TETRA TECH INC
Form 10-Q
July 29, 2016
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 26, 2016

OR

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

For the transition period from _________ to _________

Commission File Number 0-19655

TETRA TECH, INC.

(Exact name of registrant as specified in its charter)

Delaware	**95-4148514**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

3475 East Foothill Boulevard, Pasadena, California 91107

(Address of principal executive offices) (Zip Code)

(626) 351-4664

(Registrant s telephone number, including area code)

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

Yes x No o

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

Yes x No o

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

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

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

Yes o No x

As of July 25, 2016, 57,429,561 shares of the registrant s common stock were outstanding.

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TETRA TECH, INC.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Tetra Tech, Inc.

Condensed Consolidated Balance Sheets

(unaudited - in thousands, except par value)

ASSETS	June 26, 2016	September 27, 2015
Current assets:		
Cash and cash equivalents	$ 153,918	$ 135,326
Accounts receivable net	700,846	636,030
Prepaid expenses and other current assets	51,957	42,125
Income taxes receivable	25,875	10,294
Total current assets	932,596	823,775
Property and equipment net	71,588	64,906
Investments in and advances to unconsolidated joint ventures	1,869	1,886
Goodwill	727,773	601,379
Intangible assets net	51,991	40,332
Other long-term assets	28,512	26,964
Total assets	$ 1,814,329	$ 1,559,242
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$ 155,083	$ 150,284
Accrued compensation	117,867	103,866
Billings in excess of costs on uncompleted contracts	93,401	93,989
Deferred income taxes	24,797	20,787
Current portion of long-term debt	15,498	11,904
Estimated contingent earn-out liabilities	5,590	609
Other current liabilities	101,340	69,003
Total current liabilities	513,576	450,442
Deferred income taxes	35,876	34,759
Long-term debt	349,210	180,972
Long-term estimated contingent earn-out liabilities	6,176	3,560
Other long-term liabilities	45,620	32,711
Commitments and contingencies (Note 15)		
Equity:		

Preferred stock Authorized, 2,000 shares of $0.01 par value; no shares issued and outstanding at June 26, 2016, and September 27, 2015				
Common stock Authorized, 150,000 shares of $0.01 par value; issued and outstanding, 57,546 and 59,381 shares at June 26, 2016, and September 27, 2015, respectively		575		594
Additional paid-in capital		276,242		326,593
Accumulated other comprehensive loss		(124,038)		(143,171)
Retained earnings		710,409		672,309
Tetra Tech stockholders equity		863,188		856,325
Noncontrolling interests		683		473
Total equity		863,871		856,798
Total liabilities and equity	$	1,814,329	$	1,559,242

See Notes to Condensed Consolidated Financial Statements.

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Tetra Tech, Inc.

Condensed Consolidated Statements of Income

(unaudited   in thousands, except per share data)

	Three Months Ended June 26, 2016	Three Months Ended June 28, 2015	Nine Months Ended June 26, 2016	Nine Months Ended June 28, 2015
Revenue	$ 666,869	$ 575,108	$ 1,854,961	$ 1,720,927
Subcontractor costs	(168,235)	(153,209)	(456,606)	(429,194)
Other costs of revenue	(413,551)	(340,181)	(1,165,323)	(1,061,419)
Gross profit	85,083	81,718	233,032	230,314
Selling, general and administrative expenses	(44,993)	(40,997)	(124,626)	(125,695)
Acquisition and integration expenses	(1,005)		(16,916)	
Contingent consideration fair value adjustments			(2,823)	3,113
Operating income	39,085	40,721	88,667	107,732
Interest expense, net	(2,590)	(2,026)	(8,501)	(5,621)
Income before income tax expense	36,495	38,695	80,166	102,111
Income tax expense	(10,805)	(12,443)	(27,497)	(31,202)
Net income including noncontrolling interests	25,690	26,252	52,669	70,909
Net (income) loss from noncontrolling interests	4	(46)	9	(111)
Net income attributable to Tetra Tech	$ 25,694	$ 26,206	$ 52,678	$ 70,798
Earnings per share attributable to Tetra Tech:				
Basic	$ 0.44	$ 0.44	$ 0.90	$ 1.16
Diluted	$ 0.44	$ 0.43	$ 0.89	$ 1.14
Weighted-average common shares outstanding:				
Basic	57,796	60,207	58,483	61,293
Diluted	58,616	60,792	59,228	61,887
Cash dividends paid per share	$ 0.09	$ 0.08	$ 0.25	$ 0.22

See Notes to Condensed Consolidated Financial Statements.

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Tetra Tech, Inc.

Condensed Consolidated Statements of Comprehensive Income (Loss)

(unaudited in thousands)

	Three Months Ended		Nine Months Ended	
	June 26, 2016	**June 28, 2015**	**June 26, 2016**	**June 28, 2015**
Net income including noncontrolling interests	$ 25,690	$ 26,252	$ 52,669	$ 70,909
Other comprehensive income, net of tax :				
Foreign currency translation adjustments	9,044	11,676	19,149	(56,514)
(Loss) gain on cash flow hedge valuations	(524)	621	(11)	(1,376)
Other comprehensive income (loss), net of tax	8,520	12,297	19,138	(57,890)
Comprehensive income including noncontrolling interests	34,210	38,549	71,807	13,019
Net loss (income) attributable to noncontrolling interests	4	(46)	9	(111)
Foreign currency translation adjustments, net of tax	8	14	(5)	118
Comprehensive income (loss) attributable to noncontrolling interests	12	(32)	4	7
Comprehensive income attributable to Tetra Tech	$ 34,222	$ 38,517	$ 71,811	$ 13,026

See Notes to Condensed Consolidated Financial Statements.

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Tetra Tech, Inc.

Condensed Consolidated Statements of Cash Flows

(unaudited   in thousands)

	Nine Months Ended	
	June 26, 2016	**June 28, 2015**
Cash flows from operating activities:		
Net income including noncontrolling interests	$ 52,669	$ 70,909
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	33,835	34,300
Equity in income of unconsolidated joint ventures	(1,557)	(3,097)
Distributions of earnings from unconsolidated joint ventures	2,305	3,045
Stock-based compensation	9,299	8,093
Excess tax benefits from stock-based compensation	(576)	(170)
Deferred income taxes	7,313	(9,826)
Provision for doubtful accounts	9,488	(1,866)
Fair value adjustments to contingent consideration	2,823	(3,113)
Gain on disposal of property and equipment	(777)	(5,295)
Lease termination costs and related asset impairment	2,946	
Changes in operating assets and liabilities, net of effects of business acquisitions:		
Accounts receivable	19,107	78,110
Prepaid expenses and other assets	(4,791)	6,023
Accounts payable	(2,566)	(36,733)
Accrued compensation	(2,035)	1,448
Billings in excess of costs on uncompleted contracts	(8,370)	(11,363)
Other liabilities	(14,976)	(21,497)
Income taxes receivable/payable	(14,335)	25,130
Net cash provided by operating activities	89,802	134,098
Cash flows from investing activities:		
Capital expenditures	(10,107)	(20,262)
Payments for business acquisitions, net of cash acquired	(81,256)	(11,750)
Changes in restricted cash	(3,384)	
Proceeds from sale of property and equipment	3,291	10,039
Investments in unconsolidated joint ventures	(768)	
Net cash used in investing activities	(92,224)	(21,973)
Cash flows from financing activities:		
Payments on long-term debt	(102,213)	(32,631)
Proceeds from borrowings	200,000	64,794
Payments of earn-out liabilities	(1,001)	(3,199)
Debt pre-payment costs	(1,935)	(1,457)
Excess tax benefits from stock-based compensation	576	170
Repurchases of common stock	(75,000)	(75,500)
Dividends paid	(14,578)	(13,440)
Net proceeds from issuance of common stock	12,679	5,621
Net cash provided by (used in) financing activities	18,528	(55,642)

Effect of foreign exchange rate changes on cash		2,486		(3,679)
Net increase in cash and cash equivalents		18,592		52,804
Cash and cash equivalents at beginning of period		135,326		122,379
Cash and cash equivalents at end of period	$	153,918	$	175,183
Supplemental information:				
Cash paid during the period for:				
Interest	$	9,089	$	5,084
Income taxes, net of refunds received of $3.0 million and $4.4 million	$	29,405	$	15,679

See Notes to Condensed Consolidated Financial Statements.

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TETRA TECH, INC.

Notes to Condensed Consolidated Financial Statements

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements and related notes of Tetra Tech, Inc. (we, us or our) have been prepared in accordance with generally accepted accounting principles in the United States of America (GAAP) for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. They do not include all of the information and footnotes required by GAAP for complete financial statements and, therefore, should be read in conjunction with the audited consolidated financial statements and related notes contained in our Annual Report on Form 10-K for the fiscal year ended September 27, 2015.

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

We report our water resources, water and wastewater treatment, environment and infrastructure engineering activities in our Water, Environment and Infrastructure (WEI) reportable segment. Our Resource Management and Energy (RME) reportable segment includes our natural resources, energy, international development, waste management, remediation and utilities services. We report the results of the wind-down of our non-core construction activities in the Remediation and Construction Management (RCM) reportable segment. In the first quarter of fiscal 2016, we re-aligned certain operating units within our reportable segments to improve organizational effectiveness by better aligning operations with similar clients and projects. Specifically, we re-aligned certain operations that previously provided natural resources services, primarily mining-related, in the RME reportable segment to the WEI reportable segment. Due to the downturn in the mining industry in recent years, we determined that these operations could be better utilized by supporting infrastructure engineering activities in our WEI reportable segment. Although these activities had revenue of $42.7 million in the first nine months of fiscal 2015, they were approximately break-even in operating income in that period. Prior year amounts for reportable segments have been revised to conform to the current year presentation. As a result of the re-alignment of segment results, WEI s revenue for the first nine months of fiscal 2015 increased 6.1% and its operating income margin decreased 6.9% compared to the results before the re-alignment. Correspondingly, RME s revenue for the first nine months of fiscal 2015 declined by 4.6% and its operating income margin increased 5.7% (see Note 10, Reportable Segments for further discussion).

2. Accounts Receivable Net

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

	June 26, 2016	September 27, 2015
	(in thousands)	
Billed	$ 367,632	$ 331,364

Unbilled		338,207		311,823
Contract retentions		34,680		24,333
Total accounts receivable gross		740,519		667,520
Allowance for doubtful accounts		(39,673)		(31,490)
Total accounts receivable net	$	700,846	$	636,030
Billings in excess of costs on uncompleted contracts	$	93,401	$	93,989

Billed accounts receivable represent amounts billed to clients that have not been collected. Unbilled accounts receivable represent revenue recognized but not yet billed pursuant to contract terms or billed after the period end date. Most of our unbilled receivables at June 26, 2016 are expected to be billed and collected within 12 months. Contract retentions represent amounts withheld by clients until certain conditions are met or the project is completed, which may be several months or years. The allowance for doubtful accounts represents amounts that are expected to become uncollectible or unrealizable in the future. We determine an estimated allowance for uncollectible accounts based on management s consideration of trends in the actual and forecasted credit quality of our clients, including delinquency and payment history; type of client, such as a government agency or a commercial sector client; and general economic and particular industry conditions that may affect a client s ability to pay. Billings in excess of costs on uncompleted contracts represent the amount of cash collected from clients and billings to clients on contracts in advance of revenue recognized. The majority of billings in excess of costs on uncompleted contracts will be earned within 12 months.

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

Total accounts receivable at June 26, 2016 and September 27, 2015 included approximately $43 million and $53 million, respectively, related to claims, including requests for equitable adjustment, on contracts that provide for price redetermination. During the first nine months of fiscal 2016 (all in the first quarter), we collected $13.4 million to settle claims of $8.8 million, which resulted in gains in operating income of $4.6 million in the RCM reportable segment. We regularly evaluate all unsettled claim amounts and record appropriate adjustments to operating earnings when it is probable that the claim will result in a different contract value than the amount previously estimated. In the first nine months of fiscal 2016 (all in the first quarter), we also recognized reductions to operating income in our RCM segment and a related increase in the allowance for doubtful accounts of $7.9 million as a result of our updated assessment of the collectability of certain accounts receivable, of which $4.6 million related to unsettled claims. In last year s third quarter, we settled two claims related to completed transportation projects in the RCM segment totaling $31 million for cash proceeds of $29 million, and, as a result, recognized reduced revenue and operating income of $2.0 million. In the first nine months of fiscal 2015, we recorded net losses of $1.8 million related to claims.

Billed accounts receivable related to U.S. federal government contracts were $50.7 million and $61.9 million at June 26, 2016 and September 27, 2015, respectively. U.S. federal government unbilled receivables were $82.9 million and $74.2 million at June 26, 2016 and September 27, 2015, respectively. Other than the U.S. federal government, no single client accounted for more than 10% of our accounts receivable at June 26, 2016 and September 27, 2015.

We recognize revenue for most of our contracts using the percentage-of-completion method, primarily utilizing the cost-to-cost approach, to estimate the progress towards completion in order to determine the amount of revenue and profit to recognize. Changes in those estimates could result in the recognition of cumulative catch-up adjustments to the contract s inception-to-date revenue, costs and profit in the period in which such changes are made. As a result, we recognized net unfavorable operating income adjustments during both the third quarter and first nine months of fiscal 2016 of $2.3 million (all in the RCM segment) compared to net unfavorable operating income adjustments of $0.1 million and $5.8 million in the comparable periods of last year. Changes in revenue and cost estimates could also result in a projected loss that would be recorded immediately in earnings. As of June 26, 2016 and September 27, 2015, our balance sheet included a liability for anticipated losses of $5.4 million and $10.5 million, respectively. The estimated cost to complete the related contracts as of June 26, 2016 was $34.6 million.

3. Mergers and Acquisitions

On January 18, 2016, we acquired control of Coffey International Limited (Coffey), headquartered in Sydney, Australia. Coffey had approximately 3,300 staff delivering technical and engineering solutions in international development and geoscience. Coffey significantly expands our geographic presence, particularly in Australia and Asia Pacific, and is part of our RME segment. In addition to Australia, Coffey s international development business has operations supporting federal government agencies in the U.S. and the United Kingdom.

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The fair value of the purchase price for Coffey was $76.1 million, in addition to $65.1 million of assumed debt, which consisted of secured bank term debt of $37.1 million and unsecured corporate bond obligations of $28.0 million. All debt was paid in full in the second quarter of fiscal 2016 subsequent to the acquisition.

In the second quarter of fiscal 2016, we also acquired INDUS Corporation (INDUS), headquartered in Vienna, Virginia. INDUS is an information technology solutions firm focused on water data analytics, geospatial analysis, secure infrastructure, and software applications management for U.S. federal government customers, and is included in our WEI segment. The fair value of the purchase price for INDUS was $17.8 million. Of this amount, $13.1 million was paid to the sellers and $4.7 million was the estimated fair value of contingent earn-out obligations, with a maximum of $8.0 million, based upon the achievement of specified operating income targets in each of the two years following the acquisition.

The following table summarizes the estimated fair values of assets acquired and liabilities assumed as of the respective acquisition dates for our acquisitions completed in fiscal 2016 ($ in thousands):

Accounts receivable	$	82,736
Other current assets		7,846
Property and equipment		14,723
Goodwill		110,831
Backlog and customer relationship intangible assets		26,188
Other assets		6,142
Current liabilities		(81,018)
Borrowings		(65,086)
Other long-term liabilities		(7,945)
Noncontrolling interests		(500)
Net assets acquired	$	93,917

Backlog and customer relationship intangible assets represent the fair value of existing contracts and the underlying customer relationships and have lives ranging from 1 to 5 years (weighted average of approximately 3 years). The purchase price allocation is preliminary and subject to adjustment based upon the final determination of the net assets acquired and information necessary to perform the final valuation. We have not yet completed our final assessment of the fair values of purchased receivables, intangible assets, tax balances, contingent liabilities or acquired contracts. The final purchase price allocations may result in adjustments to certain assets and liabilities, including the residual amount allocated to goodwill. Goodwill recognized largely results from a substantial and technically qualified assembled workforce, which does not qualify for separate recognition, as well as expected future synergies from combining operations.

The table below presents summarized unaudited consolidated pro forma operating results including the related acquisition, integration and debt pre-payment charges, assuming we had acquired Coffey and INDUS at the beginning of fiscal 2015. These pro-forma operating results are presented for illustrative purposes only and are not indicative of the operating results that would have been achieved had the related events occurred at the beginning of fiscal 2015.

	Pro-Forma			
	Three Months Ended		Nine Months Ended	
	June 26, 2016	June 28, 2015	June 26, 2016	June 28, 2015

	(in thousands, except per share data)			
Revenue	$ 666,869	$ 691,637	$ 1,986,149	$ 2,068,236
Operating income	40,090	23,803	102,855	71,469
Net income attributable to Tetra Tech	26,397	8,883	65,923	30,856
Earnings per share attributable to Tetra Tech:				
Basic	$ 0.46	$ 0.15	$ 1.12	$ 0.50
Diluted	$ 0.45	$ 0.15	$ 1.11	$ 0.49

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Since their respective acquisition dates, Coffey and INDUS together contributed $116.9 million and $205.1 million in revenue, and $6.4 million and $8.3 million in operating income for the three and nine months ended June 26, 2016, respectively. Amortization of intangible assets since their respective acquisition dates was $2.1 million and $3.7 million for the three and nine months ended June 26, 2016, respectively.

Acquisition and integration expenses in the accompanying condensed consolidated statements of income are comprised of the following:

	Three Months Ended June 26, 2016		Nine Months Ended June 26, 2016	
	(in thousands)			
Severance including change in control payments	$	1,005	$	8,285
Professional services				5,685
Real estate-related				2,946
Total	$	1,005	$	16,916

As of June 26, 2016, all of the acquisition and integration expenses incurred to date have been paid. All acquisition and integration expenses are included in our Corporate reportable segment, as presented in Note 10. In addition, in the second quarter of fiscal 2016, we repaid Coffey s bank loans and corporate bonds in full, including $1.9 million in pre-payment charges that are included in interest expense.

In fiscal 2015, we acquired Cornerstone Environmental Group, LLC (CEG), headquartered in Middletown, New York. CEG is an environmental engineering and consulting firm focused on solid waste markets in the United States, and is included in our RME segment. The fair value of the purchase price for CEG was $15.9 million. Of this amount, $11.8 million was paid to the sellers and $4.1 million was the estimated fair value of contingent earn-out obligations, with a maximum of $9.8 million, based upon the achievement of specified financial objectives. The results of this acquisition were included in the consolidated financial statements from the closing date. The acquisition was not considered material to our condensed consolidated financial statements. As a result, no pro forma information has been provided.

Most of our acquisition agreements include contingent earn-out agreements, which are generally based on the achievement of future operating income thresholds. The contingent earn-out arrangements are based on our valuations of the acquired companies, and reduce the risk of overpaying for acquisitions if the projected financial results are not achieved. The fair values of any earn-out arrangements are included as part of the purchase price of the acquired companies on their respective acquisition dates. For each transaction, we estimate the fair value of contingent earn-out payments as part of the initial purchase price and record the estimated fair value of contingent consideration as a liability in 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 owners of acquired companies that remain as key employees receive compensation other than contingent earn-out payments at a reasonable level compared with the compensation of our other key employees. The contingent earn-out payments are not affected by employment termination.

We measure our contingent earn-out liabilities at fair value on a recurring basis using significant unobservable inputs classified within Level 3 of the fair value hierarchy (as described in Critical Accounting Policies and Estimates in our Annual Report on Form 10-K for the fiscal year ended September 27, 2015). We use a probability-weighted discounted income approach as a valuation technique to convert future estimated cash flows to a single present value amount. The significant unobservable inputs used in the fair value measurements are operating income projections over the earn-out period (generally two or three years), and the probability outcome percentages we assign to each scenario.

Significant increases or decreases to either of these inputs in isolation would result in a significantly higher or lower liability, with a higher liability capped by the contractual maximum of the contingent earn-out obligation. Ultimately, the liability will be equivalent to the amount paid, and the difference between the fair value estimate and amount paid will be recorded in earnings. The amount paid that is less than or equal to the contingent earn-out liability on the acquisition date is reflected as cash used in financing activities in our consolidated statements of cash flows. Any amount paid in excess of the contingent earn-out liability on the acquisition date is reflected as cash used in operating activities.

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We review and re-assess the estimated fair value of contingent consideration on a quarterly basis, and the updated fair value could differ materially from the initial estimates. Changes in the estimated fair value of our contingent earn-out liabilities related to the time component of the present value calculation are reported in interest expense. Adjustments to the estimated fair value related to changes in all other unobservable inputs are reported in operating income. During the first nine months of fiscal 2016 (all in the first half of the year), we increased our contingent earn-out liabilities and reported related losses in operating income of $2.8 million. These losses include a $1.8 million charge that reflected our updated valuation of the contingent consideration liability for CEG. This valuation included our updated projection of CEG s financial performance during the earn-out period, which exceeded our original estimate at the acquisition date. The remaining $1.0 million loss represented the final cash settlement of an earn-out liability that was valued at $0 at the end of fiscal 2015.

During the first nine months of fiscal 2015 (all in the second quarter), we decreased our contingent earn-out liabilities and reported a related gain in operating income of $3.1 million. This gain resulted from an updated valuation of the contingent consideration liability for Caber Engineering (Caber), which is part of our Oil, Gas & Energy reporting unit in the RME segment.

The acquisition agreement for Caber included a contingent earn-out agreement based on the achievement of operating income thresholds (in Canadian dollars) in each of the first two years beginning on the acquisition date, which was in the first quarter of fiscal 2014. The maximum earn-out obligation over the two-year earn-out period was CAD$8.0 million (CAD$4.0 million in each year). These amounts could be earned on a pro-rata basis for operating income within a predetermined range in each year. Caber was required to meet a minimum operating income threshold in each year to earn any contingent consideration. These thresholds were CAD$4.0 million and CAD$4.6 million in years one and two, respectively. In order to earn the maximum contingent consideration, Caber needed to generate operating income of CAD$4.4 million in year one and CAD$5.1 million in year two.

The determination of the fair value of the purchase price for Caber on the acquisition date included our estimate of the fair value of the related contingent earn-out obligation. This initial valuation was primarily based on probability-weighted internal estimates of Caber s operating income during each earn-out period. As a result of these estimates, we calculated an initial fair value at the acquisition date of Caber s contingent earn-out liability of CAD$6.5 million in the first quarter of fiscal 2014. In determining that Caber would earn 81% of the maximum potential earn-out, we considered several factors including Caber s recent historical revenue and operating income levels and growth rates. We also considered the recent trend in Caber s backlog level and the prospects for the oil and gas industry in Western Canada.

Caber s actual financial performance in the first earn-out period exceeded our original estimate at the acquisition date. As a result, in the fourth quarter of fiscal 2014, we increased the related contingent consideration liability and recognized a loss of $1.0 million. This updated valuation included our assumption that Caber would earn the maximum amount of contingent consideration of $4.0 million in the first earn-out period. In the second quarter of fiscal 2015, we completed our final calculation of the contingent consideration for the first earn-out period and paid contingent consideration of CAD$4.0 million (USD$3.2 million). At that time we also evaluated our estimate of Caber s contingent consideration liability for the second earn-out period. This assessment included a review of the status of ongoing projects in Caber s backlog, and the inventory of prospective new contract awards. We also considered the status of the oil and gas industry in Western Canada, particularly in light of the decline in oil prices at the time. As a result of this assessment, we concluded that Caber s operating income in the second earn-out period would be lower than our original estimate at the acquisition date and our subsequent estimates through the first quarter of fiscal 2015. We also concluded that Caber s operating income for the second earn-out period would be lower than the minimum requirement of CAD$4.6 million to earn any contingent consideration. Accordingly, in the second quarter of fiscal 2015, we reduced the Caber contingent earn-out liability to $0, which resulted in a gain of $3.1 million. The second earn-out period ended in the first quarter of fiscal 2016 with no further adjustments.

At June 26, 2016, there was a total maximum of $17.8 million of outstanding contingent consideration related to acquisitions. Of this amount, $11.8 million was estimated as the fair value and accrued on our condensed consolidated balance sheet.

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4. Goodwill and Intangible Assets

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

	WEI	RME (in thousands)	Total
Balance at September 27, 2015	$ 210,748	$ 390,631	$ 601,379
Goodwill additions	9,030	95,424	104,454
Goodwill adjustments		8,377	8,377
Foreign exchange impact	3,013	10,550	13,563
Balance at June 26, 2016	$ 222,791	$ 504,982	$ 727,773

As a result of the Coffey and INDUS acquisitions in the second quarter of fiscal 2016, our goodwill increased $101.8 million and $9.0 million in the RME and WEI segments, respectively. The $8.4 million goodwill adjustment resulted from updated valuations of our purchase price allocations of net assets acquired in the CEG and Coffey acquisitions. Foreign exchange impact relates to our foreign subsidiaries with functional currencies that are different than our reporting currency. The gross amounts of goodwill for WEI were $305.2 million and $293.1 million at June 26, 2016 and September 27, 2015, respectively, excluding $82.4 million of accumulated impairment. The gross amounts of goodwill for RME were $538.2 million and $423.8 million at June 26, 2016 and September 27, 2015, respectively, excluding $33.2 million of accumulated impairment.

We perform our annual goodwill impairment review at the beginning of our fiscal fourth quarter. Our most recent review was performed at June 29, 2015 (i.e. the first day of our fourth quarter in fiscal 2015). In addition, we regularly evaluate whether events and circumstances have occurred that may indicate a potential change in the recoverability of goodwill. We perform interim goodwill impairment reviews between our annual reviews if certain events and circumstances have occurred, such as a deterioration in general economic conditions; an increase in the competitive environment; a change in management, key personnel, strategy or customers; negative or declining cash flows; or a decline in actual or planned revenue or earnings compared with actual and projected results of relevant prior periods.

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

In the fourth quarter of fiscal 2015, we determined that our Waste Management Group (WMG) reporting unit in our RME segment had an estimated fair value that exceeded its carrying value by less than 20%. In our discounted cash flow model for WMG, we assumed annual revenue growth rates of 3% to 5% based on historical trends in WMG and the solid waste industry, projections for future solid waste activity, and WMG s backlog and prospects for new orders. We discounted the resulting cash flows at a rate of 11.0%. Our market based assessment resulted in a value approximating a 1.0 multiple of revenue for the 12 month period preceding the valuation date. The discounted cash flow value, combined on a weighted-average basis with the results of our market analysis, resulted in an estimated fair value for WMG of $103.5 million compared to our carrying value including goodwill of $93.9 million. No changes occurred during the first nine months of fiscal 2016 that would significantly change these amounts. As of June 26, 2016, the goodwill amount for WMG was $56.5 million.

Although we believe that our current estimate of fair value is reasonable, our analysis is primarily dependent on our future level of revenue from our solid waste clients. However, the extent of our future activity is uncertain. We currently anticipate that if WMG s future revenue grows by less than 2.0%, or market prices for similar businesses decline by more than 10%, WMG s goodwill could become impaired.

Additionally, if the yield on 20-year U.S. treasury bonds (our assumed risk-free rate of return) or the additional return investors require for alternate investments, including those similar to WMG, increases, we may be required to increase the discount rate used in our cash flow analysis. If all of our operating assumptions remain constant, but we are required to increase the discount rate in our cash flow model to 14.0% or higher, WMG s goodwill could become impaired.

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

	Weighted-Average Remaining Life (in Years)	June 26, 2016 Gross Amount	June 26, 2016 Accumulated Amortization ($ in thousands)	September 27, 2015 Gross Amount	September 27, 2015 Accumulated Amortization
Non-compete agreements	0.6	$ 874	$ (779)	$ 819	$ (587)
Client relations	3.4	119,377	(80,729)	106,676	(67,726)
Backlog	1.7	18,607	(5,589)	2,115	(1,444)
Technology and trade names	1.0	2,561	(2,331)	2,506	(2,027)
Total		$ 141,419	$ (89,428)	$ 112,116	$ (71,784)

As a result of the Coffey and INDUS acquisitions in the second quarter of fiscal 2016, our identifiable intangible assets increased $21.0 million and $5.7 million in the RME and WEI segments, respectively. Additionally, foreign currency translation adjustments increased our net identifiable intangible assets by $1.0 million in the first nine months of fiscal 2016. Amortization expense related to the identifiable intangible assets for the three and nine months ended June 26, 2016 was $6.3 million and $16.1 million, respectively, compared to $4.7 million and $15.5 million for the prior-year periods. Estimated amortization expense for the remainder of fiscal 2016 and succeeding years is as follows:

	Amount (in thousands)
2016	$ 6,368
2017	22,595
2018	11,864
2019	5,450
2020	4,279
Beyond	1,435
Total	$ 51,991

5. Property and Equipment

Property and equipment consisted of the following:

	June 26, 2016	September 27, 2015
	(in thousands)	
Land and buildings	$ 3,683	$ 3,661
Equipment, furniture and fixtures	182,770	176,883

Leasehold improvements		30,675		21,582
Total property and equipment		217,128		202,126
Accumulated depreciation		(145,540)		(137,220)
Property and equipment, net	$	71,588	$	64,906

The depreciation expense related to property and equipment, including assets under capital leases, was $5.9 million and $17.2 million for the three and nine months ended June 26, 2016, respectively, compared to $5.3 million and $18.1 million for the prior-year periods. In the first nine months of fiscal 2015, we sold assets comprised primarily of equipment with a net book value of $4.7 million for net proceeds of $10.0 million, and recognized a corresponding gain of $5.3 million, which is included in Other costs of revenue in our consolidated statements of income. This equipment was primarily related to our RCM segment.

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6. Stock Repurchase and Dividends

On November 10, 2014, the Board of Directors authorized a stock repurchase program under which we could repurchase up to $200 million of our common stock over the succeeding two years. In the first nine months of fiscal 2016, we repurchased through open market purchases under this program a total of 2,735,584 shares at an average price of $27.42, for a total cost of $75.0 million.

On November 9, 2015, the Board of Directors declared a quarterly cash dividend of $0.08 per share payable on December 11, 2015 to stockholders of record as of the close of business on November 30, 2015. On January 25, 2016, the Board of Directors declared a quarterly cash dividend of $0.08 per share payable on February 26, 2016 to stockholders of record as of the close of business on February 12, 2016. On April 25, 2016, the Board of Directors declared a quarterly cash dividend of $0.09 per share payable on May 27, 2016 to stockholders of record as of the close of business on May 13, 2016. Dividends totaling $14.6 million and $13.4 million were paid in the first nine months of fiscal 2016 and fiscal 2015, respectively.

Subsequent Event. On July 25, 2016, the Board of Directors declared a quarterly cash dividend of $0.09 per share payable on August 31, 2016 to stockholders of record as of the close of business on August 12, 2016.

7. Stockholders Equity and Stock Compensation Plans

We recognize the fair value of our stock-based compensation awards as compensation expense on a straight-line basis over the requisite service period in which the award vests. Stock-based compensation expense for the three and nine months ended June 26, 2016 was $3.2 million and $9.3 million, respectively, compared to $2.7 million and $8.1 million for the same periods last year. The majority of these amounts were included in Selling, general and administrative (SG&A) expenses in our condensed consolidated statements of income. There were no stock compensation awards in the third quarter of fiscal 2016. For the nine months ended June 26, 2016, we granted 241,932 stock options with an exercise price of $27.16 per share and an estimated weighted-average fair value of $8.05 per share to our non-employee directors and executive officers. The executive officer options vest over a four-year period, and the non-employee director options vest after one year. In addition, we awarded 137,777 performance shares units (PSUs) to our non-employee directors and executive officers at a fair value of $31.63 per share on the award date. All of the PSUs are performance-based and vest, if at all, after the conclusion of the three-year performance period. The number of PSUs that ultimately vest is based 50% on the growth in our diluted earnings per share and 50% on our total shareholder return over the vesting period. Additionally, we awarded 215,539 restricted stock units (RSUs) to our non-employee directors, executive officers and employees at a fair value of $27.16 per share on the award date. All of the executive officer and employee RSUs have time-based vesting over a four-year period, and the non-employee director RSUs vest after one year.

8. Earnings Per Share (EPS)

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

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

	Three Months Ended		Nine Months Ended	
	June 26, 2016	June 28, 2015	June 26, 2016	June 28, 2015
	(in thousands, except per share data)			
Net income attributable to Tetra Tech	$ 25,694	$ 26,206	$ 52,678	70,798
Weighted-average common shares outstanding basic	57,796	60,207	58,483	61,293
Effect of dilutive stock options and unvested restricted stock	820	585	745	594
Weighted-average common stock outstanding diluted	58,616	60,792	59,228	61,887
Earnings per share attributable to Tetra Tech:				
Basic	$ 0.44	$ 0.44	$ 0.90	$ 1.16
Diluted	$ 0.44	$ 0.43	$ 0.89	$ 1.14

For the three and nine months ended June 26, 2016, 0.1 million and 0.3 million options were excluded from the calculation of dilutive potential common shares, respectively, compared to 1.1 million and 1.3 million options for the same periods last year. These options were not included in the computation of dilutive potential common shares because the assumed proceeds per share exceeded the average market price per share during the period. Therefore, their inclusion would have been anti-dilutive.

9. Income Taxes

Our effective tax rates for the first nine months of fiscal 2016 and 2015 were 34.3% and 30.6%, respectively. In the second quarter of 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 U.S. Protecting Americans from Tax Hikes (PATH) Act of 2015 was signed into law. This law permanently extended the federal research and experimentation tax credits (R&E Credits) retroactive to January 1, 2015. Our income tax expense for the first quarter of fiscal 2016 included a 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&E Credits. Our income tax expense for the first quarter of fiscal 2015 included a similar retroactive tax benefit of $1.2 million attributable to operating income during the last nine months of fiscal 2014. Excluding all of the items above, our effective tax rates for the first nine months of fiscal 2016 and 2015 were 32.7% and 31.5%, respectively.

At June 26, 2016, approximately $64.5 million of undistributed earnings of our foreign subsidiaries, primarily in Canada, were expected to be permanently reinvested. Accordingly, no provision for U.S. income taxes or foreign withholding taxes has been made. Upon distribution of those earnings, we would be subject to U.S. income taxes and foreign withholding taxes. Assuming the permanently reinvested foreign earnings were repatriated under the laws and rates applicable at June 26, 2016, the incremental federal tax applicable to those earnings would be approximately $5.6 million.

We review the realizability of deferred tax assets on a quarterly basis by assessing the need for a valuation allowance. As of June 26, 2016, we performed our assessment of net deferred tax assets. Significant management judgment is required in determining the provision for income taxes and, in particular, any valuation allowance recorded against our deferred tax assets. Applying the applicable accounting guidance requires an assessment of all available evidence, both positive and negative, regarding the realizability of the net deferred tax assets. Based upon recent results, we concluded that a cumulative loss in recent years exists in certain foreign jurisdictions. We have historically relied on the following factors in our assessment of the realizability of our net deferred tax assets:

- taxable income in prior carryback years as permitted under the tax law;
- future reversals of existing taxable temporary differences;
- consideration of available tax planning strategies and actions that could be implemented, if necessary; and
- estimates of future taxable income from our operations.

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We considered these factors in our estimate of the reversal pattern of deferred tax assets, using assumptions that we believe are reasonable and consistent with operating results. However, as a result of cumulative pre-tax losses in certain foreign jurisdictions for the 36 months ended June 26, 2016, we concluded that our estimates of future taxable income and certain tax planning strategies did not constitute sufficient positive evidence to assert that it is more likely than not that certain deferred tax assets would be realizable before expiration. Based on our assessment, we concluded that it is more likely than not that the assets will be realized except for the assets related to loss carry-forwards in foreign jurisdictions for which a valuation allowance of $8.9 million has been provided.

10. Reportable Segments

Our reportable segments are described as follows:

WEI: WEI provides consulting and engineering services worldwide for a broad range of water and infrastructure-related needs in both developed and emerging economies. WEI supports both public and private clients including federal, state/provincial, and local governments, and global and local commercial and industrial clients. The primary markets for WEI s services include water resources analysis and water management, environmental restoration, government consulting, and a broad range of civil infrastructure master planning and engineering design for facilities, transportation, and regional and local development. WEI s services span from early data collection and monitoring, to data analysis and information technology, to science and engineering applied research, to engineering design, to construction management and operations and maintenance.

RME: RME provides consulting and engineering services worldwide for a broad range of resource management and energy needs. RME supports both private and public clients, including global industrial and commercial clients, U.S. federal agencies in large scale remediation, and major international development agencies. The primary markets for RME s services include natural resources, energy, international development, remediation, waste management and utilities. RME s services span from early data collection and monitoring, to data analysis and information technology, to science and engineering applied research, to engineering design, to construction management and operations and maintenance. RME also supports Engineering, Procurement and Construction Management (EPCM) for full service implementation of commercial projects.

RCM: We report the results of the wind-down of our non-core construction activities in the RCM reportable segment. The remaining work to be performed in this segment will be substantially complete in 2017.

Management evaluates the performance of these reportable segments based upon their respective segment operating income before the effect of amortization expense related to acquisitions, and other unallocated corporate expenses. We account for inter-segment sales and transfers as if the sales and transfers were to third parties; that is, by applying a negotiated fee onto the costs of the services performed. All significant intercompany balances and transactions are eliminated in consolidation. In the third quarter and first nine months of fiscal 2016, the Corporate segment operating losses included $1.0 million and $16.9 million of acquisition and integration expenses, respectively, described in Note 3.

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The following tables set forth summarized financial information regarding our reportable segments:

Reportable Segments

	Three Months Ended		Nine Months Ended	
	June 26, 2016	June 28, 2015	June 26, 2016	June 28, 2015
	(in thousands)			
Revenue				
WEI	$ 264,729	$ 256,442	$ 731,120	$ 741,976
RME	414,872	315,417	1,134,538	958,103
RCM	5,202	16,466	36,781	69,046
Elimination of inter-segment revenue	(17,934)	(13,217)	(47,478)	(48,198)
Total revenue	$ 666,869	$ 575,108	$ 1,854,961	$ 1,720,927
Operating Income (Loss)				
WEI	$ 25,206	$ 24,988	$ 61,627	$ 61,956
RME	26,882	23,219	79,802	69,342
RCM	(4,023)	(190)	(9,691)	(3,605)
Corporate (1)	(8,980)	(7,296)	(43,071)	(19,961)
Total operating income	$ 39,085	$ 40,721	$ 88,667	$ 107,732
Depreciation				
WEI	$ 1,223	$ 1,358	$ 3,594	$ 4,072
RME	4,113	3,209	11,818	10,260
RCM	183	237	560	1,573
Corporate (1)	393	515	1,211	2,207
Total depreciation	$ 5,912	$ 5,319	$ 17,183	$ 18,112

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

	June 26, 2016	September 27, 2015
	(in thousands)	
Total Assets		
WEI	$ 300,493	$ 287,112
RME	524,285	422,133
RCM	38,725	57,612
Corporate (1)	950,826	792,385
Total assets	$ 1,814,329	$ 1,559,242

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

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Major Clients

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

The following table represents our revenue by client sector:

	Three Months Ended		Nine Months Ended	
	June 26, 2016	June 28, 2015	June 26, 2016	June 28, 2015
	(in thousands)			
Client Sector				
International (1)	$ 194,616	$ 124,951	$ 537,324	$ 445,691
U.S. commercial	194,089	193,098	556,635	523,839
U.S. federal government (2)	203,663	186,578	546,700	541,613
U.S. state and local government	74,501	70,481	214,302	209,784
Total	$ 666,869	$ 575,108	$ 1,854,961	$ 1,720,927

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

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

11. Fair Value Measurements

The fair value of long-term debt was determined using the present value of future cash flows based on the borrowing rates currently available for debt with similar terms and maturities (Level 2 measurement, as described in Critical Accounting Policies and Estimates in our Annual Report on Form 10-K for the fiscal year ended September 27, 2015). The carrying value of our long-term debt approximated fair value at June 26, 2016 and September 27, 2015. As of June 26, 2016, we had borrowings of $364.5 million outstanding under our credit agreement, which were used to fund our business acquisitions, working capital needs, and contingent earn-outs.

12. Joint Ventures

Consolidated Joint Ventures

The aggregate revenue of our consolidated joint ventures for the three and nine months ended June 26, 2016 was $1.3 million and $2.8 million, respectively, compared to $2.0 million and $5.8 million for the same periods last year. The assets and liabilities of these consolidated joint ventures were immaterial at June 26, 2016 and September 27, 2015. These assets are restricted for use only by those joint ventures and are not available for our general operations. Cash and cash equivalents maintained by the consolidated joint ventures at June 26, 2016 and September 27, 2015 were $1.3 million and $0.7 million, respectively.

Unconsolidated Joint Ventures

We account for our unconsolidated joint ventures using the equity method of accounting. Under this method, we recognize our proportionate share of the net earnings of these joint ventures within Other costs of revenue in our condensed consolidated statements of income. For the three and nine months ended June 26, 2016, we reported $0.7 million and $1.6 million of equity in earnings of unconsolidated joint ventures, respectively, compared to $1.3 million and $3.1 million, respectively, for the same periods last year. Our maximum exposure to loss as a result of our investments in unconsolidated joint ventures is typically limited to the aggregate of the carrying value of the investment. Future funding commitments for our unconsolidated joint ventures are immaterial. The unconsolidated joint ventures are, individually and in the aggregate, immaterial to our condensed consolidated financial statements.

The aggregate carrying values of the assets and liabilities of the unconsolidated joint ventures were $13.6 million and $11.8 million, respectively, at June 26, 2016, and $17.1 million and $15.2 million, respectively, at September 27, 2015.

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13. Derivative Financial Instruments

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

We recognize derivative instruments as either assets or liabilities on the accompanying condensed consolidated balance sheets at fair value (Level 2 measurement, as described in Critical Accounting Policies and Estimates in our Annual Report on Form 10-K for the fiscal year ended September 27, 2015). We record changes in the fair value (i.e., gains or losses) of the derivatives that have been designated as accounting hedges in our condensed consolidated balance sheets in accumulated other comprehensive loss.

In fiscal 2013, we entered into three interest rate swap agreements that we designated as cash flow hedges to fix the variable interest rates on a portion of borrowings under our term loan facility. In the first quarter of fiscal 2014, we entered into two interest rate swap agreements that we designated as cash flow hedges to fix the variable interest rates on the borrowings under the term loan facility. At June 26, 2016, the effective portion of our interest rate swap agreements designated as cash flow hedges before taxes was $2.5 million, all of which we expect to be reclassified from accumulated other comprehensive loss to interest expense within the next 12 months.

As of June 26, 2016, the total notional principal amount of our outstanding interest rate swap agreements that expire in May 2018 was $184.5 million and the weighted average fixed interest rate was 1.32%.

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

	Balance Sheet Location	June 26, 2016	September 27, 2015
		(in thousands)	
Interest rate swap agreements	Other current liabilities	$ 2,464	$ 2,518

The impact of the effective portions of derivative instruments in cash flow hedging relationships on income and other comprehensive income from our interest rate swap agreements was immaterial for the first nine months of fiscal 2016 and the fiscal year ended September 27, 2015. Additionally, there were no ineffective portions of derivative instruments. Accordingly, no amounts were excluded from effectiveness testing for our foreign currency forward contracts and interest rate swap agreements. We had no derivative instruments that were not designated as hedging instruments for fiscal 2015 and the first nine months of fiscal 2016.

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14. Reclassifications Out of Accumulated Other Comprehensive Loss

The accumulated balances and reporting period activities for the three and nine months ended June 26, 2016 and June 28, 2015 related to reclassifications out of accumulated other comprehensive loss are summarized as follows:

	Three Months Ended		
	Foreign Currency Translation Adjustments	Loss on Derivative Instruments (in thousands)	Accumulated Other Comprehensive Loss
Balances at March 29, 2015	$ (111,170)	$ (1,450)	$ (112,620)
Other comprehensive income before reclassifications	11,689	1,186	12,875
Reclassification adjustment of prior derivative settlement, net of tax		(565)	(565)
Net current-period other comprehensive income	11,689	621	12,310
Balances at June 28, 2015	$ (99,481)	$ (829)	$ (100,310)
Balances at March 27, 2016	$ (131,137)	$ (1,429)	$ (132,566)
Other comprehensive income (loss) before reclassifications	9,052	(104)	8,948
Reclassification adjustment of prior derivative settlement, net of tax		(420)	(420)
Net current-period other comprehensive income (loss)	9,052	(524)	8,528
Balances at June 26, 2016	$ (122,085)	$ (1,953)	$ (124,038)

	Nine Months Ended		
	Foreign Currency Translation Adjustments	Loss on Derivative Instruments (in thousands)	Accumulated Other Comprehensive Loss
Balances at September 28, 2014	$ (43,085)	$ 547	$ (42,538)
Other comprehensive income (loss) before reclassifications	(56,396)	358	(56,038)
Reclassification adjustment of prior derivative settlement, net of tax		(1,734)	(1,734)
Net current-period other comprehensive loss	(56,396)	(1,376)	(57,772)
Balances at June 28, 2015	$ (99,481)	$ (829)	$ (100,310)
Balances at September 27, 2015	$ (141,229)	$ (1,942)	$ (143,171)
Other comprehensive income before reclassifications	19,144	1,423	20,567
Reclassification adjustment of prior derivative settlement, net of tax		(1,434)	(1,434)

Net current-period other comprehensive income		19,144		(11)		19,133
Balances at June 26, 2016	$	(122,085)	$	(1,953)	$	(124,038)

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15. Commitments and Contingencies

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

16. Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued an accounting standard that will supersede existing revenue recognition guidance under current U.S. GAAP. The new standard is a comprehensive new revenue recognition model that requires a company to recognize revenue to depict the transfer of goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods and services. The accounting standard is effective for us in the first quarter of fiscal year 2019. Companies may use either a full retrospective or a modified retrospective approach to adopt this standard, and management is currently evaluating which transition approach to use. We are currently assessing what impact this new standard may have on our consolidated financial statements.

In June 2014, the FASB issued updated guidance intended to eliminate the diversity in practice regarding share-based payment awards that include terms which provide for a performance target that affects vesting being achieved after the requisite service period. The new standard requires that a performance target which affects vesting and could be achieved after the requisite service period be treated as a performance condition that affects vesting and should not be reflected in estimating the grant-date fair value. The updated guidance is effective for interim and annual reporting periods beginning after December 15, 2015, with early adoption permitted. We do not expect the adoption of this guidance to have an impact on our consolidated financial statements.

In January 2015, the FASB issued an amendment to the accounting guidance related to the income statement presentation of extraordinary and unusual items. The amendment eliminates from U.S. GAAP the concept of extraordinary items. The guidance is effective for us in the first quarter of fiscal 2017. We do not expect the adoption of this guidance to have an impact on our consolidated financial statements.

In February 2015, the FASB issued updated guidance which changes the analysis that a reporting entity must perform to determine whether it should consolidate certain types of legal entities. The updated guidance was effective for interim and annual reporting periods beginning after December 15, 2015, with early adoption permitted. The adoption of this guidance did not have an impact on our consolidated financial statements.

In April 2015, the FASB issued updated guidance intended to simplify, and provide consistency to, the presentation of debt issuance costs. The new standard requires that debt issuance costs be presented in the balance sheet as a direct deduction from the carrying amount of the debt liability, consistent with debt discounts. The updated guidance is effective for interim and annual reporting periods beginning after December 15, 2015, with early adoption permitted. We do not expect the adoption of this guidance to have a material impact on our consolidated financial statements. We had $2.8 million of unamortized debt issuance costs at June 26, 2016.

In August 2015, the FASB issued updated guidance relating to the SEC Staff Announcement at the June 18, 2015 Emerging Issues Task Force meeting on the presentation and subsequent measurement of debt issuance costs associated with line-of-credit arrangements. The updated guidance allows for the deferral and presentation of debt issuance costs as an asset which may be amortized ratably over the term of the line-of-credit arrangement, regardless of whether there are any related outstanding borrowings. The updated guidance is effective for interim and annual reporting periods beginning after December 15, 2015, with early adoption permitted. We do not expect the adoption of this guidance to have a material impact on our consolidated financial statements.

In September 2015, the FASB issued updated guidance to simplify measurement-period adjustments in business combinations. The updated guidance eliminated the requirement that an acquirer in a business combination account for measurement-period adjustments retrospectively. Instead, an acquirer will recognize a measurement-period adjustment during the period in which it determines the amount of the adjustment. The updated guidance is effective for interim and annual reporting periods beginning after December 15, 2015, with early adoption permitted. We do not expect the adoption of this guidance to have a material impact on our consolidated financial statements.

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In November 2015, the FASB issued updated guidance as a part of its ongoing Simplification Initiative, with the objective of reducing complexity in accounting standards. The updated guidance requires that all deferred tax assets and liabilities, along with any related valuation allowance, be classified as noncurrent on the balance sheet. This guidance does not change the offsetting requirements for deferred tax liabilities and assets, which results in the presentation of one amount on the balance sheet. The guidance is effective for interim and annual reporting periods beginning after December 15, 2016, with early adoption permitted. We do not expect the adoption of this guidance to have a material impact on our consolidated financial statements.

In January 2016, the FASB issued guidance that generally requires companies to measure investments in other entities, except those accounted for under the equity method, at fair value and recognize any changes in fair value in net income. The guidance is effective for annual and interim reporting periods beginning after December 15, 2017. We are currently evaluating the impact of this guidance on our consolidated financial statements.

In February 2016, the FASB issued guidance that primarily requires lessees to recognize most leases on their balance sheets but record expenses on their income statements in a manner similar to current accounting. For lessors, the guidance modifies the classification criteria and the accounting for sales-type and direct financing leases. The guidance is effective for annual and interim periods beginning after December 15, 2018, with early adoption permitted. We are currently evaluating the impact of this guidance on our consolidated financial statements.

In March 2016, the FASB issued updated guidance which requires excess tax benefits and deficiencies on share-based payment to be recorded as income tax expense or benefit in the income statement rather than being recorded in additional paid-in capital. This guidance is effective for annual and interim periods beginning after December 15, 2016, with early adoption permitted. We do not expect the adoption of this guidance to have a material impact on our consolidated financial statements.

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

FORWARD-LOOKING STATEMENTS

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

GENERAL OVERVIEW

We are a leading provider of consulting, engineering, program management, and construction management services that focuses on addressing fundamental needs for water, environment, infrastructure, resource management, energy, and international development. We typically begin at the earliest stage of a project by identifying technical solutions to problems 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, research and technology, information technology, data analytics, engineering, design, construction management, construction, and operations and maintenance. Our commitment to continuous improvement and investment in growth has diversified our client base, expanded our geographic reach, and increased the breadth and depth of our service offerings to address existing and emerging markets. We currently have approximately 16,000 staff worldwide, located primarily in North America.

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

	Three Months Ended		Nine months Ended	
	June 26, 2016	June 28, 2015	June 26, 2016	June 28, 2015
Client Sector				
International (1)	29.2%	21.7%	29.0%	25.9%

U.S. commercial	29.1	33.6	30.0	30.4
U.S. federal government (2)	30.5	32.4	29.4	31.5
U.S. state and local government	11.2	12.3	11.6	12.2
Total	100.0%	100.0%	100.0%	100.0%

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

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

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Our reportable segments are as follows:

Water, Environment and Infrastructure. WEI provides consulting and engineering services worldwide for a broad range of water and infrastructure-related needs in both developed and emerging economies. WEI supports both public and private clients including federal, state/provincial, and local governments, and global and local commercial and industrial clients. The primary markets for WEI s services include water resources analysis and water management, environmental restoration, government consulting, and a broad range of civil infrastructure master planning and engineering design for facilities, transportation, and regional and local development. WEI s services span from early data collection and monitoring, to data analysis and information technology, to science and engineering applied research, to engineering design, to construction management and operations and maintenance.

Resource Management and Energy. RME provides consulting and engineering services worldwide for a broad range of resource management and energy needs. RME supports both private and public clients, including global industrial and commercial clients, U.S. federal agencies in large scale remediation, and major international development agencies. The primary markets for RME s services include natural resources, energy, international development, geotechnical, remediation, waste management and utilities. RME s services span from early data collection and monitoring, to data analysis and information technology, to science and engineering applied research, to engineering design, to construction management and operations and maintenance. RME also supports EPCM for full service implementation of commercial projects.

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 work to be performed in this segment will be substantially complete in fiscal 2017.

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

	Three Months Ended		**Nine Months Ended**	
	June 26, 2016	**June 28, 2015**	**June 26, 2016**	**June 28, 2015**
Reportable Segment				
WEI	39.7%	44.6%	39.4%	43.1%
RME	62.2	54.8	61.2	55.7
RCM	0.8	2.9	2.0	4.0
Inter-segment elimination	(2.7)	(2.3)	(2.6)	(2.8)
	100.0%	100.0%	100.0%	100.0%

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

	Three Months Ended		Nine Months Ended	
	June 26, 2016	June 28, 2015	June 26, 2016	June 28, 2015
Contract Type				