

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

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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

(Mark One)

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

For the quarterly period ended April 1, 2001

OR

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

For the transition period from _____ to _____

Commission File Number 0-19655

TETRA TECH, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

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

670 N. Rosemead Boulevard, Pasadena, California 91107

(Address of principal executive offices)

(626) 351-4664

(Registrant's telephone number, including area code)

Not Applicable

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

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

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

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

TETRA TECH, INC.

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PART I. FINANCIAL INFORMATION

Item 1.

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

In thousands, except share data

April 1, 2001

October 1, 2000

(Unaudited)

ASSETS

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

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In thousands, except share data

April 1, 2001

October 1, 2000

See accompanying Notes to Condensed Consolidated Financial Statements.

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

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

See accompanying Notes to Condensed Consolidated Financial Statements.

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Tetra Tech, Inc.

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Condensed Consolidated Statements of Cash Flow
(Unaudited)

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

See accompanying Notes to Condensed Consolidated Financial Statements.

(Continued)

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

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

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

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TETRA TECH, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation

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

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

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

2. Accounting Pronouncements

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

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

3. Earnings Per Share

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

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

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

4. Cash and Cash Equivalents

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

5. Mergers and Acquisitions

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

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

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

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

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

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

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

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

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

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

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

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

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

6. Accounts Receivable

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

7. Unaudited Pro Forma Operating Results

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

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

8. Operating Segments

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

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

Reportable Segments:

	Resource Management	Infrastructure	Communications	Total
Three				