

TETRA TECH INC
Form 10-K
November 16, 2018
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

x ANNUAL
REPORT
PURSUANT
TO
SECTION 13
OR 15(d) OF
THE
SECURITIES
EXCHANGE
ACT OF 1934
For the Fiscal
Year Ended
September 30,
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

(State or other jurisdiction of incorporation or organization)

3475 East Foothill Boulevard, Pasadena, California 91107

(Address of principal executive offices) (Zip Code)

(626) 351-4664

(Registrant's telephone number, including area code)

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

Common Stock, \$.01 par value

95-4148514

(I.R.S. Employer Identification No.)

The NASDAQ Stock Market LLC

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(Title of class)

(Name of exchange)

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

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No "

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes " No x

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 x No "

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No "

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. "

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

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

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

The aggregate market value of the registrant's common stock held by non-affiliates on April 1, 2018, was \$2.6 billion (based upon the closing price of a share of registrant's common stock as reported by the Nasdaq National Market on that date).

On November 1, 2018, 55,356,389 shares of the registrant's common stock were outstanding.

DOCUMENT INCORPORATED BY REFERENCE

Portions of registrant's Proxy Statement for its 2019 Annual Meeting of Stockholders are incorporated by reference in Part III of this report where indicated.

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This Annual Report on Form 10-K ("Report"), 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 harbors created under the Securities Act of 1933 (the "Securities Act") and the Securities Exchange Act of 1934 (the "Exchange Act"). 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," "estimates," "seeks," "continues," "may," variations of such words, and similar expressions are intended to identify such forward-looking statements. In addition, 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 "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.

PART I

Item 1. Business

General

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 leads with science and is renowned for our expertise in providing water-related solutions for public and private clients. We typically begin at the earliest stage of a project by identifying technical solutions and developing execution plans tailored to our clients' needs and resources. Our solutions may span the entire life cycle of consulting and engineering projects and include applied science, data analytics, research, engineering, design, construction management, and operations and maintenance.

Engineering News-Record ("ENR"), the leading trade journal for our industry, has ranked us the number one water services firm for the past 15 years, most recently in its May 2018 "Top 500 Design Firms" issue. In 2018, Tetra Tech was also ranked number one in water treatment/desalination, water treatment and supply, environmental management, environmental science, consulting/studies, solid waste, hydro plants, and wind power. ENR ranks Tetra Tech among the largest 10 firms in numerous other service lines, including engineering/design, chemical and soil remediation, site assessment and compliance, dams/reservoirs, power transmission and distribution, and hazardous waste.

Our reputation for high-end consulting and engineering services and our ability to apply our skills to develop solutions for water and environmental management has supported our growth for over 50 years since the founding of our predecessor company. By combining ingenuity and practical experience, we have helped to advance sustainable solutions for managing water, protecting the environment, providing energy, and engineering the infrastructure for our cities and communities. Today, we are working on projects worldwide, and currently have more than 17,000 staff, and over 400 offices.

Mission

Our mission is to be the premier worldwide consulting and engineering firm, focusing on water, environment, infrastructure, resource management, energy, and international development services. The following core principles form the underpinning of how we work together to serve our clients:

• **Service.** We put our clients first. We listen closely to better understand our clients' needs and deliver smart, cost-effective solutions that meet their needs.

• **Value.** We solve our clients' problems as if they were our own. We develop and implement sustainable solutions that are innovative, efficient and practical.

• **Excellence.** We bring superior technical capability, disciplined project management, and excellence in safety and quality to all of our services.

• **Opportunity.** Our people are our number one asset. Opportunity means new technical challenges that provide advancement within our company, encourage a diverse workforce, and ensure a safe workplace.

The Tetra Tech Strategy

To continue our successful growth and our competitive position in the markets we serve, we have implemented the following strategy that is integral to our future success. Our approach is to Lead with Science® and provide high-end solutions

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that are differentiated, enhance resiliency, and provide long-lasting sustainable benefit to our clients. Our approach encompasses five key aspects of differentiation:

Technical Differentiation. Since our inception, we have provided innovative consulting and engineering services, with a focus on providing solutions that integrate innovation with practical experience. Adaptation of emerging science and technology in the development of high-end consulting and engineering solutions is central to our approach to Leading with Science® in the delivery of our services.

Relationships and Trust. We have a broad client and contract base built by proactively understanding our clients' priorities and demonstrating a long track record of successful performance that results in repeat business and limits competition. We believe that proximity to our clients is also instrumental to integrating global experience and resources with an understanding of our local clients' needs. Over the past year, we worked in over 100 countries, helping government and private sector clients address complex water, environment, energy and related infrastructure needs.

Institutional Knowledge. Over our history, we have supported both public and private clients, many for multiple decades of continuous contracts and repeat business. Long-term relationships provide us with institutional knowledge of our clients' programs, past projects and internal resources. Institutional knowledge is often a significant factor in providing competitive proposals and cost-effective solutions tailored to our clients' needs.

One-of-a-Kind Solutions. We are often at the leading edge of new challenges where we are providing one-of-a-kind solutions. These might be a new water reuse technology, a unique solution to addressing new regulatory requirements, a new monitoring approach for assessing infrastructure assets or a computer model for real time management of water resources. We are constantly evolving and adding to our intellectual property, including a wide range of computer models, algorithms, analytical software, and environmental treatment approaches and instrumentation, often in collaboration with our forward-thinking clients. Bringing our one-of-a-kind solutions to real world problems is a differentiator in expanding our services and growing our business.

Smart Solutions and Innovation. Smart solutions often require taking the same pieces of the puzzle and putting them together in a different way for a better outcome. Complex projects for the public and private sectors, at the leading edge of policy and technology development, often require innovative solutions that combine multiple aspects of our interdisciplinary capabilities, technical resources and institutional knowledge.

Our strategy leverages our five differentiators to drive growth in our water, environment, infrastructure, resource management, energy, and international development markets. We are focused on continuing to expand our leadership position in these markets, while also investing in emerging growth areas. Our differentiated capabilities provide us a competitive advantage to address new opportunities in the marketplace and apply new technologies to the fastest growing areas of our business.

To support our growth plans, we actively attract, recruit and retain key hires. Our combination of high-end science and consulting with practical applications provides challenging and rewarding opportunities for our employees, thereby enhancing our ability to recruit and retain top quality talent. Our internal networking programs, leadership training, entrepreneurial environment, focus on technical excellence, and global project portfolio help to attract and retain highly qualified individuals.

We also maintain a strong emphasis on project management at all levels of the organization. Our client-focused project management is supported by strong fiscal management and financial tools. We take a disciplined approach to monitoring, managing and improving our return on investment in each of our business areas through our efforts to negotiate appropriate contract terms, manage our contract performance to minimize schedule delays and cost overruns, and promptly bill and collect accounts receivable.

Our strategic growth plans are augmented by our selective investment in acquisitions aligned with our business. Acquisitions enhance plans to broaden our service offerings, add contract capacity and extend our geographic presence. Our experience with acquisitions strengthens our ability to integrate and rapidly leverage the resources of the acquired companies post-acquisition.

Reportable Segments

In fiscal 2018, we managed our core operations under two reportable segments. Our Government Services Group ("GSG") reportable segment primarily includes activities with U.S. government clients (federal, state and local) and

activities with development agencies worldwide. Our Commercial/International Services Group ("CIG") reportable segment primarily includes activities with U.S. commercial clients and international clients other than 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") reportable segment. The following table presents the percentage of our revenue by reportable segment:

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Reportable Segment	Fiscal Year		
	2018	2017	2016
GSG	57.2%	54.0%	49.9%
CIG	44.6	48.2	50.2
RCM	0.5	0.7	2.0
Inter-segment elimination	(2.3)	(2.9)	(2.1)
	100.0%	100.0%	100.0%

For additional information regarding our reportable segments, see Note 18, "Reportable Segments" of the "Notes to Consolidated Financial Statements" included in Item 8. For more information on risks related to our business, segments and geographic regions, including risks related to foreign operations, see Item 1A, "Risk Factors" of this report.

Government Services Group

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 U.S. municipal and commercial clients, especially in water infrastructure, solid waste, and high-end sustainable infrastructure designs. GSG also leads our support for development agencies worldwide, especially in the U.S., United Kingdom, and Australia.

GSG provides consulting and engineering services for a broad range of water, environment, and infrastructure-related needs primarily for U.S. government clients. GSG primarily supports public clients including federal, state and local governments. The primary GSG markets include water resources analysis and water management, environmental monitoring, data analytics, government consulting, waste management, and a broad range of civil infrastructure master planning and engineering design for facilities, transportation, and local development projects. GSG's services span from early data collection and monitoring, to data analysis and information management, to science and engineering applied research, to engineering design, to construction management, and operations and maintenance. GSG provides our clients with sustainable solutions that optimize their water management and environmental programs to address regulatory requirements, improve operational efficiencies, and manage assets. Our services advance sustainability and resiliency through the "greening" of infrastructure, design of energy efficiency and resource conservation programs, innovation in the capture and sequestration of carbon, formulation of emergency preparedness and response plans, and improvement in water and land resource management practices. We provide climate change and energy management consulting, and greenhouse gas inventory assessment, certification, reduction, and management services.

Many government organizations face complex problems due to increased demand and competition for water and natural resources, newly understood threats to human health and the environment, aging infrastructure, and demand for new and more resilient infrastructure. Our integrated water management services support government agencies responsible for managing water supplies, wastewater treatment, storm water management, and flood protection. We help our clients develop more resilient water supplies and more sustainable management of water resources, while addressing a wide range of local and national government requirements and policies. Fluctuations in weather patterns and extreme events, such as prolonged droughts and more frequent flooding, are increasing concerns over the reliability of water supplies, the need to protect coastal areas, and flood mitigation and adaptation in metropolitan areas. We provide smart water infrastructure solutions that integrate water modeling, instrumentation and controls, and real-time controls to create flexible water systems that respond to changing conditions, optimize use of infrastructure, and provide clients with the ability to more efficiently monitor and manage their water infrastructure. We also support government agencies in the full range of post-disaster emergency response and community resilience services including monitoring and environmental response, damage assessment and program management services, and resilient engineering design and mitigation planning. We have a full suite of innovative software tools and procedures that support our emergency management support services. These tools and procedures address emergency management and community resilience data management needs, including information technology systems, portals, dashboards, data management, data analytics, and statistical analysis.

GSG provides planning, architectural, and sustainable engineering services for U.S. federal, state and local government facilities and commercial high-rise multi-use buildings. We support the government agencies with related infrastructure needs including military housing, and educational, institutional, and research facilities. Our high-end sustainable buildings practice provides civil, electrical, mechanical, structural, plumbing and fire protection engineering and design services for buildings and surrounding developments; and provides engineering services for a wide range of clients with specialized needs, such as security systems, training and audiovisual facilities, clean rooms, laboratories, medical facilities and emergency preparedness facilities.

GSG provides a wide range of consulting and engineering services for solid waste management, including landfill design and management, throughout the United States; providing design, construction management, and maintenance services to manage solid and hazardous waste, for environmental, wastewater, energy, oil and gas, containment, mining, utilities, aquaculture, and other industrial clients; designing and installing geosynthetic liners for large lining and capping projects, as well as innovative renewable energy projects such as solar energy-generating landfill caps; and providing full-service solutions for gas-to-energy facilities to efficiently use landfill methane gas.

We provide technical support for the Federal Aviation Administration ("FAA") to optimize the U.S. airspace system and support related aviation systems integration for the U.S. and other countries' metropolitan airports. We provide specialized modeling and data analytics for airspace acoustic analysis. Our aviation airspace services include data management, data processing, communications and outreach, and systems development; and providing systems analysis and information management.

We also support governments in deploying international development programs for developing nations to help them overcome numerous challenges, including access to potable water, agricultural programs, governance and infrastructure programs, education, and human health. Our international development services include supporting donor agencies to develop safe and reliable water supplies and sanitation services, support the eradication of poverty, improve livelihoods, promote democracy and increase economic growth; planning, designing, implementing, researching, and monitoring projects in the areas of climate change, agriculture and rural development, governance and institutional development, natural resources and the environment, infrastructure, economic growth, energy, rule of law and justice systems, land tenure and property rights, and training and consulting for public-private partnerships; and building capacity and strengthening institutions in areas such as global health, energy sector reform, utility management, education, food security, and local governance.

Commercial/International Services Group

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

CIG provides consulting and engineering services worldwide for a broad range of water, environment, and infrastructure-related needs in both developed and emerging economies. The primary markets for CIG's services include natural resources, energy, and utilities, as well as civil infrastructure master planning and engineering design for facilities, transportation, and local development projects. CIG's services span from early data collection and monitoring to data analysis and information management, to feasibility studies and assessments, to science and engineering applied research, to engineering design, to construction management, and operations and maintenance. CIG's environmental services include cleanup and beneficial reuse of sites contaminated with hazardous materials, toxic chemicals, and oil and petroleum products, which cover all phases of the remedial planning process, starting with emergency response and initial site assessment through removal actions, remedial design and implementation oversight; and supporting both commercial and government clients in planning and implementing remedial activities at numerous sites around the world, and providing a broad range of environmental analysis and planning services. CIG also supports commercial clients by providing design services to renovate, upgrade, and modernize industrial water supplies, and address industrial water treatment and water reuse needs; and provides plant engineering, project execution, and program management services for industrial water treatment projects throughout the world.

CIG's international services, especially in Canada and Asia-Pacific, include high-end analytical, engineering, architecture, geotechnical, and construction management services for infrastructure projects, including roadway monitoring and asset management services, collection of condition data, optimization of upgrades and long-term planning for expansion; multi-model design services for commuter railway stations, airport expansions, bridges and major highways, and ports and harbors; and designing solutions to repair, replace, and upgrade older transportation infrastructure.

CIG provides infrastructure design services in extreme and remote areas by using specialized techniques that are adapted to local resources, while minimizing environmental impacts, and considering potential climate change impacts. These include providing consulting, geotechnical, and design services to owners of transportation, natural resources, energy and community infrastructure in areas of permafrost or extreme climate regions.

CIG's energy services include support for electric power utilities and independent power producers worldwide, ranging from macro-level planning and management advisory services to project-specific environmental, engineering, construction management, and operational services, and advising on the design and implementation of smart grids both in the U.S. and

internationally, including increasing utility automation, information and operational technologies, and critical infrastructure security. For utilities and governmental regulatory agencies, services include policy and regulatory development, utility management, performance improvement, asset management and evaluation, and transaction support services. For developers and owners of renewable energy resources such as solar grid and off-grid, on-shore and off-shore wind, biogas and biomass, tidal, and hydropower, and conventional power generation facilities, as well as transmission and distribution assets, services include environmental, engineering, procurement, operations and maintenance, and regulatory support for all project phases.

CIG supports oil and gas clients, primarily in North America, in the upstream, midstream and downstream market sectors. Our services include environmental permitting support, siting studies, strategic planning and analyses; design of well pads and surface impoundments for drilling sites; water management for exploration activities; design of midstream pipelines and associated pumping stations and storage facilities; construction monitoring, design and construction management for downstream sustaining capital projects; biological and cultural assessments, and site investigations; and hazardous waste site remediation.

CIG also provides environmental remediation and reconstruction services to evaluate and restore lands to beneficial use, including the identification, evaluation and destruction of unexploded ordinance, both domestically and internationally; investigating, remediating, and restoring contaminated facilities at military locations in the U.S. and around the world; managing large, complex sediment remediation programs that help restore rivers and coastal waters to beneficial use; constructing state-of-the-art water treatment plants for commercial clients; and supporting utilities in the U.S. in implementing infrastructure needs, including broadband, wired utilities, and natural gas distribution systems.

Remediation and Construction Management

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 September 30, 2018 was immaterial as the related projects are substantially complete.

Project Examples

Project examples are provided on our company website located at www.tetratech.com, including expert interviews, in-depth articles, and project profiles that demonstrate our services across water, environment, infrastructure, resource management, and international development.

Clients

We provide services to a diverse base of international, 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	Fiscal Year		
	2018	2017	2016
U.S. state and local government	15.8%	12.8%	12.0%
U.S. federal government ⁽¹⁾	32.9	32.7	30.4
U.S. commercial	26.6	27.8	29.5
International ⁽²⁾	24.7	26.7	28.1
	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.

U.S. federal government agencies are significant clients. The U.S. Agency for International Development ("USAID") accounted for 14.0%, 14.3% and 13.1% of our revenue in fiscal 2018, 2017 and 2016, respectively. The Department of Defense ("DoD") accounted for 10.0%, 9.2% and 8.2% of our revenue in fiscal 2018, 2017 and 2016, respectively. We typically support multiple programs within a single U.S. federal government agency, both domestically and internationally. We also assist U.S. state and local government clients in a variety of jurisdictions across the United States. In Canada, we work for several provinces and a variety of local jurisdictions. Our commercial clients include

companies in the chemical, energy, mining, pharmaceutical, retail, aerospace, automotive, petroleum, and communications industries. No single client, except for U.S. federal government clients, accounted for more than 10% of our revenue in fiscal 2018.

Contracts

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

Contract Type	Fiscal Year		
	2018	2017	2016
Fixed-price	33.3%	33.0%	30.0%
Time-and-materials	47.1	45.9	50.9
Cost-plus	19.6	21.1	19.1
	100.0%	100.0%	100.0%

Under a fixed-price contract, the client agrees to pay a specified price for our performance of the entire contract or a specified portion of the contract. Some fixed-price contracts can include date-certain and/or performance obligations. Fixed-price contracts carry certain inherent risks, including risks of losses from underestimating costs, delays in project completion, problems with new technologies, price increases for materials, and economic and other changes that may occur over the contract period. Consequently, the profitability of fixed-price contracts may vary substantially. Under our time-and-materials contracts, we are paid for labor at negotiated hourly billing rates and also paid for other expenses. Profitability on these contracts is driven by billable headcount and cost control. Many of our time-and-materials contracts are subject to maximum contract values and, accordingly, revenue related to these contracts is recognized as if these contracts were fixed-price contracts. Under our cost-plus contracts, some of which are subject to a contract ceiling amount, we are reimbursed for allowable costs and fees, which may be fixed or performance-based. If our costs exceed the contract ceiling or are not allowable, we may not be able to obtain full reimbursement. Further, the amount of the fee received for a cost-plus award fee contract partially depends upon the client's discretionary periodic assessment of our performance on that contract.

Some contracts with the U.S. federal government are subject to annual funding approval. U.S. federal government agencies may impose spending restrictions that limit the continued funding of our existing contracts and may limit our ability to obtain additional contracts. These limitations, if significant, could have a material adverse effect on us. All contracts with the U.S. federal government may be terminated by the government at any time, with or without cause. U.S. federal government agencies have formal policies against continuing or awarding contracts that would create actual or potential conflicts of interest with other activities of a contractor. These policies may prevent us from bidding for or performing government contracts resulting from or related to certain work we have performed. In addition, services performed for a commercial or government sector client may create conflicts of interest that preclude or limit our ability to obtain work for a private organization. We attempt to identify actual or potential conflicts of interest and to minimize the possibility that such conflicts could affect our work under current contracts or our ability to compete for future contracts. We have, on occasion, declined to bid on a project because of an existing or potential conflict of interest.

Some of our operating units have contracts with the U.S. federal government that are subject to audit by the government, primarily by the Defense Contract Audit Agency ("DCAA"). The DCAA generally seeks to (i) identify and evaluate all activities that contribute to, or have an impact on, proposed or incurred costs of government contracts; (ii) evaluate a contractor's policies, procedures, controls, and performance; and (iii) prevent or avoid wasteful, careless, and inefficient production or service. To accomplish this, the DCAA examines our internal control systems, management policies, and financial capability; evaluates the accuracy, reliability, and reasonableness of our cost representations and records; and assesses our compliance with Cost Accounting Standards ("CAS") and defective-pricing clauses found within the Federal Acquisition Regulation ("FAR"). The DCAA also performs an annual review of our overhead rates and assists in the establishment of our final rates. This review focuses on the allowability of cost items and the applicability of CAS. The DCAA also audits cost-based contracts, including the close-out of those contracts.

The DCAA reviews all types of U.S. federal government proposals, including those of award, administration, modification, and re-pricing. The DCAA considers our cost accounting system, estimating methods and procedures, and specific proposal requirements. Operational audits are also performed by the DCAA. A review of our operations at every major organizational level is conducted during the proposal review period. During the course of its audit, the U.S. federal government may disallow costs if it determines that we accounted for such costs in a manner inconsistent

with CAS. Under a government contract, only those costs that are reasonable, allocable, and allowable are recoverable. A disallowance of costs by the U.S. federal government could have a material adverse effect on our financial results.

In accordance with our corporate policies, we maintain controls to minimize any occurrence of fraud or other unlawful activities that could result in severe legal remedies, including the payment of damages and/or penalties, criminal and civil sanctions, and debarment. In addition, we maintain preventative audit programs and mitigation measures to ensure that appropriate control systems are in place.

We provide our services under contracts, purchase orders, or retainer letters. Our policy requires that all contracts must be in writing. We bill our clients in accordance with the contract terms and periodically based on costs incurred, on either an hourly-fee basis or on a percentage-of-completion basis, as the project progresses. Most of our agreements permit our clients to terminate the agreements without cause upon payment of fees and expenses through the date of the termination. Generally, our contracts do not require that we provide performance bonds. If required, a performance bond, issued by a surety company, guarantees a contractor's performance under the contract. If the contractor defaults under the contract, the surety will, at its discretion, complete the job or pay the client the amount of the bond. If the contractor does not have a performance bond and defaults in the performance of a contract, the contractor is responsible for all damages resulting from the breach of contract. These damages include the cost of completion, together with possible consequential damages such as lost profits.

Marketing and Business Development

Our management team establishes our overall business strategy focused on Leading with Science® and providing solutions for our clients. Our strategic plan defines and guides our investment in marketing and business development to leverage our differentiators and target priority programs and growth markets. We maintain centralized business development resources to develop our corporate branding and marketing materials, support proposal preparation and planning, conduct market research, and manage promotional and professional activities, including appearances at trade shows, direct mailings, advertising, and public relations.

We have established company-wide growth initiatives that reinforce internal coordination, track the development of new programs, identify and coordinate collective resources for major bids, and help us build interdisciplinary teams and provide innovative solutions for major pursuits. Our growth initiatives provide a forum for cross-sector collaboration and the development of interdisciplinary solutions. We continuously identify new markets that are consistent with our strategic plan and service offerings, and we leverage our full-service capabilities and internal coordination structure to develop and implement strategies to research, anticipate, and position us for future procurements and emerging programs.

Business development activities are implemented by our technical and professional management staff throughout the company with the support of company-wide resources and expertise. Our project managers and technical staff have the best understanding of a client's needs and the effect of local or client-specific issues, laws and regulations, and procurement procedures. Our professional staff members hold frequent meetings with existing and potential clients; give presentations to civic and professional organizations; and present seminars on research and technical applications. Essential to the effective development of business is each staff member's access to all of our service offerings through our internal technical and geographic networks. Our strong internal networking programs help our professional staff members to pursue new opportunities for both existing and new clients. These networks also facilitate our ability to provide services throughout the project life cycle from the early studies to operations and maintenance. Our enterprise-wide knowledge management systems include skills search tools, business development tracking, and collaboration tools.

Sustainability Program

Tetra Tech supports clients in more than 100 countries around the world, helping them to solve complex problems and achieve solutions that are technically, socially, and economically resilient. Our high-end consulting and engineering services focus on using innovative technologies and creative solutions to minimize environmental impacts. Our greatest contribution toward sustainability is through the projects we perform every day for our clients. Sustainability is embedded in our projects – from recycling freshwater supplies to recycling waste products, reducing energy consumption, and reducing greenhouse gas emissions in developing countries.

Our Sustainability Program allows us to further expand our commitment to sustainability by encouraging, coordinating, and reporting on actions to minimize our collective impacts on the environment. Our Sustainability Program has three primary pillars: Projects – the solutions we provide for our clients; Procurement – our procurement and subcontracting approaches; and Processes – the internal policies and processes that promote sustainable practices, reduce costs, and minimize environmental impacts. In addition, our program is based on the Global Reporting Initiative ("GRI") Sustainability Report Framework, the internationally predominant sustainability reporting protocol for corporate sustainability plans, which includes three fundamental areas: environmental, economic, and social

sustainability.

Our Sustainability Program is led by our Chief Sustainability Officer, who has been appointed by executive management and is supported by other key corporate and operations representatives via our Sustainability Council. We have established a clear set of metrics to evaluate our progress toward our sustainability goals. Each metric corresponds with one or more performance indicators from GRI. These metrics include economic, health and safety, information technology, human resources, and real estate. We continuously implement sustainability-related policies and practices, and we assess the results of our efforts in order to improve upon them in the future. Our executive management team reviews and approves the Sustainability Program and evaluates our progress in achieving the goals and objectives outlined in our plan. We publish an annual sustainability report on Earth Day each year that documents our progress and is posted on our website located at www.tetratech.com.

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Acquisitions and Divestitures

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

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

Divestitures. We regularly review and evaluate our existing operations to determine whether our business model should change through the divestiture of certain businesses. Accordingly, from time to time, we may divest or wind-down certain non-core businesses and reallocate our resources to businesses that better align with our long-term strategic direction.

For detailed information regarding acquisitions and divestitures, see Note 5, "Acquisitions and Divestitures" of the "Notes to Consolidated Financial Statements" included in Item 8.

Competition

The market for our services is generally competitive. We often compete with many other firms ranging from small regional firms to large international firms.

We perform a broad spectrum of consulting, engineering, and technical services across the water, environment, infrastructure, resource management, energy, and international development markets. Our client base includes U.S. federal government agencies such as the DoD, USAID, the U.S. Department of Energy ("DOE"), the U.S. Environmental Protection Agency ("EPA"), and the FAA; U.S. state and local government agencies; government and commercial clients in Canada and Australia; the U.S. commercial sector, which consists primarily of large industrial companies and utilities; and our international commercial clients. Our competition varies and is a function of the business areas in which, and the client sectors for which, we perform our services. The number of competitors for any procurement can vary widely, depending upon technical qualifications, the relative value of the project, geographic location, the financial terms and risks associated with the work, and any restrictions placed upon competition by the client. Historically, clients have chosen among competing firms by weighing the quality, innovation and timeliness of the firm's service versus its cost to determine which firm offers the best value. When less work becomes available in certain markets, price could become an increasingly important factor.

Our competitors vary depending on end markets and clients, and often we may only compete with a portion of a firm. We believe that our principal competitors include the following firms, in alphabetical order: AECOM; Arcadis NV; Black & Veatch Corporation; Booz Allen Hamilton; Brown & Caldwell; CDM Smith Inc.; Chemonics International, Inc.; Exponent, Inc.; GHD; ICF International, Inc.; Jacobs Engineering Group Inc.; Leidos, Inc.; SAIC; SNC-Lavalin Group Inc.; Stantec Inc.; TRC Companies, Inc.; Weston Solutions, Inc.; and WSP Global Inc.

Backlog

We include in our backlog only those contracts for which funding has been provided and work authorization has been received. We estimate that approximately 70% of our backlog at the end of fiscal 2018 will be recognized as revenue in fiscal 2019, as work is being performed. However, we cannot guarantee that the revenue projected in our backlog will be realized or, if realized, will result in profits. In addition, project cancellations or scope adjustments may occur with respect to contracts reflected in our backlog. For example, certain of our contracts with the U.S. federal

government and other clients are terminable at the discretion of the client, with or without cause. These types of backlog reductions could adversely affect our revenue and margins. Accordingly, our backlog as of any particular date is an uncertain indicator of our future earnings.

At fiscal 2018 year-end, our backlog was \$2.7 billion, an increase of \$122.7 million, or 4.8%, compared to fiscal 2017 year-end. Approximately \$1.8 billion and \$896.0 million of our backlog at the end of fiscal 2018 related to GSG and CIG, respectively.

Regulations

We engage in various service activities that are subject to government oversight, including environmental laws and regulations, general government procurement laws and regulations, and other regulations and requirements imposed by the specific government agencies with which we conduct business.

Environmental. A significant portion of our business involves the planning, design, program management and construction management of pollution control facilities, as well as the assessment and management of remediation activities at hazardous waste sites, U.S. Superfund sites, and military bases. In addition, we contract with U.S. federal government entities to destroy hazardous materials. These activities require us to manage, handle, remove, treat, transport, and dispose of toxic or hazardous substances.

Some environmental laws, such as the U.S. Superfund law and similar state, provincial and local statutes, can impose liability for the entire cost of clean-up for contaminated facilities or sites upon present and former owners and operators, as well as generators, transporters, and persons arranging for the treatment or disposal of such substances. In addition, while we strive to handle hazardous and toxic substances with care and in accordance with safe methods, the possibility of accidents, leaks, spills, and events of force majeure always exist. Humans exposed to these materials, including workers or subcontractors engaged in the transportation and disposal of hazardous materials and persons in affected areas, may be injured or become ill. This could result in lawsuits that expose us to liability and substantial damage awards. Liabilities for contamination or human exposure to hazardous or toxic materials, or a failure to comply with applicable regulations, could result in substantial costs, including clean-up costs, fines, civil or criminal sanctions, third party claims for property damage or personal injury, or the cessation of remediation activities.

Certain of our business operations are covered by U.S. Public Law 85-804, which provides for government indemnification against claims and damages arising out of unusually hazardous activities performed at the request of the government. Due to changes in public policies and law, however, government indemnification may not be available in the case of any future claims or liabilities relating to other hazardous activities that we perform.

Government Procurement. The services we provide to the U.S. federal government are subject to the FAR and other rules and regulations applicable to government contracts. These rules and regulations:

- require certification and disclosure of all cost and pricing data in connection with the contract negotiations under certain contract types;
- impose accounting rules that define allowable and unallowable costs and otherwise govern our right to reimbursement under certain cost-based government contracts; and
- restrict the use and dissemination of information classified for national security purposes and the exportation of certain products and technical data.

In addition, services provided to the DoD are monitored by the Defense Contract Management Agency and audited by the DCAA. Our government clients can also terminate any of their contracts, and many of our government contracts are subject to renewal or extension annually. Further, the services we provide to state and local government clients are subject to various government rules and regulations.

Seasonality

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 U.S.), 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.

Potential Liability and Insurance

Our business activities could expose us to potential liability under various laws and under workplace health and safety regulations. In addition, we occasionally assume liability by contract under indemnification agreements. We cannot predict the magnitude of such potential liabilities.

We maintain a comprehensive general liability insurance policy with an umbrella policy that covers losses beyond the general liability limits. We also maintain professional errors and omissions liability and contractor's pollution liability insurance policies. We believe that both policies provide adequate coverage for our business. When we perform higher-risk work, we obtain, if available, the necessary types of insurance coverage for such activities, as is typically

required by our clients.

We obtain insurance coverage through a broker that is experienced in our industry. The broker and our risk manager regularly review the adequacy of our insurance coverage. Because there are various exclusions and retentions under our policies,

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or an insurance carrier may become insolvent, there can be no assurance that all potential liabilities will be covered by our insurance policies or paid by our carrier.

We evaluate the risk associated with insurance claims. If we determine that a loss is probable and reasonably estimable, we establish an appropriate reserve. A reserve is not established if we determine that a claim has no merit or is not probable or reasonably estimable. Our historic levels of insurance coverage and reserves have been adequate. However, partially or completely uninsured claims, if successful and of significant magnitude, could have a material adverse effect on our business.

Employees

At fiscal 2018 year-end, we had more than 17,000 staff worldwide. A large percentage of our employees have technical and professional backgrounds and undergraduate and/or advanced degrees, including the employees of recently acquired companies. Our professional staff includes archaeologists, architects, biologists, chemical engineers, chemists, civil engineers, data scientists, computer scientists, economists, electrical engineers, environmental engineers, environmental scientists, geologists, hydrogeologists, mechanical engineers, oceanographers, project managers and toxicologists. We consider the current relationships with our employees to be favorable. We are not aware of any employment circumstances that are likely to disrupt work at any of our facilities. See Part I, Item 1A, "Risk Factors" for a discussion of the risks related to the loss of key personnel or our inability to attract and retain qualified personnel.

Executive Officers of the Registrant

The following table shows the name, age and position of each of our executive officers at November 15, 2018:

Name	Age	Position
	60	Chairman, Chief Executive Officer and President
Dan L. Batrack		Mr. Batrack joined our predecessor in 1980 and was named Chairman in January 2008. He has served as our Chief Executive Officer and a director since November 2005, and as our President since October 2008. Mr. Batrack has served in numerous capacities over the last 30 years, including project scientist, project manager, operations manager, Senior Vice President and President of an operating unit. He has managed complex programs for many small and Fortune 500 clients, both in the United States and internationally. Mr. Batrack holds a B.A. degree in Business Administration from the University of Washington.
	54	Executive Vice President, Chief Financial Officer
Steven M. Burdick		Mr. Burdick has served as our Executive Vice President, Chief Financial Officer since April 2011. He served as our Senior Vice President and Corporate Controller from January 2004 to March 2011. Mr. Burdick joined us in April 2003 as Vice President, Management Audit. Previously, Mr. Burdick served in senior financial and executive positions with Aura Systems, Inc., TRW Ventures, and Ernst & Young LLP. Mr. Burdick holds a B.S. degree in Business Administration from Santa Clara University and is a Certified Public Accountant.
Leslie L. Shoemaker	61	Executive Vice President, Operations and President of CIG
		Dr. Shoemaker was named Executive Vice President, Operations and President of CIG in November 2017. Dr. Shoemaker joined us in 1991, and served as President of WEI from April 2015 to November 2017. Previously she served in various management capacities, including project and program manager, water resources manager and infrastructure group president. From 2005 to 2015, she led our strategic planning, business development and company-wide collaboration programs. Her technical expertise is in the management of large-scale watershed and master planning studies, development of modeling tools and application of optimization tools for decision making. Additionally, she is our Chief Sustainability Officer who leads our Sustainability

Council to implement sustainability-related policies and practices company-wide. Dr. Shoemaker holds a B.A. degree in Mathematics from Hamilton College, a Master of Engineering from Cornell University and a Ph.D. in Agricultural Engineering from the University of Maryland.

Name	Age	Position
Roger R. Argus	57	<p>Senior Vice President and President of GSG and President of the U.S. Government Division of GSG. Mr. Argus is a chemical engineer with 33 years of experience, including 25 years with Tetra Tech, in operational leadership, program and project management, and quality assurance for projects encompassing a broad spectrum of environmental, engineering, and emergency management services. Mr. Argus has also been responsible for managing multidisciplinary contracts and projects in support of the U.S. federal government (i.e., Navy, the U.S. Army Corps of Engineers ("USACE"), and the EPA), state and municipal agencies, and private clients nationwide. The scope of his technical experience includes planning and directing environmental field investigations, engineering feasibility studies and designs, construction management, and research and development support for innovative environmental technologies and waste treatment systems. Mr. Argus holds a B.S. in Chemical Engineering from California State University, Long Beach.</p>
Derek G. Amidon	51	<p>Senior Vice President, President of the Commercial Account Management Division of CIG. Mr. Amidon has served as a project manager, key account manager, operations manager, and regional manager since joining Tetra Tech in 2012. He has managed a variety of complex, high profile programs for key Tetra Tech clients, including Fortune 100 companies. His focus has been on leading high value consulting services that deliver scientific, engineering and regulatory solutions for challenging environmental, engineering, permitting and public relations problems for oil and gas, mining, industrial, institutional and custodial trust clients. He has a demonstrated track record in leading complex environmental investigations and developing creative remedial solutions for client environmental liabilities. He has managed projects in the U.S., Africa, Australia, Europe, and the Caribbean. In addition to experience in both public and private consulting and engineering firms over his 24-year career, Mr. Amidon also served in a variety of business leadership and project development roles at Hess Corporation, a leading independent oil and gas company. Mr. Amidon is a registered Professional Engineer. He holds B.S. and M.S. degrees in Civil Engineering from Brigham Young University and a M.S. in Management from Rensselaer Polytechnic Institute.</p>
Jan K. Auman	63	<p>Senior Vice President, President of the Global Development Services Division of GSG. Mr. Auman has over 40 years of experience managing large, complex international development and technical assistance operations, having served 10 years with the United States federal government and 30 years in the private sector. With 20 years of residence overseas in eight countries, Mr. Auman has hands-on technical expertise in the areas of natural resources management, conflict resolution, political transformation, institutional development, and policy formulation in the Middle East, the South Pacific, the Caribbean, and Africa. Mr. Auman's overall direction for Tetra Tech's international development operations includes technical, operational, administrative, fiscal, and representational responsibilities involving operations that manage projects in over 60 countries. Mr. Auman joined Tetra Tech through an acquisition in 2007. He holds a B.A. in Political Science and Government from Pennsylvania State University and an M.I.A in International Administration from the School for International Training.</p>

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Name	Age	Position
William R. Brownlie	65	<p>Senior Vice President, Chief Engineer and Corporate Risk Management Officer</p> <p>Dr. Brownlie was named Senior Vice President and Chief Engineer in September 2009, and Corporate Risk Management Officer in November 2013. From December 2005 to September 2009, he served as a Group President. Dr. Brownlie joined our predecessor in 1981 and was named a Senior Vice President in December 1993. Dr. Brownlie has managed various operating units and programs focusing on water resources and environmental services, including work with USACE, the U.S. Air Force, the U.S. Bureau of Reclamation and DOE. He is a registered professional engineer and has a strong technical background in water resources. Dr. Brownlie holds B.S. and M.S. degrees in Civil Engineering from the State University of New York at Buffalo and a Ph.D. in Civil Engineering from the California Institute of Technology.</p>
Brian N. Carter	51	<p>Senior Vice President, Corporate Controller and Chief Accounting Officer</p> <p>Mr. Carter joined Tetra Tech as Vice President, Corporate Controller and Chief Accounting Officer in June 2011 and was appointed Senior Vice President in October 2012. Previously, Mr. Carter served in finance and auditing positions in private industry and with Ernst & Young LLP. Mr. Carter holds a B.S. in Business Administration from Miami University and is a Certified Public Accountant.</p>
Craig L. Christensen	65	<p>Senior Vice President, Chief Information Officer</p> <p>Mr. Christensen is responsible for our information services and technologies, including the implementation of our enterprise resource planning system. Mr. Christensen joined us in 1998 through the acquisition of our Tetra Tech NUS, Inc. ("NUS") subsidiary. Previously, Mr. Christensen held positions at NUS, Brown and Root Services, and Landmark Graphics subsidiaries of Halliburton Company where his responsibilities included contracts administration, finance, and system development. Prior to his service at Halliburton, Mr. Christensen held positions at Burroughs Corporation and Apple Computer. Mr. Christensen holds B.A. and M.B.A. degrees from Brigham Young University.</p>
Preston Hopson	42	<p>Senior Vice President, General Counsel and Secretary</p> <p>Mr. Hopson joined Tetra Tech in January 2018 as Senior Vice President and General Counsel and Secretary to the Board of Directors. For the prior 10 years, Mr. Hopson served as Vice President, Assistant General Counsel and Assistant Corporate Secretary at the engineering and infrastructure firm AECOM. Prior to this, he was a Senior Associate at the law firm O'Melveny & Myers, LLP. Previously, Mr. Hopson served as a Judicial Clerk on the U.S. Court of Appeals for the Ninth Circuit. Mr. Hopson holds B.A. and J.D. degrees from Yale University.</p>
Richard A. Lemmon	59	<p>Senior Vice President, Corporate Administration</p> <p>Mr. Lemmon joined our predecessor in 1981 in a technical capacity and became a member of its corporate staff in a management position in 1985. In 1988, at the time of our predecessor's divestiture from Honeywell, Inc., Mr. Lemmon structured and managed many of our corporate functions. He is currently responsible for insurance, risk management, human resources, safety and facilities.</p>

Name	Age	Position
	45	Senior Vice President, Enterprise Risk Management
Brendan M. O'Rourke		<p>Mr. O'Rourke joined us in January 2018 as Vice President, Enterprise Risk Management and was appointed Senior Vice President, Enterprise Risk Management in November 2018. For the prior 10 years, Mr. O'Rourke served as Assistant Vice President of Professional Liability Claims at AIG. Prior to this, he was a Senior Associate at the law firm of Seyfarth Shaw in Boston, Massachusetts. Mr. O'Rourke has more than twenty years of experience in risk management, contract negotiation, claim resolution and litigation within the construction industry. Mr. O'Rourke holds a J.D. from Suffolk Law School and a B.A. from Worcester State University.</p> <p>57 Senior Vice President, President of the U.S. Infrastructure Division of GSG</p>
Mark A. Rynning		<p>Mr. Rynning has more than 30 years of experience in the engineering consulting industry, including 27 years with Tetra Tech. He is a registered professional engineer and has served Tetra Tech in numerous capacities including project manager, operations manager, and operating unit leader. He has managed large water infrastructure programs for state and local agencies throughout the United States. Mr. Rynning has broad experience in planning and design of water and wastewater infrastructure, utility master planning, and design of water and wastewater transmission and collection systems. In addition, Mr. Rynning has planned and designed reverse osmosis water treatment plants and advanced wastewater treatment systems. He has provided expert advisory services to numerous municipal clients for utility system acquisitions. He holds a B.S. in Civil Engineering and a Master of Business Administration, both from the University of Florida.</p> <p>53 Senior Vice President, President of the Canada and South America Division of CIG</p>
Bernard Teufele		<p>Mr. Teufele has over 22 years of consulting engineering experience as a leader of a highly diversified, high-end infrastructure practice and as a technical expert in the field of infrastructure monitoring and asset management. Prior to his current role, Mr. Teufele has managed operating units of increasing size and complexity with a primary focus on infrastructure, environmental sciences, civil transportation, and mining-related services doing work for municipal, provincial, and federal government clients in Canada. He has managed key provincial infrastructure programs in Canada with a particular focus on the monitoring and assessment of roadway infrastructure and the development of asset management programs. Mr. Teufele, who joined Tetra Tech through an acquisition in 2010, has also been instrumental in advancing Tetra Tech's involvement with private sector infrastructure clients on large alternate delivery projects (design-build and public-private partnership P3 projects). Mr. Teufele has a B.Sc. in Applied Science from the University of British Columbia.</p>

Available Information

All of our periodic report filings with the Securities and Exchange Commission ("SEC") pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), are made available, free of charge, through our website located at www.tetratech.com, including our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and any amendments to these reports. These reports are available on our website as soon as reasonably practicable after we electronically file with or furnish the reports to the SEC. You may also request an electronic or paper copy of these filings at no cost by writing or telephoning us at the following: Tetra Tech, Inc., Attention: Investor Relations, 3475 East Foothill Boulevard, Pasadena, California 91107, (626) 351-4664. Interested readers may also read and copy any materials we file at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Readers may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains an Internet site (www.sec.gov) that contains our reports.

Item 1A. Risk Factors

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

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

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

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

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

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

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

affect our ability to forecast our future revenue and earnings from business areas that may be adversely impacted by market conditions.

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

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

- prices, and expectations about future prices, of oil and natural gas;
- domestic and foreign supply of and demand for oil and natural gas;
- the cost of exploring for, developing, producing and delivering oil and natural gas;

- transportation capacity, including but not limited to train transportation capacity and its future regulation;
- available pipeline, storage and other transportation capacity;
- availability of qualified personnel and lead times associated with acquiring equipment and products;
- federal, state, provincial and local regulation of oilfield activities;
- environmental concerns regarding the methods our customers use to produce hydrocarbons;
- the availability of water resources and the cost of disposal and recycling services; and
- seasonal limitations on access to work locations.

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

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

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

In fiscal 2018, we generated 24.7% of our revenue from our international operations, primarily in Canada and Australia, and from international clients for work that is performed by our domestic operations. International business is subject to a variety of risks, including:

- imposition of governmental controls and changes in laws, regulations, or policies;
- lack of developed legal systems to enforce contractual rights;
- greater risk of uncollectible accounts and longer collection cycles;
- currency exchange rate fluctuations, devaluations, and other conversion restrictions;
- uncertain and changing tax rules, regulations, and rates;
- the potential for civil unrest, acts of terrorism, force majeure, war or other armed conflict, and greater physical security risks, which may cause us to have to leave a country quickly;
- logistical and communication challenges;
- changes in regulatory practices, including tariffs and taxes;
- changes in labor conditions;
- general economic, political, and financial conditions in foreign markets; and
- exposure to civil or criminal liability under the U.S. Foreign Corrupt Practices Act (“FCPA”), the U.K. Bribery Act, the Canadian Corruption of Foreign Public Officials Act, the Brazilian Clean Companies Act, the anti-boycott rules, trade and export control regulations, as well as other international regulations.

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

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

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

In fiscal 2018, we generated 48.7% of our revenue from contracts with U.S. federal, and state and local government agencies. A significant amount of this revenue is derived under multi-year contracts, many of which are appropriated on an annual basis. As a result, at the beginning of a project, the related contract may be only partially funded, and additional funding is normally

committed only as appropriations are made in each subsequent year. These appropriations, and the timing of payment of appropriated amounts, may be influenced by numerous factors as noted below. Our backlog includes only the projects that have funding appropriated.

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

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

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

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

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

- re-compete for government contracts;

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

- curtailment in the use of government contracting firms;

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

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

- competing political priorities and changes in the political climate with regard to the funding or operation of the services we provide;

- the adoption of new laws or regulations affecting our contracting relationships with the federal, state or local governments;

- unsatisfactory performance on government contracts by us or one of our subcontractors, negative government audits or other events that may impair our relationship with federal, state or local governments;

- a dispute with or improper activity by any of our subcontractors; and

- general economic or political conditions.

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

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

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

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

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

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

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

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

We must comply with and are affected by U.S. federal, state, local, and foreign laws and regulations relating to the formation, administration and performance of government contracts. For example, we must comply with FAR, the Truth in Negotiations Act, CAS, the American Recovery and Reinvestment Act of 2009, the Services Contract Act, and the DoD security regulations, as well as many other rules and regulations. In addition, we must also comply with other government regulations related to employment practices, environmental protection, health and safety, tax, accounting, and anti-fraud measures, as well as many other regulations in order to maintain our government contractor status. These laws and regulations affect how we do business with our clients and, in some instances, impose additional costs on our business operations. Although we take precautions to prevent and deter fraud, misconduct, and non-compliance, we face the risk that our employees or outside partners may engage in misconduct, fraud, or other improper activities. U.S. government agencies, such as the DCAA, routinely audit and investigate government contractors. These government agencies review and audit a government contractor's performance under its contracts and cost structure, and evaluate compliance with applicable laws, regulations, and standards. In addition, during the course of its audits, the DCAA may question our incurred project costs. If the DCAA believes we have accounted for such costs in a manner inconsistent with the requirements for FAR or CAS, the DCAA auditor may recommend to our U.S. government corporate administrative contracting officer that such costs be disallowed. Historically, we have not experienced significant disallowed costs as a result of government audits. However, we can provide no assurance that the DCAA or other government audits will not result in material disallowances for incurred costs in the future. In addition, U.S. government contracts are subject to various other requirements relating to the formation, administration,

performance, and accounting for these contracts. We may also be subject to qui tam litigation brought by private individuals on behalf of the U.S. government under the Federal Civil False Claims Act, which could include claims for treble damages. For example, as discussed elsewhere in this report, on October 15, 2018, the Civil Division of the United States Attorney's Office filed a notice of election to intervene in three qui tam actions filed against our subsidiary, Tetra Tech EC, Inc. ("TtEC"), in the U.S. District Court for the Northern District of California. The complaints of the qui tam relators allege False Claims Act violations related to TtEC's contracts to perform environmental remediation services at the former Hunters Point Naval Shipyard in San Francisco, California. U.S. government contract violations could result in the imposition of civil and criminal penalties or sanctions, contract termination, forfeiture of profit, and/or suspension of payment, any of which could make us lose our status as an eligible government contractor. We could also suffer serious harm to our reputation. Any interruption or termination of our U.S. government contractor status could reduce our profits and revenue significantly.

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

Our clients include public and private entities that have been, and may continue to be, negatively impacted by the changing landscape in the global economy. While outside of the U.S. federal government no one client accounted for over 10% of our revenue for fiscal 2018, we face collection risk as a normal part of our business where we perform services and subsequently bill our clients for such services. In the event that we have concentrated credit risk from clients in a specific geographic area or industry, continuing negative trends or a worsening in the financial condition of that specific geographic area or industry could make us susceptible to disproportionately high levels of default by those clients. Such defaults could materially adversely impact our revenues and our results of operations.

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

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

- we may not be able to identify suitable acquisition candidates or to acquire additional companies on acceptable terms;
- we are pursuing international acquisitions, which inherently pose more risk than domestic acquisitions;
- we compete with others to acquire companies, which may result in decreased availability of, or increased price for, suitable acquisition candidates;
- we may not be able to obtain the necessary financing, on favorable terms or at all, to finance any of our potential acquisitions;
- we may ultimately fail to consummate an acquisition even if we announce that we plan to acquire a company; and
- acquired companies may not perform as we expect, and we may fail to realize anticipated revenue and profits.

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

If we fail to conduct due diligence on our potential targets effectively, we may, for example, not identify problems at target companies, or fail to recognize incompatibilities or other obstacles to successful integration. Our inability to successfully integrate future acquisitions could impede us from realizing all of the benefits of those acquisitions and could severely weaken our business operations. The integration process may disrupt our business and, if implemented ineffectively, may preclude realization of the full benefits expected by us and could harm our results of operations. In addition, the overall integration of the combining companies may result in unanticipated problems, expenses, liabilities, and competitive responses, and may cause our stock price to decline. The difficulties of integrating an acquisition include, among others:

- issues in integrating information, communications, and other systems;
- incompatibility of logistics, marketing, and administration methods;
- maintaining employee morale and retaining key employees;
- integrating the business cultures of both companies;
- preserving important strategic client relationships;
- consolidating corporate and administrative infrastructures, and eliminating duplicative operations; and
- coordinating and integrating geographically separate organizations.

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

Further, acquisitions may cause us to:

- issue common stock that would dilute our current stockholders' ownership percentage;
- use a substantial portion of our cash resources;
- increase our interest expense, leverage, and debt service requirements (if we incur additional debt to fund an acquisition);

- assume liabilities, including environmental liabilities, for which we do not have indemnification from the former owners. Further, indemnification obligations may be subject to dispute or concerns regarding the creditworthiness of the former owners;
- record goodwill and non-amortizable intangible assets that are subject to impairment testing and potential impairment charges;
- experience volatility in earnings due to changes in contingent consideration related to acquisition earn-out liability estimates;
- incur amortization expenses related to certain intangible assets;
- lose existing or potential contracts as a result of conflict of interest issues;
- incur large and immediate write-offs; or
- become subject to litigation.

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

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

Because we have historically acquired a significant number of companies, goodwill and intangible assets represent a substantial portion of our assets. As of September 30, 2018, our goodwill was \$798.8 million and intangible assets were \$16.1 million. We are required to perform a goodwill impairment test for potential impairment at least on an annual basis. We also assess the recoverability of the unamortized balance of our intangible assets when indications of impairment are present based on expected future profitability and undiscounted expected cash flows and their contribution to our overall operations. The goodwill impairment test requires us to determine the fair value of our reporting units, which are the components one level below our reportable segments. In determining fair value, we make significant judgments and estimates, including assumptions about our strategic plans with regard to our operations. We also analyze current economic indicators and market valuations to help determine fair value. To the extent economic conditions that would impact the future operations of our reporting units change, our goodwill may be deemed to be impaired, and we would be required to record a non-cash charge that could result in a material adverse effect on our financial position or results of operations. We had no goodwill impairment in fiscal 2016, fiscal 2017, or fiscal 2018.

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

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

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

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

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

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

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

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

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

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

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

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

- the application of the percentage-of-completion method of accounting and revenue recognition on contracts, change orders, and contract claims, including related unbilled accounts receivable;

unbilled accounts receivable, including amounts related to requests for equitable adjustment to contracts that provide for price redetermination, primarily with the U.S. federal government. These amounts are recorded only when they can be reliably estimated and realization is probable;

provisions for uncollectible receivables, client claims, and recoveries of costs from subcontractors, vendors, and others;

provisions for income taxes, research and development tax credits, valuation allowances, and unrecognized tax benefits;

value of goodwill and recoverability of intangible assets;

valuations of assets acquired and liabilities assumed in connection with business combinations;

valuation of contingent earn-out liabilities recorded in connection with business combinations;

valuation of employee benefit plans;

- valuation of stock-based compensation expense; and

accruals for estimated liabilities, including litigation and insurance reserves.

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

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

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

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

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

- our ability to manage attrition;

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

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

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

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

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

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

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

The U.S. federal government and certain other clients have increased the use of fixed-priced contracts. Under fixed-price contracts, we receive a fixed price irrespective of the actual costs we incur and, consequently, we are exposed to a number of risks. We realize a profit on fixed-price contracts only if we can control our costs and prevent cost over-runs on our contracts. Fixed-price contracts require cost and scheduling estimates that are based on a number of assumptions, including those about future economic conditions, costs, and availability of labor, equipment and materials, and other exigencies. We could experience cost

over-runs if these estimates are originally inaccurate as a result of errors or ambiguities in the contract specifications, or become inaccurate as a result of a change in circumstances following the submission of the estimate due to, among other things, unanticipated technical problems, difficulties in obtaining permits or approvals, changes in local laws or labor conditions, weather delays, changes in the costs of raw materials, or the inability of our vendors or subcontractors to perform. If cost overruns occur, we could experience reduced profits or, in some cases, a loss for that project. If a project is significant, or if there are one or more common issues that impact multiple projects, costs overruns could increase the unpredictability of our earnings, as well as have a material adverse impact on our business and earnings.

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

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

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

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

We have brought claims against clients for additional costs exceeding the contract price or for amounts not included in the original contract price. These types of claims occur due to matters such as client-caused delays or changes from the initial project scope, both of which may result in additional cost. Often, these claims can be the subject of lengthy arbitration or litigation proceedings, and it is difficult to accurately predict when these claims will be fully resolved. When these types of events occur and unresolved claims are pending, we have used working capital in projects to cover cost overruns pending the resolution of the relevant claims. A failure to promptly recover on these types of claims could have a negative impact on our liquidity and profitability. Total accounts receivable at September 30, 2018 included approximately \$74 million related to such claims.

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

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

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

Our expected future growth presents numerous managerial, administrative, operational, and other challenges. Our ability to manage the growth of our operations will require us to continue to improve our management information systems and our other internal systems and controls. In addition, our growth will increase our need to attract, develop, motivate, and retain both our

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

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

Our backlog at September 30, 2018 was \$2.7 billion, an increase of \$122.7 million, or 4.8%, compared to the end of fiscal 2017. We include in backlog only those contracts for which funding has been provided and work authorizations have been received. We cannot guarantee that the revenue projected in our backlog will be realized or, if realized, will result in profits. In addition, project cancellations or scope adjustments may occur, from time to time, with respect to contracts reflected in our backlog. For example, certain of our contracts with the U.S. federal government and other clients are terminable at the discretion of the client, with or without cause. These types of backlog reductions could adversely affect our revenue and margins. As a result of these factors, our backlog as of any particular date is an uncertain indicator of our future earnings.

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

We develop, install and maintain information technology systems for ourselves, as well as for customers. Client contracts for the performance of information technology services, as well as various privacy and securities laws, require us to manage and protect sensitive and confidential information, including federal and other government information, from disclosure. We also need to protect our own internal trade secrets and other business confidential information, as well as personal data of our employees and contractors, from disclosure. For example, the European's Union General Data Protection Regulation, which became effective in May 2018, extends the scope of the European Union data protection laws to all companies processing data of European Union residents, regardless of the company's location. We face the threat to our computer systems of unauthorized access, computer hackers, computer viruses, malicious code, organized cyber-attacks and other security problems and system disruptions, including possible unauthorized access to our and our clients' proprietary or classified information. We rely on industry-accepted security measures and technology to securely maintain all confidential and proprietary information on our information systems. In the ordinary course of business, we have been targeted by malicious cyber-attacks. We have devoted and will continue to devote significant resources to the security of our computer systems, but they may still be vulnerable to these threats. A user who circumvents security measures could misappropriate confidential or proprietary information, including information regarding us, our personnel and/or our clients, or cause interruptions or malfunctions in operations. As a result, we may be required to expend significant resources to protect against the threat of these system disruptions and security breaches or to alleviate problems caused by these disruptions and breaches. We also rely in part on third-party software and information technology vendors to run our critical accounting, project management and financial information systems. We depend on our software and information technology vendors to provide long-term software and hardware support for our information systems. Our software and information technology vendors may decide to discontinue further development, integration or long-term software and hardware support for our information systems, in which case we may need to abandon one or more of our current information systems and migrate some or all of our accounting, project management and financial information to other systems, thus increasing our operational expense, as well as disrupting the management of our business operations. Any of these events could damage our reputation and have a material adverse effect on our business, financial condition, results of operations and cash flows.

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

We routinely enter into subcontracts and, occasionally, joint ventures, teaming arrangements, and other contractual arrangements so that we can jointly bid and perform on a particular project. Success under these arrangements

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

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

We depend on contractors and subcontractors in conducting our business. There is a risk that we may have disputes with our subcontractors arising from, among other things, the quality and timeliness of work performed by the subcontractor, client concerns about the subcontractor, or our failure to extend existing task orders or issue new task orders under a subcontract. In addition, if a subcontractor fails to deliver on a timely basis the agreed-upon supplies, fails to perform the agreed-upon services, or goes out of business, then we may be required to purchase the services or supplies from another source at a higher price, and our ability to fulfill our obligations as a prime contractor may be jeopardized. This may reduce the profit to be realized or result in a loss on a project for which the services or supplies are needed.

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

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

In certain circumstances, we can incur liquidated or other damages if we do not achieve project completion by a scheduled date. If we or an entity for which we have provided a guarantee subsequently fails to complete the project as scheduled and the matter cannot be satisfactorily resolved with the client, we may be responsible for cost impacts to the client resulting from any delay or the cost to complete the project. Our costs generally increase from schedule delays and/or could exceed our projections for a particular project. In addition, project performance can be affected by a number of factors beyond our control, including unavoidable delays from governmental inaction, public opposition, inability to obtain financing, weather conditions, unavailability of vendor materials, changes in the project scope of services requested by our clients, industrial accidents, environmental hazards, labor disruptions and other factors. As a result, material performance problems for existing and future contracts could cause actual results of operations to differ from those anticipated by us and also could cause us to suffer damage to our reputation within our industry and client base.

New legal requirements could adversely affect our operating results.

Our business and results of operations could be adversely affected by U.S. health care reform, climate change, defense, environmental and infrastructure industry specific and other legislation and regulations. We are continually assessing the impact that health care reform could have on our employer-sponsored medical plans. Growing concerns about climate change may result in the imposition of additional environmental regulations. For example, legislation, international protocols, regulation or other restrictions on emissions could increase the costs of projects for our clients or, in some cases, prevent a project from going forward, thereby potentially reducing the need for our services. In addition, relaxation or repeal of laws and regulations, or changes in governmental policies regarding environmental, defense, infrastructure or other industries we serve could result in a decline in demand for our services, which could in turn negatively impact our revenues. We cannot predict when or whether any of these various proposals may be enacted or what their effect will be on us or on our customers.

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

Some of our services are directly or indirectly impacted by changes in U.S. federal, state, local or foreign laws and regulations pertaining to the resource management, environmental, and infrastructure industries. Accordingly, a

relaxation or repeal of these laws and regulations, or changes in governmental policies regarding the funding, implementation or enforcement of these programs, could result in a decline in demand for our services, which could in turn negatively impact our revenue.

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

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

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

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

- incur additional indebtedness;
- create liens securing debt or other encumbrances on our assets;
- make loans or advances;
- pay dividends or make distributions to our stockholders;
- purchase or redeem our stock;
- repay indebtedness that is junior to indebtedness under our credit agreement;
- acquire the assets of, or merge or consolidate with, other companies; and
- sell, lease, or otherwise dispose of assets.

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

Our industry is highly competitive and we may be unable to compete effectively, which could result in reduced revenue, profitability and market share.

We are engaged in a highly competitive business. The markets we serve are highly fragmented and we compete with a large number of regional, national and international companies. Certain of these competitors have greater financial and other resources than we do. Others are smaller and more specialized, and concentrate their resources in particular areas of expertise. The extent of our competition varies according to the particular markets and geographic area. In addition, the technical and professional aspects of some of our services generally do not require large upfront capital expenditures and provide limited barriers against new competitors. The degree and type of competition we face is also influenced by the type and scope of a particular project. Our clients make competitive determinations based upon qualifications, experience, performance, reputation, technology, customer relationships and ability to provide the relevant services in a timely, safe and cost-efficient manner. This competitive environment could force us to make price concessions or otherwise reduce prices for our services. If we are unable to maintain our competitiveness and win bids for future projects, our market share, revenue, and profits will decline.

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

We engage in consulting, engineering, program management, construction management, construction, and technical services that can result in substantial injury or damages that may expose us to legal proceedings, investigations, and disputes. For example, in the ordinary course of our business, we may be involved in legal disputes regarding personal injury claims, employee or labor disputes, professional liability claims, and general commercial disputes involving project cost overruns and liquidated damages, as well as other claims. In addition, in the ordinary course of our business, we frequently make professional judgments and recommendations about environmental and engineering conditions of project sites for our clients, and we may be deemed to be responsible for these judgments and recommendations if they are later determined to be inaccurate. Any unfavorable legal ruling against us could result in substantial monetary damages or even criminal violations. We maintain insurance coverage as part of our overall legal and risk management strategy to minimize our potential liabilities; however, insurance coverage contains exclusions and other limitations that may not cover our potential liabilities. Generally, our insurance program covers workers' compensation and employer's liability, general liability, automobile liability, professional errors and omissions liability, property, and contractor's pollution liability (in addition to other policies for specific projects). Our insurance program includes deductibles or self-insured retentions for each covered claim that may increase over time. In addition, our insurance policies contain exclusions that insurance providers may use to deny or restrict coverage. Excess liability and professional liability insurance policies provide for coverage on a "claims-made" basis, covering

only claims actually made and reported during the policy period currently in effect. If we sustain liabilities that exceed or that are excluded from our insurance coverage, or for which we are not insured, it could have a material adverse impact on our financial condition, results of operations and cash flows.

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

We maintain insurance coverage from third-party insurers as part of our overall risk management strategy and because some of our contracts require us to maintain specific insurance coverage limits. If any of our third-party insurers fail, suddenly cancel our coverage, or otherwise are unable to provide us with adequate insurance coverage, then our overall risk exposure and our operational expenses would increase and the management of our business operations would be disrupted. In addition, there can be no assurance that any of our existing insurance coverage will be renewable upon the expiration of the coverage period or that future coverage will be affordable at the required limits.

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

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

Employee, agent, or partner misconduct, or our failure to comply with anti-bribery and other laws or regulations, could harm our reputation, reduce our revenue and profits, and subject us to criminal and civil enforcement actions.

Misconduct, fraud, non-compliance with applicable laws and regulations, or other improper activities by one of our employees, agents, or partners could have a significant negative impact on our business and reputation. Such misconduct could include the failure to comply with government procurement regulations, regulations regarding the protection of classified information, regulations prohibiting bribery and other foreign corrupt practices, regulations regarding the pricing of labor and other costs in government contracts, regulations on lobbying or similar activities, regulations pertaining to the internal controls over financial reporting, environmental laws, and any other applicable laws or regulations. For example, as previously noted, the FCPA and similar anti-bribery laws in other jurisdictions generally prohibit companies and their intermediaries from making improper payments to non-U.S. officials for the purpose of obtaining or retaining business. Our policies mandate compliance with these regulations and laws, and we take precautions to prevent and detect misconduct. However, since our internal controls are subject to inherent limitations, including human error, it is possible that these controls could be intentionally circumvented or become inadequate because of changed conditions. As a result, we cannot assure that our controls will protect us from reckless or criminal acts committed by our employees or agents. Our failure to comply with applicable laws or regulations, or acts of misconduct could subject us to fines and penalties, loss of security clearances, and suspension or debarment from contracting, any or all of which could harm our reputation, reduce our revenue and profits, and subject us to criminal and civil enforcement actions.

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

Certain of our contracts may require our employees travel to and work in high-risk countries that are undergoing political, social, and economic upheavals resulting from war, civil unrest, criminal activity, acts of terrorism, or public health crises. For example, we currently have employees working in high security risk countries such as Afghanistan and Iraq. As a result, we risk loss of or injury to our employees and may be subject to costs related to employee death or injury, repatriation, or other unforeseen circumstances. We may choose or be forced to leave a country with little or no warning due to physical security risks.

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

Our project sites often put our employees and others in close proximity with mechanized equipment, moving vehicles, chemical and manufacturing processes, and highly regulated materials. On some project sites, we may be responsible for safety, and, accordingly, we have an obligation to implement effective safety procedures. Our safety program is a fundamental element of our overall approach to risk management, and the implementation of the safety program is a significant issue in our dealings with our clients. We maintain an enterprise-wide group of health and safety professionals to help ensure that the services we provide are delivered safely and in accordance with standard work processes. Unsafe job sites and office environments have the potential to increase employee turnover, increase the cost of a project to our clients, expose us to types and levels of risk that are fundamentally unacceptable, and raise our operating costs. The implementation of our safety processes and procedures are monitored by various agencies, including the U.S. Mine Safety and Health Administration (“MSHA”), and rating bureaus, and may be evaluated by certain clients in cases in which safety requirements have been established in our contracts. Our failure to meet these requirements or our failure to properly implement and comply with our safety program could result in reduced profitability, the loss of projects or clients, or potential litigation, and could have a material adverse effect on our business, operating results, or financial condition.

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

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

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

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

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

Our services are subject to numerous U.S. and international environmental protection laws and regulations that are complex and stringent. For example, we must comply with a number of U.S. federal government laws that strictly regulate the handling, removal, treatment, transportation, and disposal of toxic and hazardous substances. Under the Comprehensive Environmental Response Compensation and Liability Act of 1980, as amended (“CERCLA”), and comparable state laws, we may be required to investigate and remediate regulated hazardous materials. CERCLA and comparable state laws typically impose strict, joint and several liabilities without regard to whether a company knew of or caused the release of hazardous substances. The liability for the entire cost of clean-up could be imposed upon any responsible party. Other principal U.S. federal environmental, health, and safety laws affecting us include, but are not limited to, the Resource Conservation and Recovery Act, National Environmental Policy Act, the Clean Air Act, the Occupational Safety and Health Act, the Federal Mine Safety and Health Act of 1977 (the “Mine Act”), the Toxic Substances Control Act, and the Superfund Amendments and Reauthorization Act. Our business operations may also be subject to similar state and international laws relating to environmental protection. Further, past business practices at companies that we have acquired may also expose us to future unknown environmental liabilities. Liabilities related to environmental contamination or human exposure to hazardous substances, or a failure to comply with applicable regulations, could result in substantial costs to us, including clean-up costs, fines, civil or criminal sanctions, and third-party claims for property damage or personal injury or cessation of remediation activities. Our continuing work in the areas governed by these laws and regulations exposes us to the risk of substantial liability.

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

Force majeure or extraordinary events beyond the control of the contracting parties, such as natural and man-made disasters, as well as terrorist actions, could negatively impact the economies in which we operate by causing the closure of offices, interrupting projects, and forcing the relocation of employees. We typically remain obligated to perform our services after a terrorist action or natural disaster unless the contract contains a force majeure clause that

relieves us of our contractual obligations in such an extraordinary event. If we are not able to react quickly to force majeure, our operations may be affected significantly, which would have a negative impact on our financial condition, results of operations, or cash flows.

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

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

if we are unable to prevent third parties from infringing or misappropriating our trademarks or other proprietary information, our competitive position could be adversely affected.

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

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

- loss of key employees;
- the number and significance of client contracts commenced and completed during a quarter;
- creditworthiness and solvency of clients;
- the ability of our clients to terminate contracts without penalties;
- general economic or political conditions;
- unanticipated changes in contract performance that may affect profitability, particularly with contracts that are fixed-price or have funding limits;
- contract negotiations on change orders, requests for equitable adjustment, and collections of related billed and unbilled accounts receivable;
- seasonality of the spending cycle of our public sector clients, notably the U.S. federal government, the spending patterns of our commercial sector clients, and weather conditions;
- budget constraints experienced by our U.S. federal, and state and local government clients;
- integration of acquired companies;
- changes in contingent consideration related to acquisition earn-outs;
- divestiture or discontinuance of operating units;
- employee hiring, utilization and turnover rates;
- delays incurred in connection with a contract;
- the size, scope and payment terms of contracts;
- the timing of expenses incurred for corporate initiatives;
- reductions in the prices of services offered by our competitors;
- threatened or pending litigation;
- legislative and regulatory enforcement policy changes that may affect demand for our services;
- the impairment of goodwill or identifiable intangible assets;
- the fluctuation of a foreign currency exchange rate;
- stock-based compensation expense;
- actual events, circumstances, outcomes, and amounts differing from judgments, assumptions, and estimates used in determining the value of certain assets (including the amounts of related valuation allowances), liabilities, and other items reflected in our consolidated financial statements;
- success in executing our strategy and operating plans;
- changes in tax laws or regulations or accounting rules;
- results of income tax examinations;
- the timing of announcements in the public markets regarding new services or potential problems with the performance of services by us or our competitors, or any other material announcements;
- speculation in the media and analyst community, changes in recommendations or earnings estimates by financial analysts, changes in investors' or analysts' valuation measures for our stock, and market trends unrelated to our stock;

our announcements concerning the payment of dividends or the repurchase of our shares;
resolution of threatened or pending litigation;
changes in investors' and analysts' perceptions of our business or any of our competitors' businesses;
changes in environmental legislation;
broader market fluctuations; and
general economic or political conditions.

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

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volatility or a lack of positive performance in our stock price may adversely affect our ability to retain key employees, many of whom are awarded equity securities, the value of which is dependent on the performance of our stock price.

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

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

Item 1B Unresolved Staff Comments

None.

Item 2. Properties

At fiscal 2018 year-end, we owned two facilities located in the United States and leased approximately 400 operating facilities in domestic and foreign locations. Our significant lease agreements expire at various dates through 2028. We believe that our current facilities are adequate for the operation of our business, and that suitable additional space in various local markets is available to accommodate any needs that may arise.

The following table summarizes our ten most significant leased properties by location based on annual rental expenses (listed alphabetically, except for our corporate headquarters):

Location	Description	Reportable Segment
Pasadena, CA	Corporate Headquarters	Corporate
Adelaide, South Australia, Australia	Office Building	CIG
Arlington, VA	Office Building	GSG / CIG
Irvine, CA	Office Building	GSG / CIG
London, United Kingdom	Office Building	GSG
New York, NY	Office Building	GSG
Pittsburgh, PA	Office Building	GSG / CIG
San Francisco, CA	Office Building	GSG
Sydney, New South Wales, Australia	Office Building	CIG
Vancouver, BC, Canada	Office Building	CIG

Item 3. Legal Proceedings

For a description of our material pending legal and regulatory proceedings and settlements, see Note 17, "Commitments and Contingencies" of the "Notes to Consolidated Financial Statements" included in Item 8.

Item 4. Mine Safety Disclosures

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

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information

Our common stock is traded on the NASDAQ Global Select Market under the symbol TTEK. There were approximately 1,400 stockholders of record at September 30, 2018. The high and low sales prices per share for the common stock for the last two fiscal years, as reported by the NASDAQ Global Select Market, are set forth in the following tables.

	Prices	
	High	Low
Fiscal 2018		
First quarter	\$50.90	\$46.05
Second quarter	53.40	44.65
Third quarter	58.85	46.30
Fourth quarter	72.20	58.00

Fiscal 2017		
First quarter	\$44.30	\$34.78
Second quarter	44.85	38.85
Third quarter	47.75	39.90
Fourth quarter	48.35	39.95

Dividends

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
July 30, 2018	\$ 0.12	August 16, 2018	August 31, 2018	6,641
Total dividend paid as of September 30, 2018				\$ 24,477
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
July 31, 2017	\$ 0.10	August 17, 2017	September 1, 2017	5,633
Total dividend paid as of October 1, 2017				\$ 21,672

We currently intend to continue paying dividends on a quarterly basis, although the declaration of any future dividends will be determined by our Board of Directors and will depend on available cash, estimated cash needs, earnings, and capital requirements, as well as limitations in our long-term debt agreements.

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

Stock-Based Compensation

For information regarding our stock-based compensation, see Note 11, "Stockholders' Equity and Stock Compensation Plans" of the "Notes to Consolidated Financial Statements" included in Item 8.

Performance Graph

The following graph shows a comparison of our cumulative total returns with those of the NASDAQ Market Index and the S&P 1500 Construction and Engineering ("C&E") Index. The graph assumes that the value of an investment in our common stock and in each such index was \$100 on September 30, 2012, and that all dividends have been reinvested. During fiscal 2018, we declared and paid dividends in the first and second quarters totaling \$0.20 per share (\$0.10 each quarter) on our common stock and paid dividends in the third and fourth quarters totaling \$0.24 per share (\$0.12 each quarter) on our common stock. We declared and paid dividends totaling \$0.38, \$0.34, \$0.30 and \$0.14 per share in fiscal 2017, 2016, 2015 and 2014, respectively. We did not pay any dividends prior to fiscal 2014. Our self-selected Peer Group Index is the S&P 1500 Construction and Engineering Index. The comparison in the graph below is based on historical data and is not intended to forecast the possible future performance of our common stock. ASSUMES \$100 INVESTED ON SEPTEMBER 30, 2013

ASSUMES DIVIDEND REINVESTED

FISCAL YEAR ENDED SEPTEMBER 30, 2018

	2013	2014	2015	2016	2017	2018
Tetra Tech, Inc.	\$100.00	\$97.53	\$97.55	\$140.48	\$186.00	\$275.14
NASDAQ Market Index	100.00	120.77	126.88	145.65	180.15	225.49
S&P 1500 C&E Index	100.00	98.32	79.44	95.76	107.47	118.14

The performance graph above and related text are being furnished solely to accompany this annual report on Form 10-K pursuant to Item 201(e) of Regulation S-K, and are not being filed for purposes of Section 18 of the Exchange Act, and are not to be incorporated by reference into any of our filings with the SEC, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

Stock Repurchase Program

On November 7, 2016, our Board of Directors authorized a stock repurchase program under which we could repurchase up to \$200 million of our common stock. As of September 30, 2018, we have repurchased through open market purchases a total of 3,757,966 shares at an average price of \$46.57 for a total cost of \$175.0 million under this program. These shares were repurchased during the period from November 14, 2016 through July 1, 2018.

Subsequent Event. On November 5, 2018, the Board of Directors authorized a new stock repurchase program under which we could repurchase up to \$200 million of our common stock in addition to the \$25 million remaining under the previous stock repurchase program.

A summary of the repurchase activity for the 12 months ended September 30, 2018 is as follows:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Dollar Value that May be Purchased Under the Plans or Programs
October 2, 2017 - October 29, 2017	154,528	\$ 48.12	154,528	\$92,564,290
October 30, 2017 - November 26, 2017	161,251	48.67	161,251	84,716,836
November 27, 2017 - December 31, 2017	198,897	48.86	198,897	74,999,595
January 1, 2018 - January 28, 2018	139,239	49.06	139,239	68,167,968
January 29, 2018 - February 25, 2018	166,494	48.68	166,494	60,062,752
February 26, 2018 - April 1, 2018	199,624	50.41	199,624	49,999,603
April 2, 2018 - April 29, 2018	143,921	50.65	143,921	42,710,331
April 30, 2018 - May 27, 2018	157,676	51.37	157,676	34,611,231
May 28, 2018 - July 1, 2018	169,939	56.56	169,939	24,999,632

Item 6. Selected Financial Data

The following selected financial data was derived from our audited consolidated financial statements. The selected financial data presented below should be read in conjunction with the information contained in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," and our consolidated financial statements and the notes thereto contained in Item 8, "Financial Statements and Supplementary Data," of this report.

	Fiscal Year Ended				
	September 30, 2018	October 1, 2017	October 2, 2016	September 27, 2015	September 28, 2014
(in thousands, except per share data)					
Statements of Operations Data					
Revenue	\$2,964,148	\$2,753,360	\$2,583,469	\$2,299,321	\$2,483,814
Income from operations	190,086	183,342	135,855	87,684	153,833
Net income attributable to Tetra Tech	136,883	117,874	83,783	39,074	108,266
Diluted net income attributable to Tetra Tech per share	2.42	2.04	1.42	0.64	1.66
Cash dividends paid per share	0.44	0.38	0.34	0.30	0.14
Balance Sheet Data					
Total assets	\$1,959,421	\$1,902,745	\$1,800,779	\$1,559,242	\$1,776,404
Long-term debt, net of current portion	264,712	341,283	331,501	180,972	192,842
Tetra Tech stockholders' equity	966,971	928,453	869,259	856,325	1,012,079

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following analysis of our financial condition and results of operations should be read in conjunction with Part I of this report, as well as our consolidated financial statements and accompanying notes in Item 8. The following analysis contains forward-looking statements about our future results of operations and expectations. Our actual results and the timing of events could differ materially from those described herein. See Part 1, Item 1A, "Risk Factors" for a discussion of the risks, assumptions, and uncertainties affecting these statements.

OVERVIEW OF RESULTS AND BUSINESS TRENDS

General. In fiscal 2018, our revenue increased 7.7% compared to fiscal 2017. This growth includes \$125.0 million of revenue from the acquisitions of Glumac and Norman Disney & Young ("NDY"), which were completed in fiscal 2018. In addition, in the third quarter of fiscal 2018, we divested our non-core utility field services operations in our CIG segment. Excluding the net contribution from these transactions, our revenue increased 3.8% in fiscal 2018 compared to fiscal 2017.

U.S. State and Local Government. Our U.S. state and local government revenue increased 32.9% in fiscal 2018 compared to last year. We experienced broad-based growth in our U.S. state and local government project-related infrastructure revenue with particularly increased revenue from municipal water infrastructure work in the metropolitan areas of California, Texas, and Florida. The increase also includes higher revenue from disaster recovery activities in fiscal 2018 compared to last year 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 fiscal 2019, although at a significantly lower rate than 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 fiscal 2018 compared to fiscal 2017. This growth primarily reflects increased DoD and U.S. Department of State ("DOS") activities. During periods of economic volatility, our U.S. federal government clients have historically been the most stable and predictable. We anticipate continued growth in U.S. federal government revenue in fiscal 2019.

U.S. Commercial. Our U.S. commercial revenue increased 3.1% in fiscal 2018 compared to last year. Excluding the contribution from Glumac and the reduction from the divestiture of our non-core utility field services operations, our U.S. commercial business decreased 3.5% in fiscal 2018 compared to fiscal 2017. We expect our U.S. commercial revenue to grow in fiscal 2019, adjusted for the impact of the divestiture, primarily due to increased activities for industrial water treatment and environmental clean-up programs.

International. Our international revenue decreased 0.3% in fiscal 2018 compared to fiscal 2017. Excluding the contribution from NDY, our revenue declined 9.0% in fiscal 2018 compared to 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 1.5% due to an improvement in our local water and transportation infrastructure work in Australia, New Zealand, and Asia-Pacific, partially offset by weakness in our Canadian markets. We anticipate our total international revenue to grow in fiscal 2019.

RESULTS OF OPERATIONS

Fiscal 2018 Compared to Fiscal 2017

Consolidated Results of Operations

	Fiscal Year Ended		Change	
	September 30, 2018	October 1, 2017	\$	%
	(\$ in thousands)			
Revenue	\$2,964,148	\$2,753,360	\$210,788	7.7%
Subcontractor costs	(763,414)	(719,350)	(44,064)	(6.1)
Revenue, net of subcontractor costs ⁽¹⁾	2,200,734	2,034,010	166,724	8.2
Other costs of revenue	(1,816,276)	(1,680,372)	(135,904)	(8.1)
Gross profit	384,458	353,638	30,820	8.7
Selling, general and administrative expenses	(190,120)	(177,219)	(12,901)	(7.3)
Contingent consideration – fair value adjustments	(4,252)	6,923	(11,175)	NM
Income from operations	190,086	183,342	6,744	3.7
Interest expense – net	(15,524)	(11,581)	(3,943)	(34.0)
Income before income tax expense	174,562	171,761	2,801	1.6
Income tax expense	(37,605)	(53,844)	16,239	30.2
Net income	136,957	117,917	19,040	16.1
Net income attributable to noncontrolling interests	(74)	(43)	(31)	(72.1)
Net income attributable to Tetra Tech	\$136,883	\$117,874	\$19,009	16.1
Diluted earnings per share	\$2.42	\$2.04	\$0.38	18.6

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 USAID programs, issue grants. Generally, these subcontractor costs and grants are passed ⁽¹⁾ 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. 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. Ongoing results also exclude losses from the divestitures of our non-core utility field services operations and other non-core assets in fiscal 2018. In addition, our ongoing results also exclude a reduction of revenue of \$10.6 million and a related charge to operating income of \$12.5 million from a claim settlement in the fourth quarter of fiscal 2018 for a fixed-price construction project that was completed in fiscal 2014. The effective tax rates applied to the adjustments to earnings per share ("EPS") to arrive at ongoing EPS averaged 28% and 33% in 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.

	Fiscal Year Ended		Change	
	September 30, 2018	October 1, 2017	\$	%
Revenue	\$2,964,148	\$2,753,360	\$210,788	7.7%
RCM	(14,199)	(18,207)	4,008	NM
Claim settlement	10,576	—	10,576	NM
Ongoing revenue	\$2,960,525	\$2,735,153	\$225,372	8.2
Revenue, net of subcontractor costs	\$2,200,734	\$2,034,010	\$166,724	8.2
RCM	(2,648)	86	(2,734)	NM
Claim settlement	10,576	—	\$10,576	NM
Ongoing revenue, net of subcontractor costs	\$2,208,662	\$2,034,096	\$174,566	8.6
Income from operations	\$190,086	\$183,342	\$6,744	3.7
Contingent consideration – fair value adjustments	4,252	(6,923)	11,175	NM
Non-core divestitures	3,434	—	3,434	NM
Claim settlement	12,457	—	12,457	NM
Contingent consideration - compensation	1,501	—	1,501	NM
Subtotal	211,730	176,419	35,311	20.0
RCM	4,573	14,712	(10,139)	NM
Ongoing income from operations	\$216,303	\$191,131	\$25,172	13.2
EPS	\$2.42	\$2.04	\$0.38	18.6
Contingent consideration – fair value adjustments	0.06	(0.08)	0.14	NM
Contingent consideration - compensation	0.02	—	0.02	NM
RCM	0.06	0.17	(0.11)	NM
Revaluation of deferred taxes	(0.19)	—	(0.19)	NM
Non-core divestitures	0.11	—	0.11	NM
Claim settlement	0.16	—	0.16	NM
Ongoing EPS	\$2.64	\$2.13	\$0.51	23.9

NM = not meaningful

In fiscal 2018, revenue and revenue, net of subcontractor costs, increased \$210.8 million, or 7.7%, and \$166.7 million, or 8.2%, respectively, compared to fiscal 2017. Our ongoing revenue and revenue, net of subcontractor costs, increased \$225.4 million, or 8.2%, and \$174.6 million, or 8.6%, respectively, compared to last year. This growth includes contributions from the acquisitions of Glumac and NDY, partially offset by the divestiture of our non-core utility field services operations. Excluding the net impact from these transactions, our revenue grew \$102.6 million, or 3.8%, in fiscal 2018 compared to fiscal 2017. The growth was due to increased state and local government activity led

by our disaster recovery projects, as well as our U.S. federal government and international government business primarily in our GSG segment. These increases were partially offset by a decline in our international oil and gas activities in Western Canada in our CIG segment.

Our operating income increased \$6.7 million in fiscal 2018 compared to fiscal 2017. The loss from exited construction activities in our RCM segment was \$4.6 million in fiscal 2018 compared to \$14.7 million last year. Our RCM results are described below under "Remediation and Construction Management." Additionally, our operating income for fiscal 2018 reflects losses of \$4.3 million related to changes in the estimated fair value of contingent earn-out liabilities and a related compensation charge of \$1.5 million. Conversely, our operating income for fiscal 2017 reflects gains of \$6.9 million related to changes in the estimated fair value of contingent earn-out liabilities. These gains and losses/charges are described below under "Fiscal 2018 and 2017 Earn-Out Adjustments." Our operating income for fiscal 2018 also includes losses of \$3.4 million related to the divestitures of our non-core utility field services operations and other non-core assets. These losses are reported in selling, general and administrative expenses in our consolidated statements of income. Our fiscal 2018 results also include a reduction of revenue of \$10.6 million and a related charge to operating income of \$12.5 million related to the settlement of a claim in our CIG reportable segment for a fixed-price construction project that was completed in fiscal 2014 prior to our decision to exit similar activities in our RCM segment. Although this settlement resulted in a charge to operating income in the fourth quarter of fiscal 2018, we received cash proceeds of \$16.1 million for the related accounts receivable in the first quarter of fiscal 2019.

Excluding these items, ongoing operating income increased \$25.2 million, or 13.2%, in fiscal 2018 compared to fiscal 2017. The increase in our operating income reflects improved results in our GSG segment. GSG's operating income increased \$30.0 million in fiscal 2018 compared to last year. These results are described below under "Government Services Group."

Interest expense, net was \$15.5 million in fiscal 2018 compared to \$11.6 million last year. This increase reflects higher interest rates (primarily LIBOR) and additional borrowings to fund business growth, including the fiscal 2018 acquisitions, and other working capital needs.

The effective tax rates for fiscal 2018 and 2017 were 21.5% and 31.3%, 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 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 fiscal 2018. Based on our analysis of tax earnings and profits and tax deficits at the prescribed measurement dates, we have a cumulative net tax deficit and do not 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 was blended in fiscal 2018, resulting in a statutory federal rate of approximately 24.5% (3 months at 35% and 9 months at 21%), and will be 21% for 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 \$14.7 million in 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. In fiscal 2018, we recognized other non-recurring adjustments to our deferred tax assets and liabilities that resulted in a net deferred tax expense of \$3.6 million. Excluding these net deferred tax benefits, our effective tax rate in fiscal 2018 was 27.9%.

The fiscal 2018 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 fiscal 2018 and fiscal 2017, the Internal Revenue Service concluded their examinations through fiscal 2016 and other state and international examinations were also completed.

As a result, we recognized a net \$1.6 million tax expense in fiscal 2018 and a \$1.1 million tax expense in fiscal 2017. Excluding these discrete amounts from both periods and the one-time impacts of the TCJA, the effective tax rates for fiscal 2018 and 2017 were 25.1% and 30.7%, respectively.

Our EPS was \$2.42 in fiscal 2018, compared to \$2.04 in fiscal 2017. On the same basis as our ongoing operating income, EPS was \$2.64 in fiscal 2018, compared to \$2.13 last year.

Segment Results of Operations

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 activities with development agencies worldwide. Our CIG reportable segment primarily includes activities with U.S. commercial clients and 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 RCM segment.

Government Services Group ("GSG")

	Fiscal Year Ended		Change	
	September 30, 2018	October 1, 2017	\$	%
	(\$ in thousands)			
Revenue	\$1,694,871	\$1,487,611	\$207,260	13.9%
Subcontractor costs	(482,537)	(420,453)	(62,084)	(14.8)
Revenue, net of subcontractor costs	\$1,212,334	\$1,067,158	\$145,176	13.6

Income from operations \$168,211 \$138,199 \$30,012 21.7

Revenue and revenue, net of subcontractor costs, increased \$207.3 million, or 13.9%, and \$145.2 million, or 13.6%, respectively, compared to fiscal 2017. These increases include the aforementioned contribution from our Glumac acquisition. Excluding this contribution, our revenue increased 9.8% in fiscal 2018 compared to fiscal 2017. This increase reflects broad-based revenue growth in our U.S. state and local government project-related infrastructure revenue with particularly increased revenue from municipal water infrastructure work in the metropolitan areas of California, Texas, and Florida. The increase also includes higher revenue from disaster recovery activities in fiscal 2018 compared to last year 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. Our U.S. state and local government revenue and revenue, net of subcontractor costs, increased \$114.9 million and \$68.7 million, respectively, in fiscal 2018 compared to last year. To a lesser extent, our U.S. federal business also improved compared to fiscal 2017, primarily due to an increase in environmental work for the DoD, and DOS. Operating income increased \$30.0 million in fiscal 2018 compared to fiscal 2017, reflecting the higher revenue. In addition, our operating margin, based on revenue, net of subcontractor costs, improved to 13.9% in fiscal 2018 from 13.0% in fiscal 2017. This increase in profitability primarily reflects increasing revenue and improved utilization of resources.

Commercial/International Services Group ("CIG")

	Fiscal Year Ended		Change	
	September 30, 2018	October 1, 2017	\$	%
	(\$ in thousands)			
Revenue	\$1,323,142	\$1,326,020	\$(2,878)	(0.2)%
Subcontractor costs	(337,390)	(359,082)	21,692	6.0
Revenue, net of subcontractor costs	\$985,752	\$966,938	\$18,814	1.9

Income from operations \$74,451 \$90,817 \$(16,366) (18.0)

Revenue and revenue, net of subcontractor costs, decreased \$2.9 million, or 0.2%, and increased \$18.8 million, or 1.9%, respectively, in fiscal 2018 compared to fiscal 2017. These amounts include the aforementioned contribution from our NDY acquisition. In addition, these year-over-year comparisons were impacted by the divestiture of our non-core utility field services operations in fiscal 2018 and the reduction of revenue of \$10.6 million from the settlement of the claim in the fourth quarter of fiscal 2018 for a fixed-price construction project that was completed in fiscal 2014. Excluding the net impact of the acquisition/divestiture and the claim adjustment, revenue and revenue, net of subcontractor costs decreased 3.1% and 2.4%, respectively, in fiscal 2018 compared to last year. These results primarily reflect lower oil and gas revenue in Western Canada, which declined \$75.6 million in fiscal 2018 compared to last year. Operating income decreased \$16.4 million, or, 18.0%, in fiscal 2018 compared to fiscal 2017 primarily due to the \$12.5 million charge for the claim settlement in the fourth quarter of fiscal 2018 for the fixed-price

construction project that was completed in fiscal 2014. Excluding this charge, operating income declined 4.3% in fiscal 2018 compared to last year reflecting the lower revenue. In addition, our operating margin, based on revenue, net of subcontractor costs, declined to 7.6% in fiscal 2018 from 9.4% in fiscal 2017 reflecting the claim settlement in the fourth quarter of fiscal 2018.

Remediation and Construction Management ("RCM")

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	Fiscal Year Ended			
	September 30, 2018	October 1, 2017	Change	
			\$	%
	(\$ in thousands)			
Revenue	\$14,199	\$18,207	\$(4,008)	(22.0)%
Subcontractor costs	(11,551)	(18,293)	6,742	36.9
Revenue, net of subcontractor costs	\$2,648	\$(86)	\$2,734	NM
Loss from operations	\$(4,573)	\$(14,712)	\$10,139	68.9

NM = not meaningful

Revenue decreased \$4.0 million and revenue, net of subcontractor costs, increased \$2.7 million in fiscal 2018 compared to fiscal 2017. The operating loss in fiscal 2018 primarily reflects legal costs related to outstanding claims. In fiscal 2017, we updated our evaluation of unsettled claims and recognized a reduction in revenue of \$4.9 million and a related loss in operating income of \$3.6 million. We also recognized unfavorable operating income adjustments of \$5.7 million related to our updated estimate of the costs to complete fixed-price construction projects in fiscal 2017. The remaining loss in fiscal 2017 primarily reflect legal costs related to outstanding claims.

Fiscal 2018 and 2017 Earn-Out Adjustments

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. In fiscal 2018, we recorded adjustments to our contingent earn-out liabilities and reported related losses in operating income of \$4.3 million. These losses resulted from updated valuations of the contingent consideration liabilities for NDY, Eco Logical Australia ("ELA") and Cornerstone Environmental Group ("CEG"). These valuations included our updated projections of NDY's, ELA's, and CEG's financial performance during the earn-out periods, which exceeded our original estimates at their respective acquisition dates. In addition, in fiscal 2018 we recognized a charge of \$1.5 million that related to the earn-out for Glumac but was treated as compensation in selling, general and administrative expenses due to the terms of the arrangement, which included an on-going service requirement for a portion of the earn-out.

During fiscal 2017, we recorded updated valuations to our contingent earn-out liabilities and reported net gains in operating income totaling \$6.9 million. The fiscal 2017 gains primarily resulted from updated valuations of the contingent consideration liabilities for INDUS Corporation ("INDUS") and CEG, which are both part of our GSG segment.

At September 30, 2018, there was a total potential maximum of \$50.6 million of outstanding contingent consideration related to acquisitions. Of this amount, \$35.3 million was estimated as the fair value and accrued on our consolidated balance sheet.

Fiscal 2017 Compared to Fiscal 2016
Consolidated Results of Operations

	Fiscal Year Ended		Change	%
	October 1, 2017	October 2, 2016		
			\$	
				%
	(\$ in thousands)			
Revenue	\$2,753,360	\$2,583,469	\$169,891	6.6%
Subcontractor costs	(719,350)	(654,264)	(65,086)	(9.9)
Revenue, net of subcontractor costs ⁽¹⁾	2,034,010	1,929,205	104,805	5.4
Other costs of revenue	(1,680,372)	(1,598,994)	(81,378)	(5.1)
Gross profit	353,638	330,211	23,427	7.1
Selling, general and administrative expenses	(177,219)	(171,985)	(5,234)	(3.0)
Acquisition and integration expenses	—	(19,548)	19,548	NM
Contingent consideration – fair value adjustments	6,923	(2,823)	9,746	NM
Income from operations	183,342	135,855	47,487	35.0
Interest expense – net	(11,581)	(11,389)	(192)	(1.7)
Income before income tax expense	171,761	124,466	47,295	38.0
Income tax expense	(53,844)	(40,613)	(13,231)	(32.6)
Net income	117,917	83,853	34,064	40.6
Net income attributable to noncontrolling interests	(43)	(70)	27	38.6
Net income attributable to Tetra Tech	\$117,874	\$83,783	\$34,091	40.7
Diluted earnings per share	\$2.04	\$1.42	\$0.62	43.7

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 USAID programs, issue grants. Generally, these subcontractor costs and grants are passed ⁽¹⁾ 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. 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 purchase accounting-related adjustments. Ongoing results also exclude acquisition and integration expenses, and debt pre-payment fees in fiscal 2016. Additionally, ongoing EPS for fiscal 2016 excludes the benefit of the retroactive extension of the research and development ("R&D") credit described below. The effective tax rates applied to the adjustments to EPS to arrive at ongoing EPS averaged 33% and 25% in fiscal 2017 and 2016, respectively. We apply the relevant marginal statutory tax rate based on the nature of the adjustments and tax jurisdiction in which they occur. In fiscal 2016, this average rate was lower than our overall effective tax rate due to certain acquisition and integration expenses, which had no tax benefit. Both EPS and ongoing EPS were calculated using diluted weighted-average common shares outstanding for the respective years as reflected in our consolidated statements of income.

	Fiscal Year Ended			
	October 1, 2017	October 2, 2016	Change \$	% %
Revenue	\$2,753,360	\$2,583,469	\$169,891	6.6%
RCM	(18,207)	(52,150)	33,943	NM
Ongoing revenue	\$2,735,153	\$2,531,319	\$203,834	8.1
Revenue, net of subcontractor costs	\$2,034,010	\$1,929,205	\$104,805	5.4
RCM	86	(17,267)	17,353	NM
Ongoing revenue, net of subcontractors costs	\$2,034,096	\$1,911,938	\$122,158	6.4
Income from operations	\$183,342	\$135,855	\$47,487	35.0
Acquisition and integration expenses	—	19,548	(19,548)	NM
Contingent consideration – fair value adjustments	(6,923)	2,823	(9,746)	NM
Subtotal	176,419	158,226	18,193	11.5
RCM	14,712	11,834	2,878	NM
Ongoing income from operations	\$191,131	\$170,060	\$21,071	12.4
EPS	\$2.04	\$1.42	\$0.62	43.7
Contingent consideration – fair value adjustments	(0.08)	0.03	(0.11)	NM
RCM	0.17	0.14	0.03	NM
Acquisition and integration expenses	—	0.29	(0.29)	NM
Coffey debt prepayment	—	0.03	(0.03)	NM
Retroactive R&D tax	—	(0.03)	0.03	NM
Ongoing EPS	\$2.13	\$1.88	\$0.25	13.3

NM = not meaningful

In fiscal 2017, revenue and revenue, net of subcontractor costs, increased \$169.9 million, or 6.6%, and \$104.8 million, or 5.4%, respectively, compared to fiscal 2016. The year-over-year comparisons reflect a reduction in certain construction activities resulting from our decision to exit from select fixed-price construction markets, which are reported in the RCM segment. Revenue and revenue, net of subcontractor costs, from these construction activities declined \$33.9 million and \$17.4 million, respectively, in fiscal 2017 compared to fiscal 2016. In fiscal 2017, our ongoing revenue and revenue, net of subcontractor costs, increased \$203.8 million, or 8.1%, and \$122.2 million, or 6.4%, compared to fiscal 2016. These increases include first half contributions from acquisitions of Coffey International Limited ("Coffey") and INDUS that were completed in the second quarter of fiscal 2016. Together, these acquisitions contributed revenue of \$213.4 million and revenue, net of subcontractor costs, of \$154.4 million in the first six months of fiscal 2017 compared to revenue of \$94.3 million and revenue, net of subcontractor costs, of \$71.0 million in the first six months of fiscal 2016. Excluding these first half contributions, our ongoing revenue and revenue, net of subcontractor costs, increased 3.5% and 2.1%, respectively, in fiscal 2017 compared to the same

period in fiscal 2016. These results reflect increased U.S. federal and U.S. state and local government activity partially offset by a decline in our oil and gas activities in North America, particularly in Canada.

Our operating income increased \$47.5 million in fiscal 2017 compared to fiscal 2016. The loss from exited construction activities in our RCM segment was \$14.7 million in fiscal 2017 compared to \$11.8 million in fiscal 2016. Our RCM results are described below under “Remediation and Construction Management.” Additionally, our operating income in fiscal 2016 was

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reduced by acquisition and integration expenses of \$19.5 million related to the acquisition of Coffey. For further detailed information regarding these expenses, see "Fiscal 2016 Acquisition and Integration Expenses" below. Also, our operating income for fiscal 2017 reflects gains of \$6.9 million related to changes in the estimated fair value of contingent earn-out liabilities. Conversely, our operating income for fiscal 2016 reflects losses of \$2.8 million related to changes in the estimated fair value of contingent earn-out liabilities. These gains and losses are described below under "Fiscal 2017 and 2016 Earn-Out Adjustments."

Excluding these items, ongoing operating income increased \$21.1 million, or 12.4%, in fiscal 2017 compared to fiscal 2016. The increase in our ongoing operating income primarily reflects improved results in our GSG segment. GSG operating income increased \$36.6 million in fiscal 2017 compared to fiscal 2016. These results are described below under "Government Services Group."

Interest expense, net was \$11.6 million in fiscal 2017, compared to \$11.4 million in fiscal 2016. Interest expense in the second quarter of fiscal 2016 included debt pre-payment fees of \$1.9 million related to the Coffey acquisition. Excluding this item, interest expense, net increased \$2.1 million in fiscal 2017 compared to fiscal 2016. This increase reflects higher interest rates (primarily LIBOR), and additional borrowings to fund the Coffey acquisition and other working capital needs.

The effective tax rates for fiscal 2017 and 2016 were 31.3% and 32.6%, respectively. During fiscal 2017, we adopted accounting guidance which requires excess tax benefits and deficiencies on share-based payments to be recorded as an income tax benefit or expense, respectively, in the statement of income rather than being recorded in additional paid-in capital on the balance sheet. As a result, we recognized an income tax benefit of \$4.9 million in fiscal 2017. Excluding this item, the effective tax rate for fiscal 2017 was 34.2%. In fiscal 2016, we incurred \$13.3 million of acquisition and integration expenses and debt pre-payment fees for which no tax benefit was recognized. Of this amount, \$6.4 million resulted from acquisition expenses that were not tax deductible and \$6.9 million resulted from integration expenses and debt pre-payment fees incurred in jurisdictions with current and historical net operating losses where the related deferred tax asset was fully reserved. Additionally, during the first quarter of fiscal 2016, the Protecting Americans from Tax Hikes Act of 2015 was signed into law which permanently extended the R&D credit retroactive to January 1, 2015. Our income tax expense for fiscal 2016 included an income tax benefit of \$2.0 million attributable to operating income during the last nine months of fiscal 2015, primarily related to the retroactive recognition of the R&D credit. Excluding these discrete items, the effective tax rate for fiscal 2016 was 30.9%.

EPS was \$2.04 in fiscal 2017, compared to \$1.42 in fiscal 2016. This increase includes the acquisition and integration expenses and debt pre-payment fees of \$21.5 million (\$19.0 million after tax) in fiscal 2016. These charges reduced EPS by \$0.32 per share in fiscal 2016. The other non-operating items described above (RCM segment results and earn-out gains/losses) also affected the year-over-year comparisons. On the same basis as our ongoing operating income, EPS was \$2.13 in fiscal 2017, compared to \$1.88 in fiscal 2016.

Fiscal 2016 Acquisition and Integration Expenses

In fiscal 2016, we incurred Coffey-related acquisition and integration expenses of \$19.5 million. The \$7.9 million of acquisition expenses were primarily for professional services, such as legal and investment banking, to support the transaction. Throughout the remainder of fiscal 2016 subsequent to the acquisition date, we incurred costs of \$11.6 million on integration activities, including the elimination of redundant general and administrative costs, real estate consolidation, and conversion of information technology platforms. As of October 2, 2016, all of these activities were substantially complete and all of the related costs had been paid.

Fiscal 2017 and 2016 Earn-Out Adjustments

During fiscal 2017, we recorded updated valuations to our contingent earn-out liabilities and reported related net gains in operating income totaling \$6.9 million. The fiscal 2017 gains primarily resulted from updated valuations of the contingent consideration liabilities for INDUS and CEG, which are both part of our GSG segment.

INDUS' actual financial performance in the first earn-out period was profitable, but below our original expectations 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 INDUS' contingent earn-out liability to \$0, which resulted in a gain of \$5.0 million.

In the second quarter of fiscal 2016, we recorded an increase in our contingent earn-out liabilities and related losses in operating income of \$1.8 million, which primarily reflected our updated valuation of the contingent consideration liability for CEG.

Segment Results of Operations

Government Services Group ("GSG")

	Fiscal Year Ended			
	October 1, 2017	October 2, 2016	Change \$	%
	(\$ in thousands)			
Revenue	\$1,487,611	\$1,289,506	\$198,105	15.4%
Subcontractor costs	(420,453)	(338,476)	(81,977)	(24.2)
Revenue, net of subcontractor costs	\$1,067,158	\$951,030	\$116,128	12.2

Income from operations \$138,199 \$101,595 \$36,604 36.0

Revenue and revenue, net of subcontractor costs, increased \$198.1 million, or 15.4%, and \$116.1 million, or 12.2%, in fiscal 2017 compared to fiscal 2016. These increases include contributions from Coffey's international development projects and INDUS' projects of \$144.9 million of revenue and \$94.8 million of revenue, net of subcontractor costs, in the first six months of fiscal 2017, compared to \$57.2 million and \$29.7 million, respectively, in the first half of fiscal 2016. Excluding the contributions from Coffey and INDUS, our revenue and revenue, net of subcontractor costs, increased \$98.8 million and \$62.7 million, respectively, in fiscal 2017 compared to the fiscal 2016. These increases reflect broad-based revenue growth in our U.S. state and local government project-related infrastructure business. Our U.S. state and local government revenue and revenue, net of subcontractor costs, increased \$66.1 million and \$46.1 million, respectively, in fiscal 2017 compared to fiscal 2016. Our U.S. federal business also improved compared to fiscal 2016, primarily due to an increase in work for DoD. Operating income increased \$36.6 million in fiscal 2017 compared to fiscal 2016, reflecting the higher revenue. In addition, our operating margin, based on revenue, net of subcontractor costs, improved to 13.0% in fiscal 2017 from 10.7% in fiscal 2016.

Commercial/International Services Group ("CIG")

	Fiscal Year Ended			
	October 1, 2017	October 2, 2016	Change \$	%
	(\$ in thousands)			
Revenue	\$1,326,020	\$1,297,209	\$28,811	2.2%
Subcontractor costs	(359,082)	(336,301)	(22,781)	(6.8)
Revenue, net of subcontractor costs	\$966,938	\$960,908	\$6,030	0.6

Income from operations \$90,817 \$106,602 \$(15,785) (14.8)

Revenue and revenue, net of subcontractor costs, increased \$28.8 million and \$6.0 million, respectively, compared to fiscal 2016. These increases include Coffey contributions of \$68.6 million of revenue and \$59.7 million of revenue, net of subcontractor costs, in the first six months of fiscal 2017, compared to \$37.1 million and \$32.3 million, respectively, in the first half of fiscal 2016. Excluding the Coffey contributions, our revenue and revenue, net of subcontractor costs, increased \$7.0 million and decreased \$10.4 million, respectively, in fiscal 2017 compared to fiscal 2016. The reduction in revenue, net of subcontractor costs reflect a reduction in oil and gas activity in North America, particularly in Canada. Operating income decreased \$15.8 million in fiscal 2017 compared to fiscal 2016. This decrease also reflects the reduction in oil and gas activity.

Remediation and Construction Management ("RCM")

	Fiscal Year Ended			
	October 1, 2017	October 2, 2016	Change	
			\$	%
	(\$ in thousands)			
Revenue	\$18,207	\$52,150	\$(33,943)	(65.1)%
Subcontractor costs	(18,293)	(34,883)	16,590	47.6
Revenue, net of subcontractor costs	\$(86)	\$17,267	\$(17,353)	(100.5)
Loss from operations	\$(14,712)	\$(11,834)	\$(2,878)	(24.3)

Revenue and revenue, net of subcontractor costs, decreased \$33.9 million and \$17.4 million, respectively, in fiscal 2017 compared to fiscal 2016. These decreases primarily resulted from our decision at the end of fiscal 2014 to wind-down the RCM construction activities. In addition, in fiscal 2017, we updated our evaluation of unsettled claims and recognized a reduction in revenue of \$4.9 million and a related loss in operating income of \$3.6 million. In fiscal 2017, we also recognized unfavorable operating income adjustments of \$5.7 million related to our updated estimate of the costs to complete fixed-price construction projects. The remaining loss in fiscal 2017 primarily reflects legal costs related to outstanding claims. The operating loss in fiscal 2016 resulted from adverse changes in the estimated costs to complete several projects and legal expenses to resolve various outstanding project claims. In addition, the fiscal 2016 operating loss of \$11.8 million includes \$7.9 million of losses related to uncollectible accounts receivable, including claims. This loss was partially offset by a gain of \$4.6 million resulting from the settlement of a claim with a U.S. federal government client for work completed in fiscal 2013.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

Capital Requirements. Our primary sources of liquidity are cash flows from operations and borrowings under our credit facilities. Our primary uses of cash are to fund working capital, capital expenditures, stock repurchases, cash dividends and repayment of debt, as well as to fund acquisitions and earn-out obligations from prior acquisitions. We believe that our existing cash and cash equivalents, operating cash flows and borrowing capacity under our credit agreement, as described below, will be sufficient to meet our capital requirements for at least the next 12 months. On November 7, 2016, the Board of Directors authorized a stock repurchase program under which we could repurchase up to \$200 million of our common stock, of which \$175 million has been repurchased as of September 30, 2018. We declared and paid common stock dividends totaling \$24.5 million, or \$0.44 per share, in fiscal 2018 compared to \$21.7 million, or \$0.38 per share, in fiscal 2017.

Subsequent Event. On November 5, 2018, the Board of Directors declared a quarterly cash dividend of \$0.12 per share payable on December 14, 2018 to stockholders of record as of the close of business on November 30, 2018. The Board also authorized a new stock repurchase program under which we could repurchase up to \$200 million of our common stock in addition to the \$25 million remaining under the previous stock repurchase program.

We use a variety of tax planning and financing strategies to manage our worldwide cash and deploy funds to locations where they are needed. Historically, we indefinitely reinvested our foreign earnings, and did not need to repatriate these earnings. However, in fiscal 2018, we evaluated our global tax planning and financing strategies as a result of the recent changes in U.S. tax law. As a result, we completed a one-time repatriation of a portion of our foreign earnings totaling approximately \$117 million in fiscal 2018. We paid down debt in the U.S. with most of these funds during the fourth quarter of fiscal 2018. This transaction resulted in an immaterial net repatriation tax on a global basis. At September 30, 2018, undistributed earnings of our foreign subsidiaries, primarily in Canada, amounting to approximately \$11.8 million, which are expected to be permanently reinvested. Accordingly, no provision for foreign withholding taxes has been made. Upon distribution of those earnings, we would be subject to foreign withholding taxes. Assuming the permanently reinvested foreign earnings were repatriated under the laws and rates applicable at September 30, 2018, the incremental foreign withholding taxes applicable to those earnings would be approximately \$1.0 million. We have no need or plans to repatriate additional foreign earnings in the foreseeable future.

Cash and Cash Equivalents. As of September 30, 2018, cash and cash equivalents were \$146.2 million, a decrease of \$43.8 million compared to the fiscal 2017 year-end. The decrease was due to payments for the acquisitions of Glumac and NDY, stock repurchases, dividends, net repayments on long-term debt and capital expenditures. The decrease was partially offset by cash generated from operating activities, proceeds from divestitures of non-core operations, and net proceeds from the issuance of common stock.

Operating Activities. For fiscal 2018, net cash provided by operating activities was \$176.9 million compared to \$138.0 million in fiscal 2017. The fiscal 2018 and 2017 amounts were lowered by payments to tax authorities related to completed examinations totaling \$7.6 million and \$21.5 million, respectively, which was accrued in prior years. Excluding these items, net cash provided by operating activities increased \$25.0 million in fiscal 2018 compared to fiscal 2017, primarily due to higher ongoing income from operations, as well as collections from projects with milestone payment schedules.

Investing Activities. Net cash used in investing activities was \$42.6 million in fiscal 2018, an increase of \$25.7 million compared to last year, primarily due to the acquisitions of Glumac and NDY, partially offset by the proceeds from the divestitures of our non-core utility field service operations.

Financing Activities. For fiscal 2018, net cash used in financing activities was \$173.1 million, an increase of \$78.3 million compared to fiscal 2017. The increase in cash used was primarily due to higher net repayments of long-term debt of \$93.6 million, partially offset by a \$25.0 million reduction stock repurchases in fiscal 2018 compared to fiscal 2017.

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

At September 30, 2018, we had \$277.1 million in outstanding borrowings under the Amended Credit Agreement, which was comprised of \$250 million under the Term Loan Facility and \$27.1 million under the Amended Revolving Credit Facility at a weighted-average interest rate of 3.27% per annum. In addition, we had \$0.9 million in standby letters of credit under the Amended Credit Agreement. Our average effective weighted-average interest rate on borrowings outstanding at September 30, 2018 under the Amended Credit Agreement, including the effects of interest rate swap agreements was 3.28%. At September 30, 2018, we had \$422.0 million of available credit under the Amended Revolving Credit Facility, all of which could be borrowed without a violation of our debt covenants. Commitment fees related to our revolving credit facilities were \$0.6 million, \$0.8 million, and \$0.9 million for fiscal 2018, 2017 and 2016, respectively.

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

At September 30, 2018, we were in compliance with these covenants with a consolidated leverage ratio of 1.23x and a consolidated interest coverage ratio of 15.42x. Our obligations under the Amended Credit Agreement are guaranteed by certain of our subsidiaries and are secured by first priority liens on (i) the equity interests of certain of our subsidiaries, including those subsidiaries that are guarantors or borrowers under the Amended Credit Agreement, and (ii) our accounts receivable, general intangibles and intercompany loans, and those of our subsidiaries that are guarantors or borrowers.

In addition to the credit facility, we entered into agreements to issue standby letters of credit. The aggregate amount of standby letters of credit outstanding under these additional agreements and other bank guarantees was \$29.8 million, of which \$4.3 million was issued in currencies other than the U.S. dollar.

We maintain at our Australian subsidiary an AUD\$30 million credit facility, which may be used for bank overdrafts, short-term cash advances and bank guarantees. This facility expires in March 2019 and is secured by a parent guarantee. At September 30, 2018, there were no borrowings outstanding under this facility and bank guarantees outstanding of \$7.1 million, which were issued in currencies other than the U.S. dollar.

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

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

Declaration Date	Dividend Per	Record Date	Total Maximum	Payment Date
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Share
(in thousands, except per share data)

Payment

November 6, 2017	\$0.10	November 30, 2017	\$ 5,589	December 15, 2017
January 29, 2018	\$0.10	February 14, 2018	\$ 5,583	March 2, 2018
April 30, 2018	\$0.12	May 16, 2018	\$ 6,664	June 1, 2018
July 30, 2018	\$0.12	August 16, 2018	\$ 6,641	August 31, 2018
November 5, 2018	\$0.12	November 30, 2018	N/A	December 14, 2018

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Contractual Obligations. The following sets forth our contractual obligations at September 30, 2018:

	Total	Year 1	Years 2 - 3	Years 4 - 5	Beyond
	(in thousands)				
Debt:					
Credit facility	\$277,127	\$12,500	\$25,000	\$239,627	\$—
Other debt	7	7	—	—	—
Interest ⁽¹⁾	44,569	10,062	18,885	15,622	—
Capital leases	177	92	85	—	—
Operating leases ⁽²⁾	262,741	84,442	111,122	48,924	18,253
Contingent earn-outs ⁽³⁾	35,290	13,633	21,657	—	—
Deferred compensation liability	30,210	—	—	—	30,210
Unrecognized tax benefits ⁽⁴⁾	9,427	3,577	4,120	1,730	—
Total	\$659,548	\$124,313	\$180,869	\$305,903	\$48,463

(1) Interest primarily related to the Term Loan Facility is based on a weighted-average interest rate at September 30, 2018, on borrowings that are presently outstanding.

(2) Predominantly represents real estate leases.

(3) Represents the estimated fair value recorded for contingent earn-out obligations for acquisitions. The remaining maximum contingent earn-out obligations for these acquisitions total \$50.6 million.

Represents liabilities for unrecognized tax benefits related to uncertain tax positions, excluding amounts related primarily to outstanding refund claims. We are unable to reasonably predict the timing of tax settlements, as tax

(4) audits can involve complex issues and the resolution of those issues may span multiple years, particularly if subject to negotiation or litigation. For more information, see Note 8, "Income Taxes" of the "Notes to Consolidated Financial Statements" included in Item 8.

Income Taxes

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

As of September 30, 2018 and October 1, 2017, the liability for income taxes associated with uncertain tax positions was \$9.4 million and \$6.0 million, respectively.

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

Off-Balance Sheet Arrangements

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

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

Letters of credit and bank guarantees are used primarily to support project performance and insurance programs. We are required to reimburse the issuers of letters of credit and bank guarantees for any payments they make under the outstanding letters of credit or bank guarantees. Our Amended Credit Agreement and additional letter of credit facilities cover the issuance of our standby letters of credit and bank guarantees and are critical for our normal

operations. If we default on the Amended Credit Agreement or additional credit facilities, our inability to issue or renew standby letters of credit and bank guarantees would impair our ability to maintain normal operations. At September 30, 2018, we had \$0.9 million in standby letters of credit outstanding under our Amended Credit Agreement, \$29.8 million in standby letters of credit outstanding under our additional letter of credit facilities and \$7.1 million of bank guarantees under our Australian facility.

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

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

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

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of our financial statements in conformity with U.S. GAAP requires us to make estimates and assumptions in the application of certain accounting policies that affect amounts reported in our consolidated financial statements and accompanying footnotes included in Item 8 of this report. In order to understand better the changes that may occur to our financial condition, results of operations and cash flows, readers should be aware of the critical accounting policies we apply and estimates we use in preparing our consolidated financial statements. Although such estimates and assumptions are based on management's best knowledge of current events and actions we may undertake in the future, actual results could differ materially from those estimates.

Our significant accounting policies are described in the "Notes to Consolidated Financial Statements" included in Item 8. Highlighted below are the accounting policies that management considers most critical to investors' understanding of our financial results and condition, and that require complex judgments by management.

Revenue Recognition and Contract Costs

We recognize revenue for most of our contracts using the percentage-of-completion method, primarily based on contract costs incurred to date compared to total estimated contract costs. We generally utilize the cost-to-cost approach to estimate the progress towards completion in order to determine the amount of revenue and profit to recognize. This method of revenue recognition requires us to prepare estimates of costs to complete contracts in progress. In making such estimates, judgments are required to evaluate contingencies such as potential variances in schedule; the cost of materials and labor productivity; and the impact of change orders, liability claims, contract disputes and achievement of contractual performance standards. Changes in total estimated contract cost and losses, if any, could materially impact our financial condition, results of operations or cash flows.

We recognize revenue for work performed under three major types of contracts: fixed-price, time-and-materials and cost-plus.

Fixed-Price. Under fixed-price contracts, our clients pay us an agreed fixed-amount negotiated in advance for a specified scope of work. We generally recognize revenue on fixed-price contracts using the percentage-of-completion method. If the nature or circumstances of the contract prevent us from preparing a reliable estimate at completion, we will delay profit recognition until adequate information about the contract's progress becomes available.

Time-and-Materials. Under time-and-materials contracts, we negotiate hourly billing rates and charge our clients based on the actual time that we spend on a project. In addition, clients reimburse us for our actual out-of-pocket costs of materials and other direct incidental expenditures that we incur in connection with our performance under the contract. The majority of our time-and-material contracts are subject to maximum contract values and, accordingly, revenue under these contracts is generally recognized under the percentage-of-completion method. However, time and materials contracts that are service-related contracts are accounted for utilizing the proportional performance method. Revenue on contracts that are not subject to maximum contract

values is recognized based on the actual number of hours we spend on the projects plus any actual out-of-pocket costs of materials and other direct incidental expenditures that we incur on the projects. Our time-and-materials contracts also generally include annual billing rate adjustment provisions.

Cost-Plus. Under cost-plus contracts, we are reimbursed for allowable or otherwise defined costs incurred plus a negotiated fee. The contracts may also include incentives for various performance criteria, including quality, timeliness, ingenuity, safety and cost-effectiveness. In addition, our costs are generally subject to review by our clients and regulatory audit agencies, and such reviews could result in costs being disputed as non-reimbursable under the terms of the contract. Revenue for cost-plus contracts is recognized at the time services are performed. Revenue is not recognized for non-recoverable costs. Performance incentives are included in our estimates of revenue when their realization is reasonably assured.

If estimated total costs on any contract indicate a loss, we recognize the entire estimated loss in the period the loss becomes known. The cumulative effect of revisions to revenue, estimated costs to complete contracts, including penalties, incentive awards, change orders, claims, anticipated losses and others are recorded in the period in which the revisions are identified and the loss can be reasonably estimated. Such revisions could occur in any reporting period and the effects may be material depending on the size of the project or the adjustment.

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 are "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 obtaining client agreement. Revenue related to change orders is recognized as costs are incurred. Change orders that are unapproved as to both price and scope are evaluated as claims.

Claims are amounts in excess of agreed contract prices that we seek to collect from our clients or other third parties for delays, errors in specifications and designs, contract terminations, change orders in dispute or unapproved as to both scope and price or other causes of unanticipated additional costs. 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. Revenue on claims is recognized only to the extent that contract costs related to the claims have been incurred and when it is probable that the claim will result in a bona fide addition to contract value that can be reliably estimated. No profit is recognized on a claim until final settlement occurs. This can lead to a situation in which costs are recognized in one period and revenue is recognized in a subsequent period when a client agreement is obtained or a claim resolution occurs.

In May 2014, the FASB issued Accounting Standards Update ("ASU") 2014-09, "Revenue from Contracts with Customers), which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. ASU 2014-09 outlines a five-step process for revenue recognition that focuses on transfer of control, as opposed to transfer of risk and rewards, and also requires disclosures regarding the nature, amount, timing, and uncertainty of revenues and cash flows from contracts with customers. Major provisions include determining which goods and services are distinct and represent separate performance obligations, how variable consideration (which may include change orders and claims) is recognized, whether revenue should be recognized at a point in time or over a period of time, and ensuring the time value of money is considered in the transaction price.

We have a cross-functional implementation team which includes representatives from our two operating segments, corporate accounting, and information technology. The implementation team has evaluated the impact of adopting the new standard on our uncompleted contracts as of October 1, 2018 (the date of adoption). The evaluation included reviewing our accounting policies and practices to identify differences that would result from applying the requirements of the new standard. We have identified and made changes to our processes and controls to support recognition and disclosure under the new standard. The implementation team has closely followed the conclusions of various industry groups on certain interpretive issues.

We continue to evaluate the impact of adopting ASU 2014-09 and all related amendments on our financial position, results of operations, and related disclosures. Under the new standard, we will continue to recognize fixed-price, time-and-materials, and cost-plus contract revenue over time on a percentage-of-completion basis because of the

continuous transfer of control to the customer. However, in a limited number of circumstances, adoption of the new standard will affect the manner in which we determine the unit of account for our projects (i.e. performance obligation). In some cases, contracts treated as more than one unit of account (multiple performance obligations) for revenue and margin recognition under existing guidance will be combined into one unit of account upon adoption. Conversely, in fewer cases, contracts treated as one unit of account (a single performance obligation) under existing guidance will be segmented into two or more units of account upon adoption. Based on our most recent assessment of existing contracts, the adoption of ASU 2014-09 is expected to result in a cumulative effect adjustment to decrease retained earnings by less than two percent as of October 1, 2018.

Insurance Matters, Litigation and Contingencies

In the normal course of business, we are subject to certain contractual guarantees and litigation. Generally, such guarantees relate to project schedules and performance. Most of the litigation involves us as a defendant in contractual disagreements, workers' compensation, personal injury and other similar lawsuits. We maintain insurance coverage for various aspects of our business and operations. However, we have elected to retain a portion of losses that may occur through the use of various deductibles, limits and retentions under our insurance programs. This practice may subject us to some future liability for which we are only partially insured or are completely uninsured.

We record in our consolidated balance sheets amounts representing our estimated liability for self-insurance claims. We utilize actuarial analyses to assist in determining the level of accrued liabilities to establish for our employee medical and workers' compensation self-insurance claims that are known and have been asserted against us, as well as for self-insurance claims that are believed to have been incurred based on actuarial analyses but have not yet been reported to our claims administrators at the balance sheet date. We include any adjustments to such insurance reserves in our consolidated statements of income.

Except as described in Note 17, "Commitments and Contingencies" of the "Notes to Consolidated Financial Statements" included in Item 8, we do not have any litigation or other contingencies that have had, or are currently anticipated to have, a material impact on our results of operations or financial position. As additional information about current or future litigation or other contingencies becomes available, management will assess whether such information warrants the recording of additional expenses relating to those contingencies. Such additional expenses could potentially have a material impact on our results of operations and financial position.

Goodwill and Intangibles

The cost of an acquired company is assigned to the tangible and intangible assets purchased and the liabilities assumed on the basis of their fair values at the date of acquisition. The determination of fair values of assets and liabilities acquired requires us to make estimates and use valuation techniques when a market value is not readily available. Any excess of purchase price over the fair value of net tangible and intangible assets acquired is allocated to goodwill. Goodwill typically represents the value paid for the assembled workforce and enhancement of our service offerings.

Identifiable intangible assets include backlog, non-compete agreements, client relations, trade names, patents and other assets. The costs of these intangible assets are amortized over their contractual or economic lives, which range from one to ten years. We assess the recoverability of the unamortized balance of our intangible assets when indicators of impairment are present based on expected future profitability and undiscounted expected cash flows and their contribution to our overall operations. Should the review indicate that the carrying value is not fully recoverable, the excess of the carrying value over the fair value of the intangible assets would be recognized as an impairment loss. We perform our annual goodwill impairment review at the beginning of our fiscal fourth quarter. In addition, we regularly evaluate whether events and circumstances have occurred that may indicate a potential change in recoverability of goodwill. We perform interim goodwill impairment reviews between our annual reviews if certain events and circumstances have occurred, including a deterioration in general economic conditions, an increased 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 (see Note 6, "Goodwill and Intangible Assets" of the "Notes to Consolidated Financial Statements" in Item 8 for further discussion).

We believe the methodology that we use to review impairment of goodwill, which includes a significant amount of judgment and estimates, provides us with a reasonable basis to determine whether impairment has occurred. However, many of the factors employed in determining whether our goodwill is impaired are outside of our control and it is reasonably likely that assumptions and estimates will change in future periods. These changes could result in future impairments.

The goodwill impairment review involves the determination of the fair value of our reporting units, which for us are the components one level below our reportable segments. This process requires us to make significant judgments and estimates, including assumptions about our strategic plans with regard to our operations as well as the interpretation of current economic indicators and market valuations. Furthermore, the development of the present value of future cash flow projections includes assumptions and estimates derived from a review of our expected revenue growth rates,

profit margins, business plans, cost of capital and tax rates. We also make certain assumptions about future market conditions, market prices, interest rates and changes in business strategies. Changes in assumptions or estimates could materially affect the determination of the fair value of a reporting unit. This could eliminate the excess of fair value over carrying value of a reporting unit entirely and, in some cases, result in impairment. Such changes in assumptions could be caused by a loss of one or more significant contracts, reductions in government or commercial client spending, or a decline in the demand for our services due to changing economic conditions. In the event that we determine that our goodwill is impaired, we would be required to record a non-cash charge that could result in a material adverse effect on our results of operations or financial position.

We use two methods to determine the fair value of our reporting units: (i) the Income Approach and (ii) the Market Approach. While each of these approaches is initially considered in the valuation of the business enterprises, the nature and

characteristics of the reporting units indicate which approach is most applicable. The Income Approach utilizes the discounted cash flow method, which focuses on the expected cash flow of the reporting unit. In applying this approach, the cash flow available for distribution is calculated for a finite period of years. Cash flow available for distribution is defined, for purposes of this analysis, as the amount of cash that could be distributed as a dividend without impairing the future profitability or operations of the reporting unit. The cash flow available for distribution and the terminal value (the value of the reporting unit at the end of the estimation period) are then discounted to present value to derive an indication of the value of the business enterprise. The Market Approach is comprised of the guideline company method and the similar transactions method. The guideline company method focuses on comparing the reporting unit to select reasonably similar (or "guideline") publicly traded companies. Under this method, valuation multiples are (i) derived from the operating data of selected guideline companies; (ii) evaluated and adjusted based on the strengths and weaknesses of the reporting units relative to the selected guideline companies; and (iii) applied to the operating data of the reporting unit to arrive at an indication of value. In the similar transactions method, consideration is given to prices paid in recent transactions that have occurred in the reporting unit's industry or in related industries. For our annual impairment analysis, we weighted the Income Approach and the Market Approach at 70% and 30%, respectively. The Income Approach was given a higher weight because it has the most direct correlation to the specific economics of the reporting unit, as compared to the Market Approach, which is based on multiples of broad-based (i.e., less comparable) companies. Our last review at July 2, 2018 (i.e. the first day of our fourth quarter in fiscal 2018), indicated that we had no impairment of goodwill, and all of our reporting units had estimated fair values that were in excess of their carrying values, including goodwill. We had no reporting units that had estimated fair values that exceeded their carrying values by less than 30%.

Contingent Consideration

Certain of our acquisition agreements include contingent earn-out arrangements, which are generally based on the achievement of future operating income thresholds. The contingent earn-out arrangements are based upon 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 these 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 "Estimated contingent earn-out liabilities" and "Long-term estimated contingent earn-out liabilities" on the consolidated balance sheets. We consider several factors when determining that contingent earn-out liabilities are part of the purchase price, including the following: (1) the valuation of our acquisitions is not supported solely by the initial consideration paid, and the contingent earn-out formula is a critical and material component of the valuation approach to determining the purchase price; and (2) the former shareholders 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 (See Note 2, "Basis of Presentation and Preparation – Fair Value of Financial Instruments" of the "Notes to Consolidated Financial Statements" included in Item 8). 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 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 liability on the acquisition date is reflected as cash used in operating activities in our consolidated statements of cash flows.

We review and re-assess the estimated fair value of contingent consideration on a quarterly basis, and the updated fair value could differ materially from the initial estimates. Changes in the estimated fair value of our contingent earn-out liabilities related to the time component of the present value calculation are reported in interest expense. Adjustments to the estimated fair value related to changes in all other unobservable inputs are reported in operating income.

Income Taxes

We file a consolidated U.S. federal income tax return. In addition, we file other returns that are required in the states, foreign jurisdictions and other jurisdictions in which we do business. We account for certain income and expense items differently for financial reporting and income tax purposes. Deferred tax assets and liabilities are computed for the differences between the financial statement and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to reverse. In determining the need for a valuation allowance on deferred tax assets, management reviews both positive and negative evidence, including current and

historical results of operations, future income projections and potential tax planning strategies. Based on our assessment, we have concluded that a portion of the deferred tax assets at September 30, 2018, primarily net operating losses and certain foreign intangibles, will not be realized, and we have reserved accordingly.

On December 22, 2017, the TCJA was enacted. 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 fiscal 2018. Based on our analysis of tax earnings and profits and tax deficits at the prescribed measurement dates, we have a cumulative net tax deficit and do not 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 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 \$14.7 million in 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. In fiscal 2018, we recognized other non-recurring adjustments to our deferred tax assets and liabilities that resulted in a net deferred tax expense of \$3.6 million. Excluding these net deferred tax benefits, our effective tax rate in fiscal 2018 was 27.9%.

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 will finalize and record any resulting adjustments by the end of the first quarter of fiscal 2019.

According to the authoritative guidance on accounting for uncertainty in income taxes, we may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position should be measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. For more information related to our unrecognized tax benefits, see Note 8, "Income Taxes" of the "Notes to Consolidated Financial Statements" included in Item 8.

RECENT ACCOUNTING PRONOUNCEMENTS

For a discussion of recent accounting standards and the effect they could have on the consolidated financial statements, see Note 2, "Basis of Presentation and Preparation" of the "Notes to Consolidated Financial Statements" included in Item 8.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

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

We are exposed to interest rate risk under our Amended Credit Agreement. We can borrow, at our option, under both the Amended Term Loan Facility and Amended Revolving Credit Facility. We may borrow on the Amended Revolving Credit Facility, at our option, at either (a) a Eurocurrency rate plus a margin that ranges from 1.00% to 1.75% per annum, or (b) a base rate for loans in U.S. dollars (the highest of the U.S. federal funds rate plus 0.50% per annum, the bank's prime rate or the Eurocurrency rate plus 1.00%) plus a margin that ranges from 0% to 0.75% per annum. Borrowings at the base rate have no designated term and may be repaid without penalty any time prior to the Facility's maturity date. Borrowings at a Eurodollar rate have a term no less than 30 days and no greater than 90 days and may be prepaid without penalty. Typically, at the end of such term, such borrowings may be rolled over at our discretion into either a borrowing at the base rate or a borrowing at a Eurodollar rate with similar terms, not to exceed the maturity date of the Facility. The Facility matures on July 30, 2023. At September 30, 2018, we had borrowings outstanding under the Credit Agreement of \$277.1 million at a weighted-average interest rate of 3.27% per annum.

In fiscal 2013, we entered into three interest rate swap agreements with three banks to fix the variable interest rate on \$153.8 million of our Term Loan Facility. In fiscal 2014, we entered into two interest rate swap agreements with two banks to fix the variable interest rate on \$51.3 million of our Term Loan Facility. These swap agreements expired in May 2018. In August 2018, we entered into five interest rate swaps with five banks to fix the variable interest rate on \$250 million of our Amended Term Loan Facility. The objective of these interest rate swaps was to eliminate the variability of our cash flows on the amount of interest expense we pay under our Credit Agreement. Our average effective interest rate on borrowings outstanding under the Credit Agreement, including the effects of interest rate swap agreements, at September 30, 2018, was 3.28%. For more information, see Note 14, “Derivative Financial Instruments” of the “Notes to Consolidated Financial Statements” in Item 8.

Most of our transactions are in U.S. dollars; however, some of our subsidiaries conduct business in foreign currencies, primarily the Canadian and Australian dollar. Therefore, we are subject to currency exposure and volatility because of currency fluctuations. We attempt to minimize our exposure to these fluctuations by matching revenue and expenses in the same currency for our contracts. Foreign currency gains and losses were immaterial for both fiscal 2018 and fiscal 2017. Foreign currency gains and losses are reported as part of “Selling, general and administrative expenses” in our consolidated statements of income.

We have foreign currency exchange rate exposure in our results of operations and equity primarily as a result of the currency translation related to our foreign subsidiaries where the local currency is the functional currency. To the extent the U.S. dollar strengthens against foreign currencies, the translation of these foreign currency denominated transactions will result in reduced revenue, operating expenses, assets and liabilities. Similarly, our revenue, operating expenses, assets and liabilities will increase if the U.S. dollar weakens against foreign currencies. For fiscal 2018 and 2017, 24.7% and 26.7% of our consolidated revenue, respectively, was generated by our international business. For fiscal 2018, the effect of foreign exchange rate translation on the consolidated balance sheets was a decrease in equity of \$29.7 million compared to an increase in equity of \$27.9 million in fiscal 2017. These amounts were recognized as an adjustment to equity through other comprehensive income.

Item 8. Financial Statements and Supplementary Data

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of Tetra Tech, Inc.

Opinions on the Financial Statements and Internal Controls over Financial Reporting

We have audited the accompanying consolidated balance sheets of Tetra Tech, Inc. and its subsidiaries as of September 30, 2018 and October 1, 2017, and the related consolidated statements of income, comprehensive income, equity and cash flows for each of the three years in the period ended September 30, 2018, including the related notes and financial statement schedule listed in the accompanying index (collectively referred to as the "consolidated financial statements"). We also have audited the Company's internal control over financial reporting as of September 30, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly in all material respects, the financial position of the Company as of September 30, 2018 and October 1, 2017, and the results of their operations and their cash flows for each of the three years in the period ended September 30, 2018 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, the effective internal control over financial reporting as of September 30, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by COSO.

Basis for Opinions

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting, appearing under Item 9A. Our responsibility is to express opinions on the Company's consolidated financial statements and on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, and well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have

a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PRICEWATERHOUSECOOPERS LLP

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Los Angeles, California
November 16, 2018

We have served as the Company's auditor since 2004.

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TETRA TECH, INC.
 Consolidated Balance Sheets
 (in thousands, except par value)

	September 30, 2018	October 1, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 146,185	\$ 189,975
Accounts receivable – net	837,103	788,767
Prepaid expenses and other current assets	56,003	49,969
Income taxes receivable	11,089	13,312
Total current assets	1,050,380	1,042,023
Property and equipment – net	43,278	56,835
Investments in unconsolidated joint ventures	3,370	2,700
Goodwill	798,820	740,886
Intangible assets – net	16,123	26,688
Deferred income taxes	8,607	1,763
Other long-term assets	38,843	31,850
Total assets	\$ 1,959,421	\$ 1,902,745
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	\$ 160,222	\$ 177,638
Accrued compensation	180,153	143,408
Billings in excess of costs on uncompleted contracts	143,270	117,499
Current portion of long-term debt	12,599	15,588
Current contingent earn-out liabilities	13,633	2,024
Other current liabilities	108,216	81,511
Total current liabilities	618,093	537,668
Deferred income taxes	30,166	43,781
Long-term debt	264,712	341,283
Long-term contingent earn-out liabilities	21,657	414
Other long-term liabilities	57,693	50,975
Commitments and contingencies (Note 17)		
Equity:		
Preferred stock – Authorized, 2,000 shares of \$0.01 par value; no shares issued and outstanding at September 30, 2018 and October 1, 2017	—	—
Common stock – Authorized, 150,000 shares of \$0.01 par value; issued and outstanding, 55,349 and 55,873 shares at September 30, 2018 and October 1, 2017, respectively	553	559
Additional paid-in capital	148,803	193,835
Accumulated other comprehensive loss	(127,350) (98,500)
Retained earnings	944,965	832,559
Tetra Tech stockholders' equity	966,971	928,453
Noncontrolling interests	129	171
Total stockholders' equity	967,100	928,624
Total liabilities and stockholders' equity	\$ 1,959,421	\$ 1,902,745
See accompanying Notes to Consolidated Financial Statements.		

TETRA TECH, INC.

Consolidated Statements of Income

(in thousands, except per share data)

	Fiscal Year Ended		
	September 30, 2018	October 1, 2017	October 2, 2016
Revenue	\$2,964,148	\$2,753,360	\$2,583,469
Subcontractor costs	(763,414)	(719,350)	(654,264)
Other costs of revenue	(1,816,276)	(1,680,372)	(1,598,994)
Gross profit	384,458	353,638	330,211
Selling, general and administrative expenses	(190,120)	(177,219)	(171,985)
Acquisition and integration expenses	—	—	(19,548)
Contingent consideration – fair value adjustments	(4,252)	6,923	(2,823)
Income from operations	190,086	183,342	135,855
Interest income	1,824	729	996
Interest expense	(17,348)	(12,310)	(12,385)
Income before income tax expense	174,562	171,761	124,466
Income tax expense	(37,605)	(53,844)	(40,613)
Net income	136,957	117,917	83,853
Net income attributable to noncontrolling interests	(74)	(43)	(70)
Net income attributable to Tetra Tech	\$136,883	\$117,874	\$83,783
Earnings per share attributable to Tetra Tech:			
Basic	\$2.46	\$2.07	\$1.44
Diluted	\$2.42	\$2.04	\$1.42
Weighted-average common shares outstanding:			
Basic	55,670	56,911	58,186
Diluted	56,598	57,913	58,966
Cash dividends paid per share	\$0.44	\$0.38	\$0.34

See accompanying Notes to Consolidated Financial Statements.

TETRA TECH, INC.

Consolidated Statements of Comprehensive Income
(in thousands)

	Fiscal Year Ended		
	September 30, 2018	October 1, 2017	October 2, 2016
Net income	\$136,957	\$117,917	\$83,853
Other comprehensive income (loss), net of tax			
Foreign currency translation adjustments	(29,656)	27,894	14,389
Gain on cash flow hedge valuations	806	1,614	774
Other comprehensive income (loss) attributable to Tetra Tech	(28,850)	29,508	15,163
Other comprehensive income (loss) attributable to noncontrolling interests	(64)	8	3
Comprehensive income	\$108,043	\$147,433	\$99,019
Comprehensive income attributable to Tetra Tech	\$108,033	\$147,382	\$98,946
Comprehensive income attributable to noncontrolling interests	10	51	73
Comprehensive income	\$108,043	\$147,433	\$99,019

See accompanying Notes to Consolidated Financial Statements.

TETRA TECH, INC.

Consolidated Statements of Equity

Fiscal Years Ended October 2, 2016, October 1, 2017, and September 30, 2018

(in thousands)

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Tetra Tech Equity	Non-Controlling Interests	Total Equity
	Shares	Amount						
BALANCE AT SEPTEMBER 27, 2015	59,381	\$ 594	\$326,593	\$(143,171)	\$672,309	\$856,325	\$ 473	\$856,798
Comprehensive income, net of tax:								
Net income					83,783	83,783	70	83,853
Foreign currency translation adjustments				14,389		14,389	3	14,392
Gain on cash flow hedge valuations				774		774		774
Comprehensive income, net of tax						98,946	73	99,019
Distributions paid to noncontrolling interests							(402)	(402)
Cash dividends of \$0.34 per common share					(19,735)	(19,735)		(19,735)
Stock-based compensation			12,964			12,964		12,964
Stock options exercised	920	9	15,814			15,823		15,823
Shares issued for Employee Stock Purchase Plan	209	2	4,705			4,707		4,707
Stock repurchases	(3,468)	(35)	(99,465)			(99,500)		(99,500)
Tax benefit for stock options			(271)			(271)		(271)
BALANCE AT OCTOBER 2, 2016	57,042	570	260,340	(128,008)	736,357	869,259	144	869,403
Comprehensive income, net of tax:								
Net income					117,874	117,874	43	117,917
Foreign currency translation adjustments				27,894		27,894	8	27,902
Gain on cash flow hedge valuations				1,614		1,614		1,614
Comprehensive income, net of tax						147,382	51	147,433
Distributions paid to noncontrolling interests							(24)	(24)
Cash dividends of \$0.38 per common share					(21,672)	(21,672)		(21,672)
Stock-based compensation			13,450			13,450		13,450
Stock options exercised	907	10	15,084			15,094		15,094

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Shares issued for						
Employee Stock Purchase Plan	190	2	4,938		4,940	4,940
Stock repurchases	(2,266)	(23)	(99,977)		(100,000)	(100,000)
BALANCE AT OCTOBER 1, 2017	55,873	559	193,835	(98,500)		