Other comprehensive income before reclassifications	14,049	272	14,321
Amounts reclassified from accumulated other comprehensive income			
Interest rate contracts, net of tax <sup>(1)</sup>	—	(134 )	(134 )
Net current-period other comprehensive income	14,049	138	14,187
Balances at July 2, 2017	\$(119,654)	\$ 422	\$ (119,232 )
Balances at April 1, 2018	\$(118,529)	\$ 485	\$ (118,044 )
Other comprehensive loss before reclassifications	(13,209 )	(179 )	(13,388 )
Amounts reclassified from accumulated other comprehensive income			
Interest rate contracts, net of tax <sup>(1)</sup>	—	(306 )	(306 )
Net current-period other comprehensive loss	(13,209 )	(485 )	(13,694 )
Balances at July 1, 2018	\$(131,738)	\$ —	\$ (131,738 )
	Nine Months Ended		Accumulated Other Comprehensive Loss
	Foreign Currency Translation Adjustments (in thousands)	Gain (Loss) on Derivative Instruments	
Balances at October 2, 2016	\$(126,844)	\$ (1,164 )	\$ (128,008 )
Other comprehensive income before reclassifications	7,190	2,299	9,489
Amounts reclassified from accumulated other comprehensive income			
Interest rate contracts, net of tax <sup>(1)</sup>	—	(713 )	(713 )
Net current-period other comprehensive income	7,190	1,586	8,776
Balances at July 2, 2017	\$(119,654)	\$ 422	\$ (119,232 )
Balances at October 1, 2017	\$(98,946 )	\$ 446	\$ (98,500 )
Other comprehensive loss before reclassifications	(32,792 )	(231 )	(33,023 )
Amounts reclassified from accumulated other comprehensive income			
Interest rate contracts, net of tax <sup>(1)</sup>	—	(215 )	(215 )
Net current-period other comprehensive loss	(32,792 )	(446 )	(33,238 )
Balances at July 1, 2018	\$(131,738)	\$ —	\$ (131,738 )

<sup>(1)</sup> This accumulated other comprehensive component is reclassified to “Interest expense” in our consolidated statements of income. See Note 13, “Derivative Financial Instruments”, for more information.



15. Commitments and Contingencies

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

The Civil Division of the United States Attorney's Office ("USAO") has informed us that it is currently evaluating claims for penalties and damages in connection with radiation remediation services provided by Tetra Tech EC, Inc., our subsidiary, at the former Navy base at Hunters Point in San Francisco. We have cooperated with the USAO and are engaged in ongoing discussions with the USAO concerning this matter. Based upon the discussions to date, we are currently unable to determine the probability of the outcome of this matter or the range of reasonably possible loss, if any.

16. Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued an accounting standard that will supersede existing revenue recognition guidance under current GAAP. The new standard is a comprehensive new revenue recognition model that requires a company to recognize revenue to depict the transfer of goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods and services. The standard may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of initial application. This guidance is effective for fiscal reporting periods and interim periods within that reporting period, beginning after December 15, 2017 (first quarter of fiscal 2019 for us). We continue to evaluate the impact that this guidance will have on our consolidated financial statements. We expect to use the modified retrospective method, which will result in a cumulative effect adjustment as of the date of adoption. Due to the nature of our business, which is primarily comprised of consulting and design services, and our percentage-of-completion revenue recognition methodology, our current evaluation is that the cumulative effect adjustment and the ongoing impact to revenue recognition beginning in fiscal 2019 will be immaterial.

In January 2016, the FASB issued guidance that generally requires companies to measure investments in other entities, except those accounted for under the equity method, at fair value and recognize any changes in fair value in net income. The guidance is effective for fiscal years and interim periods within those fiscal years, beginning after December 15, 2017 (first quarter of fiscal 2019 for us). We do not expect the adoption of this guidance to have an impact on our consolidated financial statements.

In February 2016, the FASB issued guidance that primarily requires lessees to recognize most leases on their balance sheets but record expenses on their income statements in a manner similar to current accounting. For lessors, the guidance modifies the classification criteria and the accounting for sales-type and direct financing leases. The guidance is effective for 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 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 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. This guidance is effective for fiscal years and interim periods within those fiscal years, beginning after December 15, 2017 (first quarter of fiscal 2019 for us). Early adoption is permitted. We are currently evaluating the impact that this guidance will have 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. This guidance is 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). Early adoption is permitted. We are currently evaluating the impact that this guidance will have 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. This guidance is effective for fiscal years and interim periods within those fiscal years, beginning after December 15, 2017 (first quarter of fiscal 2019 for us). Early adoption is permitted. We are currently evaluating the impact that this guidance will have on our consolidated financial statements.

In January 2017, the FASB issued updated guidance to simplify the test for goodwill impairment. This guidance eliminates step two from the goodwill impairment test. Under the updated guidance, an entity should recognize an impairment charge for the amount by which the carrying amount of a reporting unit exceeds its fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to the reporting unit. This guidance is effective for annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019 (first quarter of fiscal 2021 for us), on a prospective basis. Earlier adoption is permitted for goodwill impairment tests performed on testing dates after January 1, 2017. We adopted this guidance in the first quarter of our fiscal 2018, and the adoption of this guidance had no impact on our consolidated financial statements.

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 as a result of a change in terms or conditions. This guidance is 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. 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. This 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 TCJA from accumulated other comprehensive income to retained earnings. This 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.

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 consulting and engineering services that focuses on water, environment, infrastructure, resource management, energy, and international development. We are a global company that is renowned for our expertise in providing water-related services 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 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 service-based company, we are labor-intensive rather than capital-intensive. Our revenue is driven by our ability to attract and retain qualified and productive employees, identify business opportunities, secure new and renew existing client contracts, provide outstanding services to our clients and execute projects successfully. We provide 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		Nine Months Ended	
	July 1, 2018	July 2, 2017	July 1, 2018	July 2, 2017

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U.S. state and local government	13.5 %	12.2 %	16.2 %	12.4 %
U.S. federal government <sup>(1)</sup>	32.2	32.7	32.3	33.0
U.S. commercial	27.2	29.1	26.8	27.5
International <sup>(2)</sup>	27.1	26.0	24.7	27.1
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.

Beginning in the first quarter of fiscal 2018, we aligned our operations to better serve our clients and markets, resulting in two renamed 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. This alignment

allows us to capitalize on our growing market opportunities and enhance the development of high-end consulting and technical solutions to meet our growing client demand. We will continue to report the results of the wind-down of our non-core construction activities in the RCM segment. Prior year amounts for reportable segments have been revised to conform to the current-year presentation.

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 emergency management services. GSG also provides engineering design services for municipal and commercial clients, especially in water infrastructure, solid waste, and high-end sustainable infrastructure designs. Additionally, GSG provides a wide range of support to development agencies worldwide.

**Commercial/International Services Group (“CIG”).** CIG provides consulting and engineering services primarily to U.S. commercial clients and international clients, both commercial and local government. CIG supports commercial clients across the Fortune 500, oil and gas, energy utilities, 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. CIG also provides field construction management activities in the United States and Western Canada.

**Remediation and Construction Management (“RCM”).** We report the results of the wind-down of our non-core construction activities in the RCM reportable segment. The remaining backlog for RCM as of July 1, 2018 was immaterial as the related projects are substantially complete.

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

Reportable Segment	Three Months Ended		Nine Months Ended	
	July 1, 2018	July 2, 2017	July 1, 2018	July 2, 2017
GSG	55.4 %	55.4 %	57.2 %	54.5 %
CIG	46.1	46.4	44.7	47.8
RCM	0.5	0.6	0.5	0.6
Inter-segment elimination	(2.0 )	(2.4 )	(2.4 )	(2.9 )
Total	100.0 %	100.0 %	100.0 %	100.0 %

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

Contract Type	Three Months Ended		Nine Months Ended	
	July 1, 2018	July 2, 2017	July 1, 2018	July 2, 2017
Fixed-price	35.4 %	35.8 %	32.9 %	32.8 %
Time-and-materials	45.9	43.3	47.7	45.9
Cost-plus	18.7	20.9	19.4	21.3
Total	100.0%	100.0%	100.0%	100.0%

Under fixed-price contracts, we receive a fixed price irrespective of the actual costs we incur. Under time-and-materials contracts, we are paid for labor at negotiated hourly billing rates and also paid for other expenses. Under cost-plus contracts, some of which are subject to contract ceiling amounts, we are reimbursed for allowable costs and fees, which may be fixed or performance-based. Profitability on our contracts is driven by billable headcount and our ability to manage our subcontractors, vendors, and material suppliers. We recognize our revenue from contracts using the percentage-of-completion method, primarily utilizing the cost-to-cost approach, to estimate the progress towards completion in order to determine the amount of revenue and profit to recognize. Revenue and profit on these contracts are subject to revision throughout the duration of the contracts and any required

adjustments are made in the period in which the revisions become known. Losses on contracts are recorded in full as they are identified.

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

We experience seasonal trends in our business. Our revenue and operating income are typically lower in the first half of our fiscal year, primarily due to the Thanksgiving (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. Our revenue is typically higher in the second half of the fiscal year due to favorable weather conditions during spring and summer months that may result in higher billable hours. In addition, our revenue is typically higher in the fourth fiscal quarter due to the U.S. federal government's fiscal year-end spending.

## ACQUISITIONS AND DIVESTITURES

**Acquisitions.** We continuously evaluate the marketplace for 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 could 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.

In the second quarter of fiscal 2018, we acquired 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. 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.

In the second quarter of fiscal 2017, we acquired ELA, headquartered in Sydney, Australia. ELA is a multi-disciplinary consulting firm with over 160 staff that provides innovative, high-end environmental and ecological services, and is part of our CIG segment.

For detailed information regarding acquisitions, see Note 3, “Acquisitions and Divestitures” of the “Notes to Consolidated Financial Statements”.

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. In the third quarter of fiscal 2018, we divested our non-core utility field services operations in the CIG reportable segment for net proceeds after transaction costs of \$30.2 million. These operations generated approximately \$70 million in annual revenue primarily from our U.S. commercial clients. We did not have any divestitures in fiscal 2017.



## OVERVIEW OF RESULTS AND BUSINESS TRENDS

**General.** In the first nine months of fiscal 2018, our revenue increased 10.2% compared to the prior-year period. Our recent acquisitions, Glumac and NDY, contributed revenue of \$87.0 million in the first nine months of fiscal 2018. Excluding this contribution, our revenue increased 5.9% in the first nine months of fiscal 2018 compared to the same period last year.

**U.S. State and Local Government.** Our U.S. state and local government revenue increased 43.7% in the first nine months of fiscal 2018 compared to the same period last year. We experienced broad-based growth in our U.S. state and local government project-related infrastructure revenue. Many state and local government agencies are experiencing improved financial conditions that enable them to address major long-term infrastructure requirements, including the need for maintenance, repair, and upgrading of existing critical infrastructure and the need to build new facilities. The increase also includes higher revenue from disaster recovery activities in the first nine months of fiscal 2018 compared to the prior-year period due to the unprecedented number of natural disasters in the United States during 2017. The level of our activities were particularly increased by the hurricanes in Florida and Texas, and the fires in California. We expect our U.S. state and local government business to continue to grow in the remainder of fiscal 2018, although at a lower rate than during the first nine months of fiscal 2018 as the level of our emergency response activities moderates.

**U.S. Federal Government.** Our U.S. federal government revenue increased 8.1% in the first nine months of fiscal 2018 compared to the prior-year period. This growth primarily reflects increased U.S. Department of State ("DoS"), U.S. Department of Defense ("DoD") and international development activities. During periods of economic volatility, our U.S. federal government clients have historically been the most stable and predictable. We anticipate similar growth in U.S. federal government revenue in the remainder of fiscal 2018.

**U.S. Commercial.** Our U.S. commercial revenue increased 7.4% in the first nine months of fiscal 2018 compared to the prior-year period. Excluding the contribution from Glumac, our U.S. commercial business decreased 0.9% in the first nine months of fiscal 2018 compared to the same period last year. We expect our U.S. commercial revenue, excluding the contribution from Glumac, to grow modestly in the remainder fiscal 2018.

**International.** Our international revenue increased 0.4% in first nine months of fiscal 2018 compared to the prior-year period. Excluding the contribution from NDY, our revenue declined 7.1% in the first nine months of fiscal 2018 compared to the same period last year. The decline reflects our reduced oil and gas business, particularly in Western Canada. Excluding these activities and the contribution from NDY, our international revenue increased 5.0% due to an improvement in our infrastructure and environmental activities. We anticipate our total international revenue to continue to grow in the remainder of fiscal 2018, excluding our Canadian oil and gas activities.

## RESULTS OF OPERATIONS

## Consolidated Results of Operations

	Three Months Ended				Nine Months Ended			
	July 1, 2018	July 2, 2017	Change \$	%	July 1, 2018	July 2, 2017	Change \$	%
	(\$ in thousands)							
Revenue	\$764,795	\$685,539	\$79,256	11.6 %	\$2,224,805	\$2,018,171	\$206,634	10.2 %
Subcontractor costs	(194,443 )	(187,061 )	(7,382 )	(3.9)	(576,813 )	(518,188 )	(58,625 )	(11.3 )
Revenue, net of subcontractor costs <sup>(1)</sup>	570,352	498,478	71,874	14.4	1,647,992	1,499,983	148,009	9.9
Other costs of revenue	(460,758 )	(408,228 )	(52,530 )	(12.9)	(1,352,827 )	(1,247,369 )	(105,458 )	(8.5 )
Gross profit	109,594	90,250	19,344	21.4	295,165	252,614	42,551	16.8
Selling, general and administrative expenses	(53,906 )	(44,366 )	(9,540 )	(21.5)	(146,254 )	(131,068 )	(15,186 )	(11.6 )
Contingent consideration - fair value adjustments	(192 )	—	(192 )	NM	(2,110 )	7,149	(9,259 )	(129.5)
Income from operations	55,496	45,884	9,612	20.9	146,801	128,695	18,106	14.1
Interest expense	(4,345 )	(2,795 )	(1,550 )	(55.5)	(11,597 )	(8,802 )	(2,795 )	(31.8 )
Income before income tax expense	51,151	43,089	8,062	18.7	135,204	119,893	15,311	12.8
Income tax expense	(17,806 )	(13,114 )	(4,692 )	(35.8)	(27,060 )	(36,462 )	9,402	25.8
Net income	33,345	29,975	3,370	11.2	108,144	83,431	24,713	29.6
Net (income) loss attributable to noncontrolling interests	(23 )	8	(31 )	(387.5)	(62 )	(24 )	(38 )	(158.3)
Net income attributable to Tetra Tech	\$33,322	\$29,983	\$3,339	11.1	\$108,082	83,407	\$24,675	29.6
Diluted earnings per share	\$0.59	\$0.52	\$0.07	13.5	\$1.91	\$1.44	\$0.47	32.6

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

NM = not meaningful

The following table reconciles our reported results to non-GAAP ongoing results, which exclude the RCM results and certain non-operating accounting-related adjustments. The effective tax rates applied to the adjustments to EPS to arrive at ongoing EPS averaged 29.0% and 32.8% in the first nine months of fiscal 2018 and 2017, respectively. We apply the relevant marginal statutory tax rate based on the nature of the adjustments and tax jurisdiction in which they occur. Both EPS and ongoing EPS were calculated using diluted weighted-average common shares outstanding for the respective periods as reflected in our consolidated statements of income.



	Three Months Ended				Nine Months Ended			
	July 1, 2018	July 2, 2017	Change		July 1, 2018	July 2, 2017	Change	
			\$	%			\$	%
	(\$ in thousands)							
Revenue	\$764,795	\$685,539	\$79,256	11.6%	\$2,224,805	\$2,018,171	\$206,634	10.2%
RCM	(3,336 )	(4,192 )	856	NM	(11,622 )	(12,401 )	779	NM
Ongoing revenue	\$761,459	\$681,347	\$80,112	11.8	\$2,213,183	\$2,005,770	\$207,413	10.3
Revenue, net of subcontractor costs	\$570,							