



Tetra Tech, Inc.

Annual Report 2001

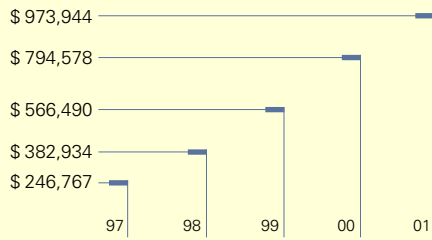
we bring structure to life



TETRA TECH, INC.

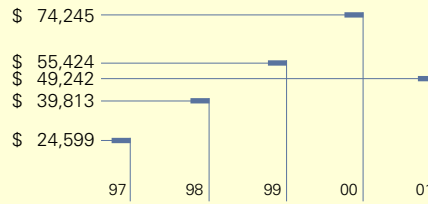
gross revenue

(in thousands)



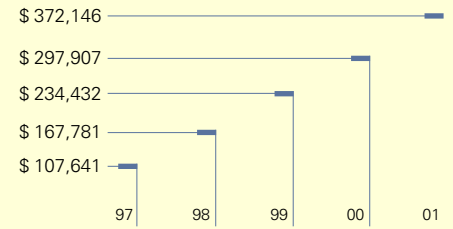
income from operations

(in thousands)



stockholders' equity

(in thousands)



who we are

As a leader in specialized management consulting and technical services, Tetra Tech provides integrated solutions to complex technical problems in three diverse business areas: resource management, infrastructure and communications. Through our commitment to improve the quality of life, we 7000 employees strive to make our waters well balanced, our infrastructure integrated and our communication clearer. (www.tetrattech.com)

FINANCIAL HIGHLIGHTS

| Fiscal Year Ended | Sept. 30, ⁽³⁾ 2001 | Oct. 1, ⁽⁴⁾ 2000 | Oct. 3, ⁽⁵⁾ 1999 | Oct. 4, 1998 | Sept. 28, 1997 |
|--|----------------------------------|--------------------------------|--------------------------------|-----------------|-------------------|
| (in thousands, except per share data) | | | | | |
| Gross revenue | \$ 973,944 | \$ 794,578 | \$ 566,490 | \$ 382,934 | \$ 246,767 |
| Net revenue | 730,064 | 598,121 | 432,080 | 297,597 | 190,791 |
| Income from operations | 49,242 | 74,245 | 55,424 | 39,813 | 24,599 |
| Net income | 30,825 | 40,442 | 29,115 | 20,586 | 14,256 |
| Basic earnings per share ⁽¹⁾ | 0.61 | 0.83 | 0.63 | 0.47 | 0.39 |
| Diluted earnings per share ⁽¹⁾ | 0.57 | 0.78 | 0.59 | 0.45 | 0.37 |
| Weighted average common shares outstanding: ⁽¹⁾ | | | | | |
| Basic | 50,939 | 48,754 | 46,449 | 43,703 | 36,518 |
| Diluted | 54,166 | 52,003 | 49,438 | 45,610 | 38,525 |
| Net cash flow from operating activities ⁽²⁾ | 44,274 | (12,188) | 30,258 | (6,620) | 1,144 |
| Working capital | 192,991 | 154,341 | 86,313 | 77,049 | 42,539 |
| Total assets | 607,221 | 526,038 | 380,478 | 266,610 | 159,513 |
| Long-term obligations, excluding current portion | 111,779 | 85,532 | 37,289 | 33,546 | — |
| Stockholders' equity | 372,146 | 297,907 | 234,432 | 167,781 | 107,641 |

(1) Reflects the effect, on a retroactive basis, of the 5-for-4 stock split, effected in the form of a 25% stock dividend, in December 2001.

(2) Net cash flow from operating activities was reduced by \$5.2 million, \$10.7 million, \$9.3 million, \$10.3 million and \$15.6 million for the fiscal years ended September 30, 2001, October 1, 2000, October 3, 1999, October 4, 1998 and September 28, 1997, respectively, as a result of our assignment of accounts receivable to the former owners of certain acquired companies.

(3) Income from operations was negatively impacted by a charge in the amount of \$38.3 million, or \$23.4 million on an after-tax basis, to provide a reserve for an account debtor. In addition, income tax expense was favorably impacted by tax credits for prior years of \$7.0 million.

(4) Revenue and income from operations were favorably impacted by reserve reversals in the amount of \$2.0 million, or \$1.16 million on an after-tax basis. In addition, income tax expense was favorably impacted by tax credits for prior years of \$1.46 million.





(5) Revenue and income from operations were favorably impacted by reserve reversals in the amount of \$1.75 million, or \$0.98 million on an after-tax basis.

to our share owners

Against a backdrop of significant market changes for fiscal 2001, Tetra Tech continued to hold a steady course of strong performance. Again attaining record results, we enhanced the collaboration among our business areas, took on more integrated projects, and expanded the services offered to our customers.

For fiscal 2001, our gross revenue increased 23% to \$974 million from \$795 million in the previous year. Our net revenue (gross revenue less subcontractor costs) increased 22% to \$730 million from \$598 million in the previous year. Before a special charge, tax credits and reserve reversals, our net income rose 25% to \$47 million from \$38 million in the previous year.

Diluted earnings per share for fiscal 2001, before the items mentioned below, increased 20% to \$0.87, compared to \$0.73 last year. Our fiscal 2001 earnings and income results were favorably impacted by prior year tax credits, and were negatively impacted by a \$38.3 million charge to provide a reserve for the bankruptcy of our customer Metricom. In spite of the changing market conditions that contributed to the Metricom charge, the event reminded us of the vigilance required to deliver consistently outstanding results. The net result of the charge and tax credits was a reduction in net income for the fiscal year of \$16 million, or 30 cents per diluted share. All earnings per share references take into account the 5-for-4 stock split in December 2001.

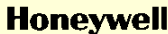



| 1966 | '69 | '73 | '79 | |
|---|---|--|---|--|
| Tetra Tech, Inc. founded | Wave lab opened | Launched 1st remote control submarine for exploration & military applications | Analyzed data and explored Alaska's North Slope for oil | |
|  |  |  |  | |

BRINGING STRUCTURE TO LIFE

From clean water to clear communications, Tetra Tech's business focuses on improving the quality of people's lives. Using engineering and science we integrate technologies to help create a clean, secure environment in which people can communicate easily and live safely. Our business helps make these many essential services possible, yet seamless and often unnoticed.

WELL BALANCED WATERS




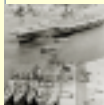
The Resource Management group had an outstanding year of performance, and made up 40% of our net revenue in fiscal 2001. Tetra Tech expanded our already strong position in watershed management this year, won a number of key long-term programs, and expanded our service offerings in risk management, energy consulting and mining consulting. State and local programs played an increasing role in our watershed management services this year, as the market began its migration toward more implementation of federal regulations at the state, local and private levels. In fiscal 2001, Tetra Tech was awarded watershed management contracts in over 30 states, greatly diversifying our customer base in this area. For the last several years our watershed management work has continued to expand, demonstrating our ability to leverage our long-term involvement in these programs, our commitment to customer satisfaction and the technical trust we have earned from government resource managers. We also captured a number of larger multi-year projects this year, including a \$40 million

| '80 | '85 | '88 | '89 | |
|---|---|--|---|--|
| Acquired by Honeywell | Awarded first national water quality program | Management bought back Water Management Group from Honeywell | Expanded groundwater capability | |
|  |  |  |  | |

INTEGRATED INFRASTRUCTURE

The Infrastructure business area continued to be a steady performer in fiscal 2001 and was 34% of our net revenue. We continued our expansion into the high technology areas of building design, infusing our "smart building" philosophy into many medical, financial and federal facilities. We also expanded our water infrastructure capabilities in the Rocky Mountain and Ohio Valley regions.

After the tragic September 11th terrorist attacks, we assisted many large commercial businesses and federal agencies with enhanced security infrastructure. Increasingly, our customers desire infrastructure solutions that integrate communications, water supply, security, energy efficiency, lighting, ventilation and transportation considerations.

| 1991 | '92 | '93 | '94 |
|---|---|---|--|
| <p>NASDAQ IPO \$1.41 per share (post split basis)</p>  | <p>DOE awarded nuclear weapons reconfiguration contract</p>  | <p>USAF awarded nationwide NEPA contract</p>  | <p>Navy awarded CLEAN II 10-year \$ 330 million contract</p>  |

CLEAR COMMUNICATIONS

The Communications business area was approximately 26% of our net revenue in fiscal 2001. We continued our expansion in "last mile" communications programs and diversified our communications customer base to include building owners and developers. We believe that we are one of the few companies properly positioned for the convergence of wireless, wired and infrastructure services taking place in the industry. Communication service providers, which made up our historic customer base, want to reach new customers inside buildings and this past year we demonstrated that we are well positioned to provide them this assistance.

December 19th was the 10th anniversary of our initial public offering. Since our IPO, our stock has risen in value by approximately 12 times. Our business strategy of investing capital resources in the fastest growth segments of each existing business has proven to be sound and we will continue that model. With your future support, we will hold our course to drive shareholder value, striving to deliver the outstanding services and results that have come to define Tetra Tech over the past decade.

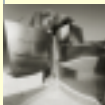


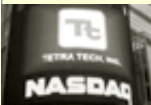
Sincerely,



Li-San Hwang
Chairman
Chief Executive Officer



James Jaska
President
Chief Financial Officer and Treasurer

| '95 | '97 | '99 | '01 |
|--|--|---|---|
| <div>Expanded infrastructure capability</div> <div></div> | <div>Expanded communications capability</div> <div></div> | <div>EPA BASINS model created to enable watershed management approach</div> <div></div> | <div>10th year anniversary since IPO</div> <div></div> |



the **fact** that man and earth are of

A woman with long brown hair, wearing a white long-sleeved shirt, is sitting on the deck of a white sailboat. The sailboat is on a body of water, with a forested hill in the background under a blue sky with scattered white clouds. The sailboat's mast and rigging are visible, and a small blue flag is attached to the mast.

equal parts
water puts life in a fresh perspective.



our **place** in the ebb and

flow of life

...but of the 70% that engulfs our world,
just 3% of it is fresh—and of that

JUST 1% REMAINS FREE OF THE POLAR ICE CAPS.
1% THAT WE MUST FOREVER RECYCLE AND REUSE.

1% that will become
the most vital commodity of the 21st Century.

1% THAT PUTS IT ALL IN PERSPECTIVE.

RESOURCE MANAGEMENT

PEOPLE...6 billion alive today. 12 billion of us by the end of this next century. So how do we create sustainable resources to ensure a sound future? By providing solutions for those recurring, complex problems that challenge the quality of our lives—problems which no longer spring from a single, easily identifiable source, but which stem from a flood of non-point sources. Which is why...

...as one of this world's leaders in water science, we at Tetra Tech are committed to preserving another world—that of our children and grandchildren. It is the same reason why the EPA and more than 30 state governments have contracted with us to help manage their vital water quality and quantity issues. Because at Tetra Tech—from large scale watershed management to industrial consulting and hazardous waste management—we understand our place in the ebb and flow of life.



nothing is more **inherent** to our sense of



well-being

than a positive relationship with place.

A black and white photograph of a middle-aged man with glasses, wearing a white shirt and a dark tie. He is sitting at a desk, looking intently at a large computer monitor. His hand is resting on his chin in a thoughtful pose. The background is a bright, out-of-focus window with a grid pattern. A semi-transparent horizontal band is overlaid across the middle of the image, containing the text.

our **world** is what

we make it

...from award-winning corporate headquarters
to the world class hotels,

WE DESIGN THE GREAT INDOORS AS LIVING,
BREATHING WORLDS OF THEIR OWN.

Complex building solutions and interior building systems where
air and water—like great ideas—flow free

AND PEOPLE FEEL FREE IN THEIR PLACE.

INFRASTRUCTURE

ENVIRONMENT...it's the park where your children play or the boardroom where you make your next move. It's the world in which we live and it's in constant flux. So how do we adapt to our changing environment? We don't. At Tetra Tech, we help the environment adapt to you—whether protecting your community from the threat of flood or engineering your indoor environment for greater productivity. Which is why...

...as one of this world's leaders in comprehensive infrastructure services, we're working hard to conserve another world—that of our parents and grandparents. It's the same reason, in this decade alone, over \$150 billion is needed to modernize our country's aging water infrastructure. We'll be there—with smart, technology-driven solutions. Because at Tetra Tech—from transportation networks and industrial process design to our rising water infrastructure needs—we understand our world is what we make it.

A modern office interior with large windows and people working. In the foreground, the back of a person's head is visible as they look at a laptop. In the background, several people in business attire are standing and talking near a large window. The text "we must ultimately cut the lines of" is overlaid on the image.

we must **ultimately** cut the lines of

A person wearing a white hospital gown is shown from the chest up, looking down at a small, blue handheld device (PDA) held in their right hand. The device's screen displays a photograph of a meal, which includes a bowl of soup, a plate of food, and a glass. The person is standing in a brightly lit hospital hallway, with a gurney and other medical equipment visible in the background. The overall image has a halftone or dithered texture.

communications

if we ever hope to be truly connected.



our **need** to unite

with one another

...it's shared knowledge and, like water,
is a necessity of life.

IT'S WHY WE OFFER ONE OF THE WIDEST RANGE OF NETWORK-RELATED,
COMMUNICATIONS SERVICES IN THE INDUSTRY.

It's why we have developed more 1st of a kind wireless networks than any company.

SO THAT WE MIGHT COME TOGETHER AND FINALLY MEET.

COMMUNICATIONS

KNOWLEDGE...it's a wealth of information. An endless stream of bytes and bits, facts and figures, voice and data. So how do we integrate all your vital stats into one converged network? By delivering a single fiber-optic backbone to your doorstep, then distributing all that information wirelessly throughout your communications universe. It's the final few feet to true connectivity, but it's always been the hardest to go. Which is why...

...as one of this world's leaders in converged network and wireless communications, we're working to create a whole new world—yours. It's the same reason why customers ranging from AT&T and Sprint to the Department of Defense and the United States Capitol Complex have come to depend upon us for their communications and security needs. Because at Tetra Tech—from network planning to network operations and maintenance—we understand our need to unite with one another.



financial **table** of contents

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SELECTED CONSOLIDATED FINANCIAL DATA

| Fiscal Year Ended | Sept. 30, ⁽²⁾ 2001 | Oct. 1, ⁽³⁾ 2000 | Oct. 3, ⁽⁴⁾ 1999 | Oct. 4, ⁽⁵⁾ 1998 | Sept. 28, ⁽⁶⁾ 1997 |
|--|----------------------------------|--------------------------------|--------------------------------|--------------------------------|----------------------------------|
| (in thousands, except per share data) | | | | | |
| Statements of Income Data | | | | | |
| Gross revenue | \$ 973,944 | \$ 794,578 | \$ 566,490 | \$ 382,934 | \$ 246,767 |
| Subcontractor costs | 243,880 | 196,457 | 134,410 | 85,337 | 55,976 |
| Net revenue | 730,064 | 598,121 | 432,080 | 297,597 | 190,791 |
| Cost of net revenue | 559,474 | 452,872 | 327,336 | 223,871 | 141,019 |
| Gross profit | 170,590 | 145,249 | 104,744 | 73,726 | 49,772 |
| Selling, general and administrative expenses | 121,348 | 71,004 | 49,320 | 33,913 | 25,173 |
| Income from operations | 49,242 | 74,245 | 55,424 | 39,813 | 24,599 |
| Net interest expense | 8,543 | 7,026 | 3,135 | 1,910 | 20 |
| Income before minority interest and income tax expense | 40,699 | 67,219 | 52,289 | 37,903 | 24,579 |
| Minority interest | — | — | — | 1,397 | — |
| Income before income tax expense | 40,699 | 67,219 | 52,289 | 36,506 | 24,579 |
| Income tax expense | 9,874 | 26,777 | 23,174 | 15,920 | 10,323 |
| Net income | \$ 30,825 | \$ 40,442 | \$ 29,115 | \$ 20,586 | \$ 14,256 |
| Basic earnings per share ⁽¹⁾ | \$ 0.61 | \$ 0.83 | \$ 0.63 | \$ 0.47 | \$ 0.39 |
| Diluted earnings per share ⁽¹⁾ | \$ 0.57 | \$ 0.78 | \$ 0.59 | \$ 0.45 | \$ 0.37 |
| Weighted average common shares outstanding: ⁽¹⁾ | | | | | |
| Basic | 50,939 | 48,754 | 46,449 | 43,703 | 36,518 |
| Diluted | 54,166 | 52,003 | 49,438 | 45,610 | 38,525 |

| | Sept. 30, 2001 | Oct. 1, 2000 | Oct. 3, 1999 | Oct. 4, 1998 | Sept. 28, 1997 |
|--|-------------------|-----------------|-----------------|-----------------|-------------------|
| (in thousands) | | | | | |
| Balance Sheet Data | | | | | |
| Working capital | \$ 192,991 | \$ 154,341 | \$ 86,313 | \$ 77,049 | \$ 42,539 |
| Total assets | 607,221 | 526,038 | 380,478 | 266,610 | 159,513 |
| Long-term obligations, excluding current portion | 111,779 | 85,532 | 37,289 | 33,546 | — |
| Stockholders' equity | 372,146 | 297,907 | 234,432 | 167,781 | 107,641 |

(1) Reflects the effect, on a retroactive basis, of the 5-for-4 stock split, effected in the form of a 25% stock dividend, in December 2001.

(2) Income from operations was negatively impacted by a charge in the amount of \$38.3 million, or \$23.4 million on an after-tax basis, to provide a reserve for an account debtor. Additionally, income tax expense was favorably impacted by tax credits for prior years of \$7.0 million. Further, we have included the results of operations and financial positions of Rocky Mountain Consultants, Inc. (acquired December 21, 2000), Wahco Construction, Inc. (acquired March 2, 2001), Williams, Hatfield & Stoner, Inc. (acquired March 30, 2001), Vertex Engineering Services, Inc. (acquired May 21, 2001), Maxim Technologies, Inc. (acquired May 25, 2001), Commonwealth Technology, Inc. (acquired June 1, 2001), The Design Exchange Architects, Inc. (acquired June 27, 2001), Western Utility Contractors, Inc. and Western Utility Cable, Inc. (collectively acquired June 29, 2001), Shepherd Miller, Inc. (acquired September 26, 2001) and Sciences International, Inc. (acquired September 26, 2001) from the effective acquisition dates.

(3) Included in our revenue and income from operations is \$2.0 million, or \$1.16 million on an after-tax basis, relating to certain reserve reversals. Additionally, income tax expense was favorably impacted by tax credits for prior years of \$1.46 million. Further, we have included the results of operations and financial positions of LC of Illinois, Inc. and HFC Technologies, Inc. (collectively acquired October 25, 1999), Edward A. Sears Associates (acquired March 30, 2000), eXpert Wireless Solutions, Inc. (acquired April 3, 2000), 1261248 Ontario, Inc., which does business as Engineered Communications (acquired May 3, 2000), FHC, Inc. (acquired May 17, 2000), Rizzo Associates, Inc. (acquired May 24, 2000), Drake Contractors, Inc. (acquired June 16, 2000) and Wm. Bethlehem Trenching Ltd. (acquired July 5, 2000) from the effective acquisition dates.

(4) Included in our revenue and income from operations is \$1.75 million, or \$0.98 million on an after-tax basis, relating to certain reserve reversals. Further, we have included the results of operations and financial positions of MFG, Inc. (formerly McCulley, Frick & Gilman, Inc., acquired February 26, 1999), Collins/Piña Consulting Engineers, Inc. (acquired May 7, 1999), D.E.A. Construction Company (acquired May 19, 1999), BAHA Communications, Inc. (acquired May 21, 1999), Utilities & C.C., Inc. (acquired June 18, 1999), ASL Consultants, Inc. (acquired June 25, 1999), Cosentini Associates, Inc. (formerly partnership interests and certain companies affiliated with Cosentini Associates LLP, acquired June 30, 1999), PDR Engineers, Inc. (acquired September 3, 1999) and Evergreen Utility Contractors, Inc., Continental Utility Contractors, Inc. and Gig Harbor Construction, Inc. (collectively acquired October 2, 1999) from the effective acquisition dates.

(5) We have included the results of operations and financial positions of Tetra Tech NUS, Inc. (acquired December 31, 1997), Whalen/Sentrex LLC (formed March 2, 1998), C.D.C. Engineering, Inc. (acquired March 26, 1998 and subsequently merged into Tetra Tech, Inc. on July 29, 1999), McNamee, Porter & Seeley, Inc. (acquired July 8, 1998) and the Sentrex Group of Companies (acquired September 22, 1998) from the effective acquisition dates.

(6) We have included the results of operations and financial positions of IWA Engineers (acquired December 11, 1996 and subsequently merged into Tetra Tech, Inc. on July 29, 1999), FLO Engineering, Inc. (acquired December 20, 1996 and subsequently merged into Tetra Tech, Inc. on July 29, 1999), SCM Consultants, Inc. (acquired March 19, 1997), Whalen & Company, Inc. and Whalen Service Corps Inc. (collectively acquired June 11, 1997) and CommSite Development Corporation (acquired July 11, 1997 and subsequently merged into Whalen & Company, Inc. on January 4, 1999) from the effective acquisition dates.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Except for the historical information contained below, the matters discussed in this section are forward-looking statements that involve a number of risks and uncertainties. Our actual liquidity needs, capital resources and operating results may differ materially from the discussion set forth below in these forward-looking statements. For additional information, refer to the Notes to Consolidated Financial Statements.

Overview

Tetra Tech, Inc. is a leading provider of specialized management consulting and technical services in three principal business areas: resource management, infrastructure and communications. As a specialized management consultant, we assist our clients in defining problems and developing innovative and cost-effective solutions. Our management consulting services are complemented by our technical services. These technical services, which implement solutions, include research and development, applied science, engineering and architectural design, construction management, and operations and maintenance. Our clients include a diverse base of public and private organizations located in the United States and internationally.

Since our initial public offering in December 1991, we increased the size and scope of our business and have expanded our service offerings through a series of strategic acquisitions and internal growth. From fiscal 1991 through fiscal 2001, we generated a net revenue compounded annual growth rate of approximately 34.4% and achieved a net income compounded annual growth rate of approximately 29.4%, or 35.0% excluding charges and credits, as discussed in the following results of operations.

We derive our revenue from fees from professional services. Our services are billed under various types of contracts with our clients, including:

- fixed-price;
- fixed-rate time and materials;
- cost-reimbursement plus fixed fee; and
- cost-reimbursement plus fixed and award fee.

In the course of providing our services, we routinely subcontract services. These subcontractor costs are passed through to our clients and, in accordance with industry practice, are included in our gross revenue. Because subcontractor services can change significantly from project to project, we believe net revenue, which is gross revenue less the cost of subcontractor services, is a more appropriate measure of our performance.

Our cost of net revenue includes professional compensation and certain direct and indirect overhead costs such as rents, utilities and travel. Professional compensation represents the majority of these costs. Our selling, general and administrative (SG&A) expenses are comprised primarily of our corporate headquarters' costs related to the executive offices, corporate accounting, information technology, marketing, and bid and proposal costs. These costs are generally unrelated to specific client

projects. Included in our fiscal 2001 SG&A expense is a charge to provide a reserve for an account debtor as discussed in the following results of operations. We also include amortization of certain intangible assets resulting from acquisitions in SG&A expenses.

We provide services to a diverse base of Federal, state and local government agencies, and private and international clients. The following table presents, for the periods indicated, the approximate percentage of our net revenue attributable to these client sectors:

| Percentage of Net Revenue | | | |
|-----------------------------|----------------|----------------|----------------|
| Client | Fiscal 2001 | Fiscal 2000 | Fiscal 1999 |
| Federal government | 24.5% | 29.1% | 39.1% |
| State and local governments | 18.1 | 16.3 | 16.3 |
| Private | 54.2 | 51.4 | 41.3 |
| International | 3.2 | 3.2 | 3.3 |
| Total | 100.0% | 100.0% | 100.0% |

We manage our business in three operating segments: Resource Management, Infrastructure and Communications. The following table presents, for the periods indicated, the approximate percentage of net revenue attributable to the operating segments:

| Percentage of Net Revenue | | | |
|---------------------------|----------------|----------------|----------------|
| Operating Segment | Fiscal 2001 | Fiscal 2000 | Fiscal 1999 |
| Resource Management | 40.0% | 41.3% | 53.6% |
| Infrastructure | 34.0 | 31.8 | 25.9 |
| Communications | 25.3 | 25.6 | 20.5 |
| Other Revenue | 0.7 | 1.3 | 0.0 |
| Total | 100.0% | 100.0% | 100.0% |

Our revenue and operating results fluctuate from quarter to quarter as a result of a number of factors, such as:

- The seasonality of the spending cycle of our public sector clients and the spending patterns of our private sector clients;
- Employee hiring and utilization rates;
- The number and significance of client engagements commenced and completed during a quarter;
- Creditworthiness and solvency of clients;
- Delays incurred in connection with an engagement;
- The ability of clients to terminate engagements without penalties;
- The size and scope of engagements;
- The timing of expenses incurred for corporate initiatives;
- The timing and size of the return on investment capital; and
- General economic or political conditions.

Variations in any of these factors can cause significant variations in operating results from quarter to quarter and could result in losses.

Recent Acquisitions

As a part of our growth strategy, we expect to pursue complementary acquisitions to expand our geographical reach and the breadth and depth of our service offerings. During fiscal 2001, we purchased 11 companies in the following ten transactions:

Rocky Mountain Consultants, Inc. – In December 2000, we acquired Rocky Mountain Consultants, Inc. (RMC). The purchase was valued at approximately \$15.2 million. RMC, a Colorado-based engineering services firm, provides water-related engineering and facility development services to state and local governments and private clients primarily in the western and midwestern regions of the United States.

Wahco Construction, Inc. – In March 2001, we acquired Wahco Construction, Inc. (WCI). The purchase was valued at approximately \$0.8 million. WCI, a Washington-based field services firm, provides network and field services to utility and communications companies primarily in the northwestern region of the United States.

Williams, Hatfield & Stoner, Inc. – In March 2001, we acquired Williams, Hatfield & Stoner, Inc. (WHS). The purchase was valued at approximately \$9.1 million. WHS, a Florida-based engineering services firm, provides civil engineering, planning and environmental services to state and local governments and private clients primarily in the southeastern region of the United States.

Vertex Engineering Services, Inc. – In May 2001, we acquired Vertex Engineering Services, Inc. (VES). The purchase was valued at approximately \$10.4 million. VES, a Massachusetts-based engineering services firm, provides environmental, engineering and consulting services with full general construction capabilities and specializes in surety and insurance construction management throughout the United States.

Maxim Technologies, Inc. – In May 2001, we acquired Maxim Technologies, Inc. (MTI). The purchase was valued at approximately \$14.0 million. MTI, a Texas-based professional consulting firm, provides engineering and environmental services to a variety of clients throughout the United States.

Commonwealth Technology, Inc. – In June 2001, we acquired certain assets of Commonwealth Technology, Inc. (CTI). The purchase was valued at approximately \$3.6 million. CTI, a Kentucky-based environmental and infrastructure engineering and consulting firm, provides civil, environmental and industrial engineering services to state and local governments and private clients primarily in the southeastern region of the United States.

The Design Exchange Architects, Inc. – In June 2001, we acquired The Design Exchange Architects, Inc. (DXA). The purchase was valued at approximately \$1.3 million. DXA, a Delaware-based architectural firm, provides architectural, planning and interior design services to private clients throughout the eastern region of the United States.

Western Utility Contractors, Inc. – In June 2001, we acquired Western Utility Contractors, Inc. and Western Utility Cable, Inc. (collectively, WUC). The purchase was valued at approximately \$15.6 million. WUC, an Illinois-based engineering, design and construction firm, provides walkout, design and construction of coaxial and fiber-optic related infrastructure to private clients primarily in the midwestern region of the United States.

Shepherd Miller, Inc. – In September 2001, we acquired, through our wholly-owned subsidiary, MFG, Inc., certain assets of Shepherd Miller, Inc. (SMI). The purchase was valued at approximately \$2.5 million. SMI, a Colorado-based environmental and engineering consulting firm, provides solutions to mining environmental and operational problems throughout the United States.

Sciences International, Inc. – In September 2001, we acquired Sciences International, Inc. (SII). The purchase was valued at approximately \$5.1 million. SII, a Virginia-based consulting firm, provides health and environmental risk assessment services to private industries, governments and law firms throughout the United States.

Results of Operations

Our results of operations for fiscal years 2001, 2000 and 1999 reflected certain charges and credits infrequently encountered in our normal recurring operations. Fiscal 2001 results included a charge to provide a reserve for an account debtor that filed for Chapter 11 protection under the U.S. Bankruptcy Code. The amount of this charge, on a pre-tax basis, was \$38.3 million and was included in SG&A expense. Based upon our current effective tax rate of 39%, this charge had an adverse impact on our net income of \$23.4 million. Additionally, fiscal 2001 results included the favorable impact of \$7.0 million in income tax credits relating to prior years. Fiscal 2000 and 1999 results included the favorable impact of certain pre-acquisition reserve reversals in the amounts of \$2.0 million and \$1.75 million, respectively. These amounts were included in revenue and had a net income effect of \$1.2 million and \$1.0 million, respectively, in fiscal 2000 and 1999. Fiscal 2000 results were also favorably impacted by income tax credits relating to prior years of \$1.5 million. Unless otherwise noted, for comparability purposes, the following discussion of our results of operations excludes these items. The actual results, including these items, are reflected in the Consolidated Financial Statements and the notes thereto.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following table sets forth, for the periods indicated, certain operating information as a percentage of net revenue:

Percentage of Net Revenue

| Fiscal year ended | Sept. 30, 2001 | Oct. 1, 2000 | Oct. 3, 1999 |
|--|-------------------|-----------------|-----------------|
| Net revenue | 100.0% | 100.0% | 100.0% |
| Cost of net revenue | 76.6 | 76.0 | 76.1 |
| Gross profit | 23.4 | 24.0 | 23.9 |
| Selling, general and administrative expenses | 11.4 | 11.9 | 11.4 |
| Income from operations | 12.0 | 12.1 | 12.5 |
| Net interest expense | 1.2 | 1.2 | 0.8 |
| Income before income tax expense | 10.8 | 10.9 | 11.7 |
| Income tax expense | 4.4 | 4.6 | 5.2 |
| Net income | 6.4% | 6.3% | 6.5% |

Fiscal 2001 Compared to Fiscal 2000

Net Revenue – Net revenue increased \$133.9 million, or 22.5%, to \$730.1 million in fiscal 2001 from \$596.1 million in fiscal 2000. As previously noted, the fiscal 2000 results exclude for comparability purposes the favorable reserve reversal of \$2.0 million. Including this revenue, net revenue increased \$131.9 million, or 22.1%. All three business segments and all four client sectors continued to show net revenue increases in actual dollars. Our Resource Management business area recognized growth in its net revenue of 19.4%. This growth was primarily attributable to growth in our water and waste management business coupled with the fiscal 2001 acquisitions. Our Infrastructure business area recognized net revenue growth of 30.3% due to the expansion of our infrastructure services throughout the United States, as well as our fiscal 2001 acquisitions. Although the net revenue growth in our Communications business area has declined from growth levels we experienced in the past, we still achieved a 20.4% net revenue growth in this area. Net revenue provided by our Federal government clients increased by 3.9%, while net revenue from our state and local government, commercial and international clients increased 35.8%, 28.8% and 20.4%, respectively. We segregate from our total revenue, revenue derived from companies acquired during the current fiscal year as well as revenue recognized from acquired companies during the first 12 months following their respective effective dates of acquisition. Revenue recognized from acquired companies during such first 12 months is referred to as acquisitive revenue. Organic revenue is measured as total revenue less any acquisitive revenue. Net revenue provided by companies acquired during fiscal 2001 totaled \$51.8 million. Excluding this net revenue, we realized 13.8% growth in our net revenue from fiscal 2000 to fiscal 2001. Acquisitive net revenue for fiscal 2001 totaled \$84.2 million. Excluding this net revenue, we realized organic growth in our net revenue of 8.4%.

Gross revenue increased \$181.4 million, or 22.9%, to \$973.9 million from \$792.6 million in fiscal 2000. As a percentage of gross revenue, subcontractor costs were 25.0% in fiscal 2001 as compared to 24.8% in

fiscal 2000. Including the fiscal 2000 favorable reserve reversal of \$2.0 million, gross revenue increased \$179.4 million, or 22.6%.

Cost of Net Revenue – Cost of net revenue increased \$106.6 million, or 23.5%, to \$559.5 million in fiscal 2001 from \$452.9 million in fiscal 2000. As a percentage of net revenue, cost of net revenue increased slightly to 76.6% in fiscal 2001 from 76.0% in fiscal 2000. Professional compensation, the largest component of our cost of net revenue, rose as the number of employees, measured as full-time equivalents, increased by 700, or 11.4%, to 6,820 in fiscal 2001 from 6,120 in fiscal 2000. Excluding the 938 employees provided from acquired companies, we had a reduction in our number of full-time equivalent employees. Gross profit increased \$27.3 million, or 19.1%, to \$170.6 million in fiscal 2001 from \$143.2 million in fiscal 2000. As a percentage of net revenue, gross profit decreased to 23.4% in fiscal 2001 from 24.0% in fiscal 2000.

Selling, General and Administrative Expenses – SG&A expenses, exclusive of amortization expense, increased \$9.3 million, or 14.4%, to \$73.9 million in fiscal 2001 from \$64.5 million in fiscal 2000. As a percentage of net revenue, SG&A expenses decreased to 10.1% in fiscal 2001 from 10.8% in fiscal 2000. Including the \$38.3 million charge that was taken in the third quarter of fiscal 2001 to provide for a reserve for an account debtor, our SG&A expenses increased \$47.6 million, or 73.8%, to \$112.2 million in fiscal 2001 from \$64.5 million in fiscal 2000. Our SG&A expenses vary as a result of corporate initiatives such as business development and upgrade of the corporate business systems, as well as other discretionary spending. Fiscal 2000 reflected higher proportional costs in these areas. Our SG&A expenses will continue to vary due to the timing and magnitude of discretionary expenditures. The amortization expense related to acquisitions increased \$2.7 million, or 42.2%, to \$9.2 million in fiscal 2001 from \$6.5 million in fiscal 2000.

Net Interest Expense – Net interest expense increased \$1.5 million, or 21.6%, to \$8.5 million in fiscal 2001 from \$7.0 million in fiscal 2000. This increase was primarily attributable to higher borrowings on our credit facility and our private placement of fixed-rate senior secured notes to fund working capital and investing needs of acquisitions, offset by decreases in interest rates. In fiscal 2001, borrowings on our credit facility and senior secured notes averaged \$130.9 million at a weighted average interest rate of 7.1% compared to \$95.4 million at a weighted average interest rate of 7.4% on our credit facility in fiscal 2000. In addition, interest income increased \$0.8 million or 231.3%, to \$1.1 million in fiscal 2001 from \$0.3 million in fiscal 2000. This increase was primarily attributable to higher cash and cash equivalent balances and interest related to anticipated tax refunds.

Income Tax Expense – Income tax expense increased \$4.4 million, or 16.2%, to \$31.8 million in fiscal 2001 from \$27.4 million in fiscal 2000. This increase was due to higher income before income tax expense. Beginning in fiscal 2000, we performed an extensive review of our effective tax rate and tax position. During the fourth quarter of fiscal 2000, based upon estimates of credits, primarily research and experimentation credits as provided under the Internal Revenue Code, we realized a reduction in our then current effective tax rate from 44.3% to 42.0%. These credits were

also available for prior years. During fiscal 2001, we further refined our estimates and determined that our current effective tax rate is approximately 39.0%. Accordingly, we amended our fiscal 2000 Federal income tax return to reflect these credits and are currently amending tax returns for fiscal years 1997, 1998 and 1999. Including the current and prior year credits, as well as the effective income tax effect of the fiscal 2000 reserve reversals and the income tax effect of the charge taken in fiscal 2001, our income tax expense decreased \$16.9 million, or 63.1%, to \$9.9 million in fiscal 2001 from \$26.8 million in fiscal 2000.

Fiscal 2000 Compared to Fiscal 1999

Net Revenue – Net revenue increased \$165.8 million, or 38.5%, to \$596.1 million in fiscal 2000 from \$430.3 million in fiscal 1999. All three business segments and all four client sectors continued to show net revenue increases in actual dollars. These increases were primarily attributable to the expansion of our infrastructure services throughout the United States, the continued expansion of new lines of service in our communications business and companies we acquired in fiscal 2000. As a percentage of net revenue, an increase was realized in the private sector. We segregate from our total revenue, revenue derived from companies acquired during the current fiscal year as well as revenue recognized from acquired companies during the first 12 months following their respective effective dates of acquisition. Revenue recognized from acquired companies during such first 12 months is referred to as acquisitive revenue. Organic revenue is measured as total revenue less any acquisitive revenue. Net revenue provided by companies acquired during fiscal 2000 totaled \$32.7 million. Excluding this net revenue, we realized 30.9% growth in our net revenue from fiscal 1999 to fiscal 2000. Acquisitive net revenue for fiscal 2000 totaled \$114.2 million. Excluding this net revenue, we realized organic growth in our net revenue of 12.0%.

Gross revenue increased \$227.8 million, or 40.3%, to \$792.6 million in fiscal 2000 from \$564.7 million in fiscal 1999. In fiscal 2000, subcontractor costs comprised 24.8% of gross revenue compared to 23.8% for fiscal 1999.

Cost of Net Revenue – Cost of net revenue increased \$125.5 million, or 38.4%, to \$452.9 million in fiscal 2000 from \$327.3 million in fiscal 1999. As a percentage of net revenue, cost of net revenue decreased from 76.1% in fiscal 1999 to 76.0% in fiscal 2000. Professional compensation, the largest component of our cost of net revenue, rose as the number of our employees increased by 677, or 12.4%, to 6,120 in fiscal 2000 from 5,443 in fiscal 1999. However, excluding the 681 employees provided from acquired companies, the number of our employees remained flat. Gross profit increased \$40.3 million, or 39.1%, to \$143.2 million in fiscal 2000 from \$103.0 million in fiscal 1999. As a percentage of net revenue, gross profit increased from 23.9% in fiscal 1999 to 24.0% in fiscal 2000.

Selling, General and Administrative Expenses – SG&A expenses, exclusive of amortization expense, increased \$20.0 million, or 45.1%, to \$64.5 million in fiscal 2000 from \$44.5 million in fiscal 1999. This increase

was primarily attributable to expenses associated with the automation of our corporate business systems and processes, business development activities and higher administrative costs associated with acquired companies. As a percentage of net revenue, SG&A expenses, exclusive of amortization expense, increased to 10.8% in fiscal 2000 from 10.3% in fiscal 1999. The amortization expense related to acquisitions increased \$1.7 million, or 33.5%, to \$6.5 million in fiscal 2000 from \$4.8 million in fiscal 1999.

Net Interest Expense – Net interest expense increased \$3.9 million, or 124.1%, from \$3.1 million in fiscal 1999 to \$7.0 million in fiscal 2000. This increase was primarily attributable to increased borrowings on our credit facility in order to fund working capital and investing needs of acquisitions, as well as increases in interest rates. In fiscal 2000, borrowings on our credit facility averaged \$95.4 million at a weighted average interest rate of 7.4% compared to \$44.6 million at a weighted average interest rate of 6.6% in fiscal 1999.

Income Tax Expense – Including the favorable impact of tax credits of \$1.5 million in fiscal 2000 and the tax effect of the reversal of certain pre-acquisition reserves, income tax expense increased \$3.6 million, or 15.6%, to \$26.8 million in fiscal 2000 from \$23.2 million in fiscal 1999. This increase was due to higher income before income taxes and a change in our effective tax rate. During fiscal 2000, we performed an extensive review of our current tax position and certain tax strategies which could reduce our effective tax rate. As a result of this review, we determined that we were entitled to certain tax credits for fiscal 2000 as well as certain prior years. These credits were primarily responsible for the reduction in our effective tax rate to 39.8% in fiscal 2000 from 44.3% in fiscal 1999.

Unaudited Quarterly Operating Results

The following tables set forth certain unaudited quarterly operating results for each of our last three fiscal years ended September 30, 2001, October 1, 2000 and October 3, 1999. This data is also expressed as a percentage of net revenue for the respective quarters. The information has been derived from unaudited consolidated financial statements that, in our opinion, reflect all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of such quarterly information. The operating results for any quarter are not necessarily indicative of the results to be expected for any future period.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

| | Fiscal 2001 Quarter Ended | | | | Fiscal 2000 Quarter Ended | | | | Fiscal 1999 Quarter Ended | | | |
|--|---------------------------|-----------|------------|-----------|---------------------------|-----------|-----------|-----------|---------------------------|-----------|-----------|-----------|
| | Dec. 31, | Apr. 1, | Jul. 1, | Sep. 30, | Jan. 2, | Apr. 2, | Jul. 2, | Oct. 1, | Jan. 3, | Apr. 4, | Jul. 4, | Oct. 3, |
| (in thousands) | 2000 | 2001 | 2001 | 2001 | 2000 | 2000 | 2000 | 2000 | 1999 | 1999 | 1999 | 1999 |
| Net revenue | \$167,138 | \$179,658 | \$191,548 | \$191,720 | \$129,171 | \$138,846 | \$156,468 | \$173,636 | \$ 89,245 | \$ 96,955 | \$120,739 | \$125,141 |
| Cost of net revenue | 128,405 | 138,254 | 147,022 | 145,793 | 100,417 | 109,562 | 116,266 | 126,627 | 70,187 | 74,402 | 88,189 | 94,558 |
| Gross profit | 38,733 | 41,404 | 44,526 | 45,927 | 28,754 | 29,284 | 40,202 | 47,009 | 19,058 | 22,553 | 32,550 | 30,583 |
| Selling, general and administrative expenses | 20,583 | 21,043 | 60,046 | 19,676 | 14,021 | 13,304 | 20,529 | 23,150 | 8,871 | 10,684 | 16,951 | 12,814 |
| Income (loss) from operations | 18,150 | 20,361 | (15,520) | 26,251 | 14,733 | 15,980 | 19,673 | 23,859 | 10,187 | 11,869 | 15,599 | 17,769 |
| Net interest expense | 1,994 | 2,200 | 2,278 | 2,071 | 1,228 | 1,473 | 1,958 | 2,367 | 699 | 532 | 550 | 1,354 |
| Income (loss) before income tax expense | 16,156 | 18,161 | (17,798) | 24,180 | 13,505 | 14,507 | 17,715 | 21,492 | 9,488 | 11,337 | 15,049 | 16,415 |
| Income tax expense | 6,786 | 7,627 | (13,969) | 9,430 | 5,942 | 6,383 | 7,795 | 6,657 | 4,061 | 4,875 | 6,546 | 7,692 |
| Net income (loss) | \$ 9,370 | \$ 10,534 | \$ (3,829) | \$ 14,750 | \$ 7,563 | \$ 8,124 | \$ 9,920 | \$ 14,835 | \$ 5,427 | \$ 6,462 | \$ 8,503 | \$ 8,723 |

| | Fiscal 2001 Quarter Ended | | | | Fiscal 2000 Quarter Ended | | | | Fiscal 1999 Quarter Ended | | | |
|--|---------------------------|---------|---------|----------|---------------------------|---------|---------|---------|---------------------------|---------|---------|---------|
| | Dec. 31, | Apr. 1, | Jul. 1, | Sep. 30, | Jan. 2, | Apr. 2, | Jul. 2, | Oct. 1, | Jan. 3, | Apr. 4, | Jul. 4, | Oct. 3, |
| (% of net revenue) | 2000 | 2001 | 2001 | 2001 | 2000 | 2000 | 2000 | 2000 | 1999 | 1999 | 1999 | 1999 |
| Net revenue | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |
| Cost of net revenue | 76.8 | 77.0 | 76.8 | 76.0 | 77.7 | 78.9 | 74.3 | 72.9 | 78.6 | 76.7 | 73.0 | 75.6 |
| Gross profit | 23.2 | 23.0 | 23.2 | 24.0 | 22.3 | 21.1 | 25.7 | 27.1 | 21.4 | 23.3 | 27.0 | 24.4 |
| Selling, general and administrative expenses | 12.3 | 11.7 | 31.3 | 10.3 | 10.9 | 9.6 | 13.1 | 13.4 | 10.0 | 11.1 | 14.1 | 10.2 |
| Income (loss) from operations | 10.9 | 11.3 | (8.1) | 13.7 | 11.4 | 11.5 | 12.6 | 13.7 | 11.4 | 12.2 | 12.9 | 14.2 |
| Net interest expense | 1.2 | 1.2 | 1.2 | 1.1 | 0.9 | 1.1 | 1.3 | 1.3 | 0.8 | 0.5 | 0.4 | 1.1 |
| Income (loss) before income tax expense | 9.7 | 10.1 | (9.3) | 12.6 | 10.5 | 10.4 | 11.3 | 12.4 | 10.6 | 11.7 | 12.5 | 13.1 |
| Income tax expense | 4.1 | 4.2 | (7.3) | 4.9 | 4.6 | 4.5 | 5.0 | 3.9 | 4.5 | 5.0 | 5.5 | 6.1 |
| Net income (loss) | 5.6% | 5.9% | (2.0)% | 7.7% | 5.9% | 5.9% | 6.3% | 8.5% | 6.1% | 6.7% | 7.0% | 7.0% |

Liquidity and Capital Resources

As of September 30, 2001, our working capital was \$193.0 million, an increase of \$38.7 million from \$154.3 million on October 1, 2000, of which cash and cash equivalents totaled \$16.2 million at September 30, 2001. In fiscal 2001, \$44.3 million was provided by operating activities and \$51.2 million was used in investing activities, of which \$40.2 million was related to business acquisitions. In fiscal 2000, \$12.2 million was used in operating activities and \$42.3 million was used in investing activities, of which \$27.5 million was related to business acquisitions.

In both fiscal years 2001 and 2000, cash provided by/used in operating activities was affected by the structure of certain transactions. One of our acquisition structures is to assign accounts receivable to the former owners of the company at the time of the transaction in lieu of cash consideration. This structure allows us to reduce our cash used in investing activities. However, cash must be invested in future periods to finance the working capital needs of the acquired company. In fiscal 2001, in the WHS acquisition, accounts receivable in the aggregate amount of \$3.8 million were assigned to the former owners. Collections on previously assigned receivables totaled \$5.2 million. If we had not assigned these receivables at the time of acquisition, cash provided by operating activities in fiscal 2001 could have been \$49.5 million. In fiscal 2000, in the eXpert Wireless Solutions, Inc. and Drake Contractors, Inc. acquisitions, accounts receivable in the aggregate amount of \$3.9 million were assigned to the former owners. Collections on assigned receivables totaled \$10.7 million. If we had not assigned these receivables at the time of acquisition, cash used in operating activities in fiscal 2000 could have been \$1.5 million. In fiscal 1999, in the BAHA Communications, Inc. and Cosentini Associates, Inc. acquisitions, accounts receivable in the aggregate amount of \$19.4 million were assigned to the former owners. Collections on these receivables during fiscal 1999 totaled \$9.3 million. If we had not assigned these receivables at the time of acquisition, cash provided by operating activities in fiscal 1999 could have been \$39.6 million.

Our capital expenditures during fiscal years 2001 and 2000 were approximately \$11.0 million and \$14.7 million, respectively. Capital expenditures were primarily for the replacement of field equipment, the enhancement of computer equipment and office expansion.

We have a credit agreement with various financial institutions (the "Credit Agreement") which provides us with a revolving credit facility (the "Facility") of \$140.0 million. The Facility matures on March 17, 2005 or earlier at our discretion upon payment in full of loans and other obligations. Throughout fiscal 2001, maximum borrowings under the Facility were \$134.5 million. At September 30, 2001, borrowings and standby letters of credit on this facility totaled \$14.0 million and \$1.7 million, respectively. On May 22, 2001, to provide additional debt capacity to fund working capital needs and acquisitions, we issued two series of senior secured notes in the aggregate amount of \$110.0 million in a private placement. Series A, totaling \$92.0 million with an interest rate of 7.28%, matures on May 30, 2011. Series B, totaling \$18.0 million with an interest rate of 7.08%, matures on May 30, 2008. At September 30, 2001, the outstanding principal balance on the senior secured notes was \$110.0 million.

We expect that internally generated funds, our existing cash balances and availability under the Credit Agreement will be sufficient to meet our capital requirements through the end of fiscal 2002. However, should we pursue an acquisition or acquisitions in which the potential cash consideration exceeds the then current availability of cash, we may pursue additional financing.

In conjunction with our investment strategy, we continuously evaluate the marketplace for strategic acquisition opportunities. Once an opportunity is identified, we examine the effect an acquisition may have on the business environment, as well as on our results of operations. We proceed with an acquisition if we determine that the acquisition is anticipated to have an accretive effect on future operations or could expand our service offerings. As successful integration and implementation are essential to achieve favorable results, no assurances can be given that all acquisitions will provide accretive results. Our strategy is to position ourselves to address existing and emerging markets. We view acquisitions as a key component of our growth strategy, and we intend to use both cash and our securities, as we deem appropriate, to fund such acquisitions.

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. However, current general economic conditions may impact our client base and as such, may impact their creditworthiness and our ability to collect cash to meet our operating needs.

Recently Issued Financial Standards

In July 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard (SFAS) No. 141, *Business Combinations*, which supercedes Accounting Principles Board (APB) Opinion No. 16, *Business Combinations*. SFAS No. 141 eliminates the pooling-of-interest method of accounting for business combinations for combinations initiated after July 1, 2001. This statement also changes the criteria to recognize intangible assets apart from goodwill. The provisions of this statement are effective for any business combination accounted for by the purchase method that is completed after June 30, 2001.

In July 2001, the FASB issued SFAS No. 142, *Goodwill and Other Intangible Assets*, which supercedes APB Opinion No. 17, *Intangible Assets*. Under SFAS No. 142, goodwill and other indefinite-lived intangible assets are no longer amortized but are reviewed, at a minimum, annually for impairment. Separable intangible assets that have finite lives will continue to be amortized over their useful lives. For the year ended September 30, 2001, goodwill amortization expense was \$9.2 million. The amortization provisions of this statement are effective for goodwill and intangible assets acquired after June 30, 2001. The remaining provisions of this statement are effective for fiscal years beginning after December 15, 2001, although early adoption is permitted. The adoption of this statement will result in the Company's discontinuation of amortization of its goodwill; however, the Company will be required to test its goodwill for impairment under SFAS No. 142 in the first six months of fiscal 2003. We are currently analyzing the impact of this statement and will adopt this statement in fiscal 2003.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

In October 2001, the FASB issued SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, which supercedes SFAS No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets To Be Disposed Of*. SFAS No. 144 addresses financial accounting and reporting requirements for the impairment or disposal of long-lived assets. This statement also expands the scope of a discontinued operation to include a component of an entity, and eliminates the current exemption to consolidation when control over a subsidiary is likely to be temporary. The provisions of this statement are effective for fiscal years beginning after December 15, 2001 and interim periods within those fiscal years, although early adoption is permitted. The Company is currently analyzing the impact of this statement and has determined it will adopt this statement in fiscal 2003.

Market Risks

We do not currently utilize any material derivative financial instruments which expose us to significant market risk. We are exposed to cash flow risk due to interest rate fluctuations with respect to our long-term obligations. At our option, we borrow on our Facility (a) at a base rate (the greater of the federal funds rate plus 0.50% or the bank's reference rate) or (b) at a eurodollar rate plus a margin which ranges from 0.75% to 1.25%. 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. 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 March 17, 2005 or earlier at our discretion upon payment in full of loans and other obligations. Accordingly, we classify total outstanding debt between current liabilities and long-term obligations based on anticipated payments within and beyond one year's period of time.

We presently anticipate repaying \$14.3 million of our long-term obligations in fiscal 2002. Assuming we pay our long-term obligations in the amount of \$14.3 million ratably throughout the year, and our average interest rate on our long-term obligations increases or decreases by one percentage point, our interest expense could increase or decrease by \$0.1 million. However there can be no assurance that we will, or will be able to, repay our debt in the prescribed manner or obtain alternate financing. We could incur additional debt under our Facility or our operating results could be worse than we expect. In addition, we have outstanding senior secured notes which bear interest at a fixed rate. The Series A Notes bear interest at 7.28% and are payable at \$13.1 million per year commencing fiscal 2005 through fiscal 2011. The Series B Notes bear interest at 7.08% and are payable at \$3.6 million per year commencing fiscal 2004 through fiscal 2008. If interest rates increased by 1%, the fair value of the senior secured notes could decrease by \$5.1 million. If interest rates decreased by 1%, the fair value could increase by \$5.5 million. We presently have no material contracts under which the currency is not denominated in U.S. dollars. Accordingly, foreign exchange rate fluctuations will not have a material impact on our financial statements.

CONSOLIDATED BALANCE SHEETS

| | Sept. 30, 2001 | Oct. 1, 2000 |
|--|-------------------|-----------------|
| Assets | | |
| Current Assets: | | |
| Cash and cash equivalents | \$ 16,240,000 | \$ 7,557,000 |
| Accounts receivable - net | 152,761,000 | 153,527,000 |
| Unbilled receivables - net | 120,925,000 | 117,870,000 |
| Contract retentions | 5,103,000 | 4,232,000 |
| Prepaid expenses and other current assets | 13,927,000 | 11,203,000 |
| Income taxes receivable | 3,608,000 | — |
| Deferred income taxes | 3,723,000 | 2,551,000 |
| Total Current Assets | 316,287,000 | 296,940,000 |
| Property and Equipment: | | |
| Equipment, furniture and fixtures | 69,077,000 | 59,361,000 |
| Leasehold improvements | 6,715,000 | 4,182,000 |
| Total | 75,792,000 | 63,543,000 |
| Accumulated depreciation and amortization | (35,856,000) | (28,331,000) |
| Property and Equipment - Net | 39,936,000 | 35,212,000 |
| Intangible Assets - Net | 245,019,000 | 190,452,000 |
| Other Assets | 5,979,000 | 3,434,000 |
| Total Assets | \$ 607,221,000 | \$ 526,038,000 |
| Liabilities and Stockholders' Equity | | |
| Current Liabilities: | | |
| Accounts payable | \$ 53,977,000 | \$ 50,304,000 |
| Accrued compensation | 29,738,000 | 25,705,000 |
| Billings in excess of costs on uncompleted contracts | 10,354,000 | 15,947,000 |
| Other current liabilities | 14,899,000 | 17,523,000 |
| Income taxes payable | — | 7,120,000 |
| Current portion of long-term obligations | 14,328,000 | 26,000,000 |
| Total Current Liabilities | 123,296,000 | 142,599,000 |
| Long-term Obligations | 111,779,000 | 85,532,000 |
| Commitments and Contingencies (Notes 8 and 10) | | |
| Stockholders' Equity: | | |
| Preferred stock - authorized, 2,000,000 shares of \$.01 par value; issued and outstanding 0 shares at September 30, 2001 and October 1, 2000 | — | — |
| Exchangeable stock of a subsidiary | 13,239,000 | 13,887,000 |
| Common stock - authorized, 85,000,000 shares of \$.01 par value; issued and outstanding 52,247,777 and 49,788,292 shares at September 30, 2001 and October 1, 2000, respectively | 522,000 | 498,000 |
| Additional paid-in capital | 195,126,000 | 150,291,000 |
| Accumulated other comprehensive loss | (1,641,000) | (844,000) |
| Retained earnings | 164,900,000 | 134,075,000 |
| Total Stockholders' Equity | 372,146,000 | 297,907,000 |
| Total Liabilities and Stockholders' Equity | \$ 607,221,000 | \$ 526,038,000 |

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF INCOME

| Fiscal Year Ended | Sept. 30, 2001 | Oct. 1, 2000 | Oct. 3, 1999 |
|--|-------------------|-----------------|-----------------|
| Revenue: | | | |
| Gross revenue | \$ 973,944,000 | \$ 794,578,000 | \$ 566,490,000 |
| Subcontractor costs | 243,880,000 | 196,457,000 | 134,410,000 |
| Net Revenue | 730,064,000 | 598,121,000 | 432,080,000 |
| Cost of Net Revenue | 559,474,000 | 452,872,000 | 327,336,000 |
| Gross Profit | 170,590,000 | 145,249,000 | 104,744,000 |
| Selling, General and Administrative Expenses | 121,348,000 | 71,004,000 | 49,320,000 |
| Income From Operations | 49,242,000 | 74,245,000 | 55,424,000 |
| Interest Expense | 9,633,000 | 7,355,000 | 3,561,000 |
| Interest Income | 1,090,000 | 329,000 | 426,000 |
| Income Before Income Tax Expense | 40,699,000 | 67,219,000 | 52,289,000 |
| Income Tax Expense | 9,874,000 | 26,777,000 | 23,174,000 |
| Net Income | \$ 30,825,000 | \$ 40,442,000 | \$ 29,115,000 |
| Basic Earnings Per Share | \$ 0.61 | \$ 0.83 | \$ 0.63 |
| Diluted Earnings Per Share | \$ 0.57 | \$ 0.78 | \$ 0.59 |
| Weighted Average Common Shares Outstanding: | | | |
| Basic | 50,939,000 | 48,754,000 | 46,449,000 |
| Diluted | 54,166,000 | 52,003,000 | 49,438,000 |

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

| Fiscal Years Ended Sept. 30, 2001, Oct. 1, 2000 and Oct. 3, 1999 | Exchangeable Stock | | Common Stock | | Additional Paid-In Capital | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Total |
|---|--------------------|--------------|--------------|------------|----------------------------------|----------------------|--|---------------|
| | Shares | Amount | Shares | Amount | | | | |
| Balance, October 4, 1998, | 920,354 | \$15,411,000 | 35,788,250 | \$ 357,000 | \$ 87,495,000 | \$ 64,518,000 | \$ — | \$167,781,000 |
| as previously reported | | | | | | | | |
| Five-for-four common stock split | | | 8,947,063 | 90,000 | (90,000) | | | |
| Balance, October 4, 1998 | 920,354 | 15,411,000 | 44,735,313 | 447,000 | 87,405,000 | 64,518,000 | — | 167,781,000 |
| Comprehensive income: | | | | | | | | |
| Net income | | | | | | 29,115,000 | | 29,115,000 |
| Foreign currency translation adjustment | | | | | | | (802,000) | (802,000) |
| Comprehensive income | | | | | | | | 28,313,000 |
| Shares issued in secondary offering | | | 1,562,500 | 16,000 | 22,155,000 | | | 22,171,000 |
| Shares issued in acquisitions | | | 983,814 | 10,000 | 11,561,000 | | | 11,571,000 |
| Stock options exercised | | | 362,465 | 4,000 | 1,919,000 | | | 1,923,000 |
| Shares issued in Employee Stock Purchase Plan | | | 195,451 | 2,000 | 2,220,000 | | | 2,222,000 |
| Exchangeable shares of a subsidiary exchanged for common shares | (129,712) | (2,172,000) | 202,675 | 2,000 | 2,170,000 | | | — |
| Tax benefit for disqualifying dispositions of stock options | | | | | 473,000 | | | 473,000 |
| Payment for fractional shares | | | (191) | | (22,000) | | | (22,000) |
| Balance, October 3, 1999 | 790,642 | 13,239,000 | 48,042,027 | 481,000 | 127,881,000 | 93,633,000 | (802,000) | 234,432,000 |
| Comprehensive income: | | | | | | | | |
| Net income | | | | | | 40,442,000 | | 40,442,000 |
| Foreign currency translation adjustment | | | | | | | (42,000) | (42,000) |
| Comprehensive income | | | | | | | | 40,400,000 |
| Shares issued in acquisitions | 33,606 | 648,000 | 732,244 | 7,000 | 11,379,000 | | | 12,034,000 |
| Stock options exercised | | | 806,382 | 8,000 | 5,692,000 | | | 5,700,000 |
| Shares issued in Employee Stock Purchase Plan | | | 207,639 | 2,000 | 2,843,000 | | | 2,845,000 |
| Tax benefit for disqualifying dispositions of stock options | | | | | 2,496,000 | | | 2,496,000 |
| Balance, October 1, 2000 | 824,248 | 13,887,000 | 49,788,292 | 498,000 | 150,291,000 | 134,075,000 | (844,000) | 297,907,000 |
| Comprehensive income: | | | | | | | | |
| Net income | | | | | | 30,825,000 | | 30,825,000 |
| Foreign currency translation adjustment | | | | | | | (797,000) | (797,000) |
| Comprehensive income | | | | | | | | 30,028,000 |
| Shares issued in acquisitions | | | 1,578,575 | 16,000 | 33,043,000 | | | 33,059,000 |
| Stock options exercised | | | 667,918 | 6,000 | 5,153,000 | | | 5,159,000 |
| Shares issued in Employee Stock Purchase Plan | | | 170,985 | 2,000 | 3,068,000 | | | 3,070,000 |
| Exchangeable shares of a subsidiary exchanged for common shares | (33,606) | (648,000) | 42,007 | — | 648,000 | | | — |
| Tax benefit for disqualifying dispositions of stock options | | | | | 2,923,000 | | | 2,923,000 |
| Balance, September 30, 2001 | 790,642 | \$13,239,000 | 52,247,777 | \$ 522,000 | \$195,126,000 | \$164,900,000 | \$(1,641,000) | \$372,146,000 |

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

| Fiscal Year Ended | Sept. 30, 2001 | Oct. 1, 2000 | Oct. 3, 1999 |
|---|-------------------|-----------------|-----------------|
| Cash Flows From Operating Activities: | | | |
| Net income | \$ 30,825,000 | \$ 40,442,000 | \$ 29,115,000 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | | |
| Depreciation and amortization | 21,362,000 | 13,709,000 | 12,708,000 |
| Deferred income taxes | (1,172,000) | 723,000 | (211,000) |
| Provision for losses on receivables | 44,025,000 | 3,056,000 | (667,000) |
| Changes in operating assets and liabilities, net of effects of acquisitions: | | | |
| Accounts receivable | (24,865,000) | (57,177,000) | (465,000) |
| Unbilled receivables | 6,571,000 | (32,489,000) | 13,645,000 |
| Contract retentions | (771,000) | 1,050,000 | (82,000) |
| Prepaid expenses and other assets | (3,974,000) | (4,337,000) | 998,000 |
| Accounts payable | (6,400,000) | 12,746,000 | (8,306,000) |
| Accrued compensation | 472,000 | 3,053,000 | (935,000) |
| Billings in excess of costs on uncompleted contracts | (6,401,000) | 10,075,000 | 5,178,000 |
| Other current liabilities | (4,801,000) | (2,185,000) | 3,973,000 |
| Income taxes receivable/payable | (10,597,000) | (854,000) | 2,597,000 |
| Net Cash Provided By (Used In) Operating Activities | 44,274,000 | (12,188,000) | 30,258,000 |
| Cash Flows From Investing Activities: | | | |
| Capital expenditures | (11,017,000) | (14,745,000) | (7,040,000) |
| Payments for business acquisitions, net of cash acquired | (40,165,000) | (27,515,000) | (50,655,000) |
| Net Cash Used In Investing Activities | (51,182,000) | (42,260,000) | (57,695,000) |
| Cash Flows From Financing Activities: | | | |
| Payments on long-term obligations | (195,636,000) | (67,763,000) | (67,605,000) |
| Proceeds from issuance of long-term obligations | 204,000,000 | 112,000,000 | 72,841,000 |
| Proceeds from issuance of common stock | 8,229,000 | 8,545,000 | 26,576,000 |
| Payment of deferred financing fees | (890,000) | — | — |
| Net Cash Provided By Financing Activities | 15,703,000 | 52,782,000 | 31,812,000 |
| Effect of Exchange Rate Changes on Cash | (112,000) | 1,034,000 | (1,075,000) |
| Net Increase (Decrease) in Cash and Cash Equivalents | 8,683,000 | (632,000) | 3,300,000 |
| Cash and Cash Equivalents at Beginning of Year | 7,557,000 | 8,189,000 | 4,889,000 |
| Cash and Cash Equivalents at End of Year | \$ 16,240,000 | \$ 7,557,000 | \$ 8,189,000 |
| Supplemental Cash Flow Information: | | | |
| Cash paid during the year for: | | | |
| Interest | \$ 7,184,000 | \$ 6,734,000 | \$ 3,524,000 |
| Income taxes, net of refunds received | \$ 19,107,000 | \$ 27,844,000 | \$ 20,067,000 |

(Continued)

CONSOLIDATED STATEMENTS OF CASH FLOWS

| Fiscal Year Ended | Sept. 30, 2001 | Oct. 1, 2000 | Oct. 3, 1999 |
|---|-------------------|-----------------|-----------------|
| Supplemental Non-Cash Investing and Financing Activities: | | | |
| In fiscal 2001, the Company purchased all of the capital stock of Rocky Mountain Consultants, Inc., Wahco Construction, Inc., Williams, Hatfield & Stoner, Inc., Vertex Engineering Services, Inc., Maxim Technologies, Inc., The Design Exchange Architects, Inc., Western Utility Contractors, Inc., Western Utility Cable, Inc. and Sciences International, Inc. The Company also purchased certain assets of Commonwealth Technology, Inc. and Shepherd Miller, Inc. In conjunction with these acquisitions, liabilities were assumed as follows: | | | |
| Fair value of assets acquired | \$ 104,877,000 | | |
| Cash paid | (44,779,000) | | |
| Issuance of common stock | (32,968,000) | | |
| Purchase price receivable | 653,000 | | |
| Other acquisition costs | (607,000) | | |
| Liabilities assumed | \$ 27,176,000 | | |
| In fiscal 2000, the Company purchased all of the capital stock of LC of Illinois, Inc., HFC Technologies, Inc., eXpert Wireless Solutions, Inc., 1261248 Ontario, Inc., FHC, Inc., Rizzo Associates, Inc., Drake Contractors, Inc. and Wm. Bethlehem Trenching Ltd. The Company also purchased certain assets of Edward A. Sears Associates. In conjunction with these acquisitions, liabilities were assumed as follows: | | | |
| Fair value of assets acquired | | \$ 59,653,000 | |
| Cash paid | | (29,466,000) | |
| Issuance of common stock and exchangeable stock | | (11,903,000) | |
| Purchase price payable | | (1,500,000) | |
| Other acquisition costs | | (730,000) | |
| Liabilities assumed | | \$ 16,054,000 | |
| In fiscal 1999, the Company purchased all of the capital stock of McCulley, Frick & Gilman, Inc., Collins/Piña Consulting Engineers, Inc., D.E.A. Construction Company, BAHA Communications, Inc., Utilities & C.C., Inc., ASL Consultants, Inc., Cosentini Associates, Evergreen Utility Contractors, Inc., Continental Utility Contractors, Inc., Gig Harbor Construction, Inc. and PDR Engineers, Inc. In conjunction with these acquisitions, liabilities were assumed as follows: | | | |
| Fair value of assets acquired | | | \$ 110,616,000 |
| Cash paid | | | (52,275,000) |
| Issuance of common stock | | | (11,571,000) |
| Purchase price payable | | | (282,000) |
| Other acquisition costs | | | (965,000) |
| Liabilities assumed | | | \$ 45,523,000 |

See accompanying Notes to Consolidated Financial Statements.

(Concluded)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FISCAL YEARS ENDED SEPTEMBER 30, 2001,
OCTOBER 1, 2000 AND OCTOBER 3, 1999

1. Significant Accounting Policies

Business – Tetra Tech, Inc. (the “Company”) provides specialized management consulting and technical services in three principal business areas: resource management, infrastructure and communications. The Company’s management consulting services are complemented by its technical services. These technical services, which implement solutions, include research and development, applied science, engineering and architectural design, construction management, and operations and maintenance.

Principles of Consolidation – The consolidated financial statements include the accounts of the Company, its wholly-owned subsidiaries and its majority-owned subsidiary Tetra Tech Canada Ltd. All significant intercompany balances and transactions have been eliminated in consolidation.

Fiscal Year – The Company reports results of operations based on 52- or 53-week periods ending near September 30. Fiscal years 2001, 2000 and 1999 each contained 52 weeks.

Contract Revenue and Costs – In the course of providing its services, the Company routinely subcontracts for services. These costs are passed through to clients and, in accordance with industry practice, are included in the Company’s gross revenue. Because subcontractor services can change significantly from project to project, changes in gross revenue may not be indicative of business trends. Accordingly, the Company also reports net revenue, which is gross revenue less the cost of subcontractor services. Contract revenue and contract costs on both cost-type and fixed-price-type contracts are recorded using the percentage-of-completion (cost-to-cost) method. Under this method, contract revenue on long-term contracts is recognized in the ratio that contract costs incurred bear to total estimated costs. Costs and income on long-term contracts are subject to revision throughout the lives of the contracts and any required adjustments are made in the period in which the revisions become known. Losses on contracts are recorded in full as they are identified.

Selling, general and administrative costs are expensed in the period incurred.

Net revenue under Federal government contracts and subcontracts accounted for approximately 24.5%, 29.1% and 39.1% of net revenue for the fiscal years ended September 30, 2001, October 1, 2000, and October 3, 1999, respectively.

Cash and Cash Equivalents – Cash equivalents include all investments with initial maturities of 90 days or less.

Property and Equipment – Property and equipment are recorded at cost and are depreciated over their estimated useful lives using the straight-

line method. Expenditures for maintenance and repairs are expensed as incurred.

Generally, estimated useful lives range from three to ten years for equipment, furniture and fixtures. Leasehold improvements are amortized on a straight-line basis over the shorter of their estimated useful lives or the remaining terms of the leases.

Long-Lived Assets – The Company’s policy regarding long-lived assets is to evaluate the recoverability of its assets when the facts and circumstances suggest that the assets may be impaired. This assessment is performed based on the estimated undiscounted cash flows compared with the carrying value of the assets. If the future cash flows (undiscounted and without interest charges) are less than the carrying value, a writedown would be recorded to reduce the related asset to its estimated fair value.

Intangible assets as of September 30, 2001 and October 1, 2000 consist principally of goodwill resulting from business acquisitions which is being amortized over periods ranging from 15 to 30 years. The accumulated amortization of intangible assets as of September 30, 2001 and October 1, 2000 was \$27.0 million and \$17.8 million, respectively.

Income Taxes – The Company files a consolidated Federal income tax return and combined California franchise tax reports, as well as other returns which are required in the states in which the Company does business, which include the Company and its subsidiaries. Income taxes are recognized for (a) the amount of taxes payable or refundable for the current period, and (b) deferred income tax assets and liabilities for the future tax consequences of events that have been recognized in the Company’s financial statements or income tax returns. The effects of income taxes are measured based on enacted tax laws and rates.

Earnings Per Share – Basic Earnings Per Share (EPS) excludes dilution and is computed by dividing the income available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted EPS is computed by dividing income available to common stockholders by the weighted average number of common shares outstanding and dilutive potential common shares. The Company includes as potential common shares the weighted average number of shares of exchangeable stock of a subsidiary and the weighted average dilutive effects of outstanding stock options. The exchangeable stock of a subsidiary is non-voting and is exchangeable on a one to one basis, as adjusted for stock splits and stock dividends subsequent to the original issuance, for the Company’s common stock. Basic and diluted EPS reflect, on a retroactive basis, a 5-for-4 stock split effected in the form of a 25% stock dividend wherein one additional share of stock was issued on December 17, 2001 for each four shares outstanding as of the record date of November 28, 2001.

Fair Value of Financial Instruments – The carrying amounts of cash and cash equivalents, accounts receivable, unbilled receivables and accounts payable approximate fair value because of the short maturities of these instruments. The carrying amount of the revolving credit facility

approximates fair value because the interest rates are based upon variable reference rates. The carrying amount of the senior secured notes approximates fair value because the notes bear interest at rates which approximate current market rates.

Concentration of Credit Risk – Financial instruments which subject the Company to credit risk consist primarily of cash and cash equivalents, accounts receivable and unbilled receivables. The Company places its temporary cash investments with high credit quality financial institutions and, by policy, limits the amount of investment exposure to any one financial institution. As of September 30, 2001, approximately 10.5% of accounts receivable was due from various agencies of the Federal government. The remaining accounts receivable are generally diversified due to the large number of organizations comprising the Company's client base and their geographic dispersion. The Company performs ongoing credit evaluations of its clients and maintains an allowance for potential credit losses.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Accounting Pronouncements – In July 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 141, *Business Combinations*, which supercedes Accounting Principles Board (APB) Opinion No. 16, *Business Combinations*. SFAS No. 141 eliminates the pooling-of-interest method of accounting for business combinations for combinations initiated after July 1, 2001. The statement also changes the criteria to recognize intangible assets apart from goodwill. The provisions of this statement are effective for any business combination accounted for by the purchase method that is completed after June 30, 2001.

In July 2001, the FASB issued SFAS No. 142, *Goodwill and Other Intangible Assets*, which supercedes APB Opinion No. 17, *Intangible Assets*. Under SFAS No. 142, goodwill and other indefinite-lived intangible assets are no longer amortized but are reviewed, at a minimum, annually for impairment. Separable intangible assets that have finite lives will continue to be amortized over their useful lives. For the year ended September 30, 2001, goodwill amortization expense was \$9.2 million. The amortization provisions of this statement are effective for goodwill and intangible assets acquired after June 30, 2001. The remaining provisions of this statement are effective for fiscal years beginning after December 15, 2001, although early adoption is permitted. The adoption of this statement will result in the Company's discontinuation of amortization of its goodwill; however, the Company will be required to test its goodwill for impairment under SFAS No. 142 in the first six months of fiscal 2003. The Company is currently analyzing the impact of this statement and will adopt this statement in fiscal 2003.

In October 2001, the FASB issued SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, which supercedes SFAS No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets To Be Disposed Of*. SFAS No. 144 addresses financial accounting and reporting requirements for the impairment or disposal of long-lived assets. This statement also expands the scope of a discontinued operation to include a component of an entity, and eliminates the current exemption to consolidation when control over a subsidiary is likely to be temporary. The provisions of this statement are effective for fiscal years beginning after December 15, 2001 and interim periods within those fiscal years, although early adoption is permitted. The Company is currently analyzing the impact of this statement and has determined it will adopt this statement in fiscal 2003.

2. Mergers and Acquisitions

On February 26, 1999, the Company acquired 100% of the capital stock of McCulley, Frick & Gilman, Inc. (MFG), a provider of professional environmental science and consulting services to private-sector clients. The purchase was valued at approximately \$8.1 million, as adjusted, consisting of cash and 296,766 shares of Company common stock, of which 7,403 shares were issued in October 1999 pursuant to the purchase price adjustment clause in the related purchase agreement.

On May 7, 1999, the Company acquired 100% of the capital stock of Collins/Piña Consulting Engineers, Inc. (CPC), a provider of consulting engineering and related services primarily in Arizona. The purchase was valued at approximately \$2.7 million, as adjusted, consisting of cash and 6,172 shares of Company common stock.

On May 19, 1999, the Company acquired 100% of the capital stock of D.E.A. Construction Company (DCC), a provider of engineering and network infrastructure services for cable television and fiber optic telephone networks including design and construction and maintenance capabilities of communications and information transport systems. The purchase was valued at approximately \$15.5 million, as adjusted, consisting of cash.

On May 21, 1999, the Company acquired 100% of the capital stock of BAH Communications, Inc. (BCI), a supplier of infrastructure installation and maintenance services to the wireless personal communications industry. The purchase was valued at approximately \$2.6 million, consisting of 220,210 shares of Company common stock. Simultaneously with the acquisition, BCI assigned to its former owners accounts receivable having a net value of \$1.0 million.

On June 18, 1999, the Company acquired 100% of the capital stock of Utilities & C.C., Inc. (UCC), a supplier of infrastructure installation and maintenance services to the wireless personal communications industry. The purchase was valued at approximately \$2.2 million, as adjusted, consisting of 180,602 shares of Company common stock, of which 8,190 shares were issued in October 1999, pursuant to the purchase price adjustment clause in the related purchase agreement.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

On June 25, 1999, the Company acquired 100% of the capital stock of ASL Consultants, Inc. (ASL), a provider of water and wastewater treatment, transportation, and other engineering services. The purchase was valued at approximately \$10.1 million, consisting of cash.

On June 30, 1999, the Company acquired 100% of the capital stock of L.M.W. Associates, Inc., Cosentini Associates, Inc. and Cobin, Inc., and 100% of the limited liability partnership interests of Cosentini Associates IL LLP, Cosentini Associates MA LLP, Cosentini Associates DC LLP and Cosentini Associates FL LLP (collectively, CAA). The purchase was valued at approximately \$5.3 million, consisting of cash. Simultaneously with the acquisition, CAA assigned to its former owners accounts receivable having a gross value of \$18.4 million.

On September 3, 1999, the Company acquired 100% of the capital stock of PDR Engineers, Inc. (PDR), a provider of engineering consulting services to Federal, state and local government and private-sector clients. The purchase was valued at approximately \$6.6 million, consisting of cash and 295,656 shares of Company common stock.

On October 2, 1999, the Company acquired 100% of the capital stock of Evergreen Utility Contractors, Inc., Continental Utility Contractors, Inc. and Gig Harbor Construction, Inc. (collectively, EUC), a provider of engineering and network services for cable TV and fiber optic networks in the pacific northwest region of the United States. The purchase was valued at approximately \$11.8 million, consisting of cash.

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

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

On April 3, 2000, the Company acquired 100% of the capital stock of eXpert Wireless Solutions, Inc. (EWS), a provider of radio-frequency engineering and consulting services to the wireless communications industry. The purchase was valued at approximately \$18.8 million and consisted of cash (of which \$500,000 was dependent on operational performance) and 509,846 shares of Company common stock. Simultaneously with the acquisition, EWS distributed to its former shareholders accounts receivable valued at approximately \$1.8 million.

On May 3, 2000, the Company, through its majority-owned subsidiary, Tetra Tech Canada Ltd. (TTC), acquired 100% of the capital stock of

1261248 Ontario, Inc., which does business as Engineered Communications (ENG), a provider of engineering and network services for the wired communications industry in Ontario, Canada. The purchase was valued at approximately \$1.5 million and consisted of cash and 33,606 shares of exchangeable stock of TTC.

On May 17, 2000, the Company acquired 100% of the capital stock of FHC, Inc. (FHC), a provider of engineering consulting services primarily to the state and local governments in Oklahoma. The purchase was valued at approximately \$5.2 million and consisted of cash and 70,417 shares of Company common stock.

On May 24, 2000, the Company acquired 100% of the capital stock of Rizzo Associates, Inc. (RAI), a provider of engineering consulting services to state and local governments and commercial clients in the upper northeast region of the United States. This purchase was valued at approximately \$10.3 million and consisted of cash and 140,545 shares of Company common stock.

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

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

On December 21, 2000, the Company acquired 100% of the capital stock of Rocky Mountain Consultants, Inc. (RMC), a provider of water-related engineering and facility development services to state and local governments and private clients primarily in the western and midwestern regions of the United States. The purchase was valued at approximately \$15.2 million and consisted of cash and 370,833 shares of Company common stock.

On March 2, 2001, the Company acquired 100% of the capital stock of Wahco Construction, Inc. (WCI), a provider of network and field services to the utility and communications industries primarily in the northwestern region of the United States. The purchase was valued at approximately \$0.8 million and consisted of cash and 64,977 shares of Company common stock and is subject to a purchase price and purchase allocation adjustment based upon the final determination of WCI's net asset value as of March 2, 2001.

On March 30, 2001, the Company acquired 100% of the capital stock of Williams, Hatfield & Stoner, Inc. (WHS), a provider of civil engineering, planning and environmental services primarily in the southeastern region of

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table presents summarized unaudited pro forma operating results assuming that the Company had acquired EWS, FHC, RAI, RMC, VES, CTI and WUC on October 4, 1999:

| Fiscal Year Ended | Sept. 30, 2001 | Oct. 1, 2000 |
|---|-------------------|-----------------|
| Gross revenue | \$1,001,512,000 | \$ 885,318,000 |
| Income before income tax expense | 42,918,000 | 76,913,000 |
| Net income | 31,331,000 | 42,799,000 |
| Basic earnings per share | \$ 0.61 | \$ 0.86 |
| Diluted earnings per share | 0.57 | 0.80 |
| Weighted average common shares outstanding: | | |
| Basic | 51,282,000 | 49,985,000 |
| Diluted | 54,509,000 | 53,234,000 |

3. Accounts Receivable

Accounts receivable consisted of the following at September 30, 2001 and October 1, 2000:

| | Sept. 30, 2001 | Oct. 1, 2000 |
|--|-------------------|-----------------|
| Billed accounts receivable | \$ 197,859,000 | \$ 158,992,000 |
| Unbilled accounts receivable: | | |
| Billable amounts not invoiced, amounts billable at stipulated stages of completion of contract work, and unbilled amounts pending negotiation or receipt of contract modifications | 121,724,000 | 119,478,000 |
| Costs and fee retention billable upon audit of total contract costs | 5,103,000 | 4,232,000 |
| Total unbilled accounts receivable | 126,827,000 | 123,710,000 |
| Billings in excess of costs on uncompleted contracts | (10,354,000) | (15,947,000) |
| Allowance for uncollectible accounts: | | |
| Allowance for doubtful accounts | (45,098,000) | (5,465,000) |
| Allowance for disallowed costs | (799,000) | (1,608,000) |
| Total allowance for uncollectible accounts | (45,897,000) | (7,073,000) |
| Total | \$ 268,435,000 | \$ 259,682,000 |

The accounts receivable valuation allowance includes amounts to provide for doubtful accounts and for the potential disallowance of billed and unbilled costs. Included in the allowance for doubtful accounts at September 30, 2001 is a \$38.3 million reserve for an account debtor that filed for Chapter 11 protection under the U.S. Bankruptcy Code. This amount is included in selling, general and administrative expense in the accompanying consolidated statement of income for the year ended September 30, 2001. The allowance for disallowed costs relate primarily to contracts with the Federal government. These contracts are subject to audit by the government, primarily the Defense Contract Audit Agency (DCAA), which reviews the Company's overhead rates, operating systems and cost

proposals. During the course of its audits, the DCAA may disallow costs if it determines that the Company improperly accounted for such costs in a manner inconsistent with Cost Accounting Standards. Historically, the Company has not had any material cost disallowances by the DCAA as a result of audit, except for disallowances of acquired receivables as further described. There can be no assurance that DCAA audits will not result in material cost disallowances in the future.

On September 15, 1995, the Company acquired Tetra Tech EM Inc. (EMI) which contracts with the Federal government. At the time of acquisition, audits had not been performed for years beyond 1986 and reserves for disallowances relating to those unaudited years were adjusted to reflect the estimated ultimate disallowances relating to those receivables. As of October 3, 1999, audits and negotiations relating to the EMI contracts for years 1987 through 1995 were complete, and cost disallowances as a result of these audits totaled approximately \$4.4 million. Beyond the \$4.4 million in cost disallowances, there remained uncollected receivables of \$2.1 million. Although it was determined that the Company was entitled to payments, collectibility of such amounts was not assured as each Federal government agency must obtain separate funding approval. The reserves established for these receivables exceeded the disallowances and the uncollected amounts by \$1.75 million. Accordingly, this amount was taken into income in fiscal 1999. During fiscal 2000, the Company collected \$2.0 million and reversed previously established reserves related to these receivables. As of October 1, 2000, substantially all of these outstanding receivables had been collected and all reserves relating to these receivables had been reversed.

Allowances to provide for doubtful accounts have been determined through reviews of specific amounts determined to be uncollectible, plus a general allowance for other amounts for which some potential loss is determined to be probable based on current events and circumstances. Given the above, management believes that the resolution of these matters will not have a material adverse effect on the Company's financial position or results of operations.

4. Income Taxes

Income tax expense for the fiscal years ended September 30, 2001, October 1, 2000 and October 3, 1999 consisted of the following:

| Fiscal Year Ended | Sept 30, 2001 | Oct 1, 2000 | Oct 3, 1999 |
|--------------------------|------------------|----------------|----------------|
| Current: | | | |
| Federal | \$ 6,963,000 | \$ 20,845,000 | \$ 18,763,000 |
| State | 4,083,000 | 5,224,000 | 4,661,000 |
| Deferred | (1,172,000) | 708,000 | (250,000) |
| Total income tax expense | \$ 9,874,000 | \$ 26,777,000 | \$ 23,174,000 |

Temporary differences comprising the net deferred income tax asset shown on the consolidated balance sheets were as follows:

| | Sept. 30, 2001 | Oct. 1, 2000 |
|---------------------------------|-------------------|-----------------|
| Allowance for doubtful accounts | \$ 2,925,000 | \$ 3,041,000 |
| Accrued vacation | 3,632,000 | 1,871,000 |
| Depreciation | (3,489,000) | (2,317,000) |
| Prepaid expense | (1,540,000) | (514,000) |
| State taxes | 1,176,000 | 1,337,000 |
| Other | 1,041,000 | 127,000 |
| Cash to accrual | (22,000) | (994,000) |
| Net deferred income tax asset | \$ 3,723,000 | \$ 2,551,000 |

Total income tax expense was different than the amount computed by applying the Federal statutory rate as follows:

| Fiscal Year Ended | Sept. 30, 2001 | | Oct. 1, 2000 | | Oct. 3, 1999 | |
|-------------------------------------|-------------------|----------|-----------------|---------|-----------------|--------|
| | Amount | % | Amount | % | Amount | % |
| Tax at Federal statutory rate | \$ 14,245,000 | 35.0 % | \$ 23,527,000 | 35.0 % | \$ 18,301,000 | 35.0 % |
| Tax credits | (9,428,000) | (23.2) % | (2,800,000) | (4.2) % | — | — |
| Goodwill | 3,159,000 | 7.8 % | 2,053,000 | 3.1 % | 1,434,000 | 2.7 % |
| State taxes, net of Federal benefit | 2,116,000 | 5.2 % | 3,495,000 | 5.2 % | 2,719,000 | 5.2 % |
| Other | (218,000) | (0.5) % | 502,000 | 0.7 % | 720,000 | 1.4 % |
| Total income tax expense | \$ 9,874,000 | 24.3 % | \$ 26,777,000 | 39.8 % | \$ 23,174,000 | 44.3 % |

5. Long-Term Obligations

The Company has a credit agreement with various financial institutions (the "Credit Agreement") to support its working capital and acquisition needs. The Credit Agreement, as amended, provides a revolving credit facility of \$140.0 million and matures on March 17, 2005 or earlier at the discretion of the Company upon payment in full of loans and other obligations.

Interest on borrowings under the Credit Agreement is payable at the Company's option (a) at a base rate (the greater of the federal funds rate plus 0.50% or the bank's reference rate) as defined in the Credit Agreement or (b) at a eurodollar rate plus a margin which ranges from 0.75% to 1.25%. The weighted average interest rate on outstanding borrowings under the Credit Agreement at September 30, 2001 was 4.51%.

Borrowings under the Credit Agreement are secured by the Company's accounts receivable and the stock of certain of the Company's subsidiaries.

On May 22, 2001, the Company issued two series of senior secured notes (the "Senior Secured Notes") in the aggregate amount of \$110.0 million. Series A, totaling \$92.0 million, carries an interest rate of 7.28%. Series B, totaling \$18.0 million, carries an interest rate of 7.08%. Interest on

both Series A and Series B is payable semi-annually, commencing November 2001. Commencing May 30, 2005, principal payments of \$13.1 million are payable on the Series A Notes each May 30 to and including May 30, 2011. Commencing May 30, 2004, principal payments of \$3.6 million are payable on the Series B Notes each May 30 to and including May 30, 2008.

The Credit Agreement and Senior Secured Notes contain various covenants including, but not limited to, restrictions related to tangible net worth, net income, additional indebtedness, asset sales, mergers and acquisitions, creation of liens, and dividends on capital stock (other than stock dividends).

As of September 30, 2001, outstanding borrowings under the Credit Agreement totaled \$14.0 million and standby letters of credit totaled \$1.7 million. Outstanding borrowings on the Senior Secured Notes totaled \$110.0 million at September 30, 2001.

At September 30, 2001, approximately \$2.1 million of additional debt existed from acquired companies. This debt is primarily related to pre-acquisition borrowings to facilitate equipment purchases. The Company intends to repay these amounts prior to the end of their term and terminate all such agreements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6. Stockholders' Equity

On November 12, 2001, the Board of Directors approved a five-for-four split of the Company's common stock, which was effected on December 17, 2001, in the form of a 25% stock dividend, to the stockholders of record on November 28, 2001. All agreements concerning stock options and other commitments payable in shares of the Company's common stock are affected by the five-for-four split. All references to number of shares (except shares authorized), stock options, share prices and per share information in the consolidated financial statements have been adjusted to reflect the stock split on a retroactive basis.

In February 1999, the Company, along with certain selling stockholders, offered a total of 4,960,937 shares of its common stock through a public offering. The Company offered 1,562,500 shares and received approximately \$22.2 million in net proceeds which were used for the partial repayment of outstanding indebtedness under the Company's revolving credit facility.

In connection with the ENG acquisition and the fiscal 1998 acquisition of the Sentrex Group of Companies, the Company issued an aggregate of 953,960 shares of exchangeable stock of its subsidiary, Tetra Tech Canada Ltd. (the "Exchangeable Shares"), a corporation existing under the laws of the Province of Ontario, Canada. The Exchangeable Shares are non-voting but carry exchange rights under which a holder of Exchangeable Shares is entitled, at any time after five months from the date of issue of the Exchangeable Shares, to require the Company to redeem all or any part of the Exchangeable Shares for an amount per share equal to (a) the current market price of a share of the Company's common stock, which shall be satisfied in full by the Company's delivery to such holder of one share of its common stock for each Exchangeable Share presented and surrendered, plus (b) a dividend amount or dividend shares, if any. The Exchangeable Shares cannot be put back to the Company for cash.

Pursuant to the Company's 1989 Stock Option Plan, key employees could be granted options to purchase an aggregate of 1,490,112 shares of the Company's common stock at prices ranging from 85% to 100% of the market value on the date of grant. The 1989 Stock Option Plan has been terminated, and all options granted to date by the Company have been at 100% of the market value as approved by the Board of Directors at the date of grant. These options become exercisable beginning one year from date of grant, become fully vested in four years and terminate ten years from the date of grant.

The Company has a 1992 Incentive Stock Plan under which key employees may be granted options to purchase an aggregate of 7,202,147 shares of the Company's common stock at prices not less than 100% of the market value on the date of grant. From such date of grant, these options become exercisable after one year, are fully vested no later than five years after grant and terminate no later than ten years after grant.

Pursuant to the Company's 1992 Stock Option Plan for Nonemployee Directors, non-employee directors may be granted options to purchase an aggregate of 178,808 shares of the Company's common stock at prices not

less than 100% of the market value on the date of grant. These options vest and become exercisable when, and only if, the optionee continues to serve as a director until the Annual Meeting following the year in which the options were granted.

The Company also has an Employee Stock Purchase Plan (the "Purchase Plan") which provides for the granting of Purchase Rights to purchase common stock to regular full and part-time employees or officers of the Company and its subsidiaries. Under the Purchase Plan, shares of common stock will be issued upon exercise of the Purchase Rights. Under the Purchase Plan, an aggregate of 1,373,290 shares may be issued pursuant to the exercise of Purchase Rights. The maximum amount that an employee can contribute during a Purchase Right Period is \$4,000, and the minimum contribution per payroll period is \$25.

Under the Purchase Plan, the exercise price of a Purchase Right will be the lesser of 100% of the fair market value of such shares on the first day of the Purchase Right Period or 85% of the fair market value on the last day of the Purchase Right Period. For this purpose, the fair market value of the stock is its closing price as reported on the Nasdaq Stock Market on the day in question.

During the three years in the period ended September 30, 2001, option activity was as follows:

| | Number of Options | Weighted Average Exercise Price |
|-----------------------------------|----------------------|---------------------------------------|
| Balance, October 4, 1998 | 3,700,734 | \$ 7.15 |
| Granted | 1,124,105 | 13.21 |
| Exercised | (362,465) | 5.30 |
| Cancelled | (236,733) | 8.82 |
| Balance, October 3, 1999 | 4,225,641 | 9.02 |
| Granted | 887,153 | 10.30 |
| Exercised | (806,383) | 7.07 |
| Cancelled | (133,530) | 12.02 |
| Balance, October 1, 2000 | 4,172,881 | 9.57 |
| Granted | 1,195,960 | 21.50 |
| Exercised | (667,918) | 7.72 |
| Cancelled | (266,892) | 15.62 |
| Outstanding at September 30, 2001 | 4,434,031 | \$ 12.70 |
| Exercisable at September 30, 2001 | 2,178,656 | \$ 8.76 |

The following table summarizes information concerning currently outstanding and exercisable options:

| Options Outstanding | | | Options Exercisable | | |
|--------------------------|--------------------|--|---------------------------------|--------------------|---------------------------------|
| Range of Exercise Prices | Number Outstanding | Weighted Average Remaining Contractual Life (Yrs.) | Weighted Average Exercise Price | Number Exercisable | Weighted Average Exercise Price |
| \$ 2.05 - \$ 3.06 | 80,663 | 0.87 | \$ 2.77 | 80,663 | \$ 2.77 |
| \$ 3.42 - \$ 5.05 | 392,348 | 2.48 | 4.09 | 392,348 | 4.09 |
| \$ 5.68 - \$ 8.35 | 732,048 | 4.82 | 7.50 | 732,048 | 7.50 |
| \$ 8.73 - \$ 12.80 | 1,313,503 | 7.00 | 9.88 | 615,008 | 10.33 |
| \$13.20 - \$ 19.60 | 972,033 | 7.71 | 15.51 | 358,308 | 15.07 |
| \$19.81 - \$ 28.00 | 943,436 | 9.09 | 22.21 | 281 | 21.03 |
| \$ 2.05 - \$ 28.00 | 4,434,031 | 6.73 | \$ 12.70 | 2,178,656 | \$ 8.76 |

The Company applies APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations in accounting for its stock option plans because the Company continues to apply the intrinsic value method. Accordingly, no compensation expense has been recognized for its stock-based compensation plans. Pro forma net income and earnings per share had the Company accounted for stock options issued to employees in accordance with the fair value method of SFAS No. 123, *Accounting for Stock-Based Compensation*, are as follows:

| Fiscal Year Ended | Sept. 30, 2001 | Oct. 1, 2000 | Oct. 3, 1999 |
|--|----------------|---------------|---------------|
| Net income—as reported | \$ 30,825,000 | \$ 40,442,000 | \$ 29,115,000 |
| Net income—pro forma | 27,316,000 | 36,324,000 | 27,004,000 |
| Basic earnings per share—as reported | \$ 0.61 | \$ 0.83 | \$ 0.63 |
| Diluted earnings per share—as reported | 0.57 | 0.78 | 0.59 |
| Basic earnings per share—pro forma | 0.54 | 0.75 | 0.58 |
| Diluted earnings per share—pro forma | 0.50 | 0.70 | 0.55 |

The fair value of the Company's stock options used to compute pro forma net income and pro forma earnings per share disclosures is the estimated value using the Black-Scholes option-pricing model. The weighted average fair values per share of options granted in fiscal 2001, 2000 and 1999 are \$8.77, \$4.38 and \$5.27, respectively. The following assumptions were used in completing the model:

| Fiscal Year Ended | Sept. 30, 2001 | Oct. 1, 2000 | Oct. 3, 1999 |
|----------------------------------|----------------|--------------|--------------|
| Dividend yield | 0.0% | 0.0% | 0.0% |
| Expected volatility | 48.6% | 46.5% | 42.2% |
| Risk-free rate of return, annual | 3.4% | 7.7% | 6.4% |
| Expected life | 3.85 yrs. | 3.51 yrs. | 3.26 yrs. |

7. Earnings Per Share

The following table sets forth the computation of basic and diluted earnings per share:

| Fiscal Year Ended | Sept. 30, 2001 | Oct. 1, 2000 | Oct. 3, 1999 |
|---|----------------|---------------|---------------|
| Numerator— | | | |
| Net income | \$ 30,825,000 | \$ 40,442,000 | \$ 29,115,000 |
| Denominator for basic earnings per share— | | | |
| Weighted average shares | 50,939,000 | 48,754,000 | 46,449,000 |
| Denominator for diluted earnings per share— | | | |
| Denominator for basic earnings per share | 50,939,000 | 48,754,000 | 46,449,000 |
| Potential common shares: | | | |
| Stock options | 1,971,000 | 2,001,000 | 1,650,000 |
| Exchangeable stock of a subsidiary | 1,256,000 | 1,248,000 | 1,339,000 |
| Potential common shares | 3,227,000 | 3,249,000 | 2,989,000 |
| Denominator for diluted earnings per share— | 54,166,000 | 52,003,000 | 49,438,000 |
| Basic earnings per share | \$ 0.61 | \$ 0.83 | \$ 0.63 |
| Diluted earnings per share | \$ 0.57 | \$ 0.78 | \$ 0.59 |

8. Leases

The Company leases office and field equipment, vehicles, land and buildings under various operating leases. Rent expense under all operating leases was approximately \$38.0 million, \$28.3 million and \$20.6 million for the fiscal years ended September 30, 2001, October 1, 2000 and October 3, 1999, respectively. Amounts payable under noncancelable operating lease commitments are as follows during the fiscal years ending in:

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

| | |
|--------------|-----------------------|
| 2002 | \$ 26,939,000 |
| 2003 | 22,023,000 |
| 2004 | 18,076,000 |
| 2005 | 12,060,000 |
| 2006 | 9,098,000 |
| Thereafter | 23,752,000 |
| Total | \$ 111,948,000 |

9. Retirement Plans

The Company and its subsidiaries have established defined contribution plans and 401(k) plans. Generally, employees are eligible to participate in the defined contribution plans upon completion of one year of service and in the 401(k) plans upon commencement of employment. For the fiscal years ended September 30, 2001, October 1, 2000 and October 3, 1999, employer contributions relating to the plans were approximately \$10.0 million, \$7.2 million and \$6.4 million, respectively.

10. Contingencies

The Company is subject to certain claims and lawsuits typically filed against the engineering and consulting professions, primarily alleging professional errors or omissions. The Company carries professional liability insurance, subject to certain deductibles and policy limits against such claims. Management is of the opinion that the resolution of these claims will

not have a material adverse effect on the Company's financial position and results of operations.

11. Operating Segments

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

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

Reportable Segments:

Fiscal year ended September 30, 2001

| | Resource Management | Infrastructure | Communications | Total |
|-------------------------------|------------------------|----------------|----------------|--------------|
| Gross Revenue | \$ 425,296 | \$ 304,236 | \$ 278,237 | \$ 1,007,769 |
| Net Revenue | 292,299 | 247,944 | 184,698 | 724,941 |
| Income (Loss) from Operations | 35,034 | 32,202 | (9,082) | 58,154 |
| Depreciation Expense | 2,357 | 4,850 | 4,450 | 11,657 |
| Segment Assets | 231,162 | 90,451 | 48,583 | 370,196 |

Fiscal year ended October 1, 2000

| | Resource Management | Infrastructure | Communications | Total |
|------------------------|------------------------|----------------|----------------|------------|
| Gross Revenue | \$ 374,875 | \$ 236,922 | \$ 207,936 | \$ 819,733 |
| Net Revenue | 246,851 | 190,269 | 153,360 | 590,480 |
| Income from Operations | 32,901 | 20,866 | 28,020 | 81,787 |
| Depreciation Expense | 1,670 | 2,514 | 2,806 | 6,990 |
| Segment Assets | 175,571 | 75,043 | 86,702 | 337,316 |

Fiscal year ended October 3, 1999

| | Resource Management | Infrastructure | Communications | Total |
|------------------------|------------------------|----------------|----------------|------------|
| Gross Revenue | \$ 340,955 | \$ 135,589 | \$ 102,378 | \$ 578,922 |
| Net Revenue | 231,518 | 111,776 | 88,765 | 432,059 |
| Income from Operations | 30,147 | 15,703 | 14,905 | 60,755 |
| Depreciation Expense | 1,446 | 4,430 | 1,565 | 7,441 |
| Segment Assets | 154,375 | 48,633 | 44,444 | 247,452 |

Reconciliations:

| Fiscal Year Ended | Sept. 30, 2001 | Oct. 1, 2000 | Oct. 3, 1999 |
|---|-------------------|-----------------|-----------------|
| Gross Revenue | | | |
| Gross revenue from reportable segments | \$ 1,007,769 | \$ 819,733 | \$ 578,922 |
| Elimination of inter-segment revenue | (38,948) | (32,796) | (15,850) |
| Other revenue | 5,123 | 7,641 | 3,418 |
| Total consolidated gross revenue | \$ 973,944 | \$ 794,578 | \$ 566,490 |
| Net Revenue | | | |
| Net revenue from reportable segments | \$ 724,941 | \$ 590,480 | \$ 432,059 |
| Other revenue | 5,123 | 7,641 | 21 |
| Total consolidated net revenue | \$ 730,064 | \$ 598,121 | \$ 432,080 |
| Income from Operations | | | |
| Income from operations of reportable segments | \$ 58,154 | \$ 81,787 | \$ 60,755 |
| Other income (expense) | 280 | (1,079) | (490) |
| Amortization of intangibles | (9,192) | (6,463) | (4,841) |
| Total consolidated income from operations | \$ 49,242 | \$ 74,245 | \$ 55,424 |
| Total Assets | | | |
| Total assets from reportable segments | \$ 370,196 | \$ 337,316 | \$ 247,452 |
| Goodwill not allocated to segments | 245,019 | 190,452 | 160,686 |
| Elimination of inter-segment assets | (7,994) | (1,730) | (27,660) |
| Total consolidated total assets | \$ 607,221 | \$ 526,038 | \$ 380,478 |

Geographic Information:

| Fiscal Year Ended | Sept. 30, 2001 | | Oct. 1, 2000 | | Oct. 3, 1999 | |
|-------------------|-------------------------------|-------------------------------------|-------------------------------|-------------------------------------|-------------------------------|-------------------------------------|
| | Net Revenue ^(a) | Long-Lived Assets ^(b) | Net Revenue ^(a) | Long-Lived Assets ^(b) | Net Revenue ^(a) | Long-Lived Assets ^(b) |
| United States | \$ 706,862 | \$ 288,220 | \$ 579,593 | \$ 226,731 | \$ 417,983 | \$ 183,850 |
| Foreign countries | 23,202 | 2,714 | 18,528 | 2,367 | 14,097 | 1,558 |

(a) Net revenue is attributed to countries based on the location of work performed.

(b) Long-lived assets include non-current assets of the Company.

Major Clients

The Company's net revenue attributable to the U.S. government clients was approximately \$179.0 million, \$174.2 million and \$169.3 million for fiscal years ended September 30, 2001, October 1, 2000 and October 3, 1999, respectively. Both the Resource Management and Infrastructure operating segments report revenue from the U.S. government.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

12. Quarterly Financial Information – Unaudited

In the opinion of management, the following unaudited quarterly data for the fiscal years ended September 30, 2001 and October 1, 2000 reflect all adjustments necessary for a fair statement of the results of operations. All such adjustments are of a normal recurring nature. (In thousands, except per share data)

| Fiscal Year 2001 | First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
|---|------------------|-------------------|------------------|-------------------|
| Gross revenue | \$ 229,330 | \$ 234,315 | \$ 250,124 | \$ 260,175 |
| Net revenue | 167,138 | 179,658 | 191,548 | 191,720 |
| Gross profit | 38,733 | 41,404 | 44,526 | 45,927 |
| Income (loss) from operations | 18,150 | 20,361 | (15,520) | 26,251 |
| Net income (loss) | 9,370 | 10,534 | (3,829) | 14,750 |
| Basic earnings (loss) per share | \$ 0.19 | \$ 0.21 | \$ (0.07) | \$ 0.28 |
| Diluted earnings (loss) per share | 0.17 | 0.20 | (0.07) | 0.27 |
| Weighted average common shares outstanding: | | | | |
| Basic | 50,017 | 50,453 | 51,233 | 52,048 |
| Diluted | 53,855 | 53,505 | 51,233 | 54,866 |
| Fiscal Year 2000 | First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
| Gross revenue | \$ 170,241 | \$ 177,581 | \$ 203,795 | \$ 242,961 |
| Net revenue | 129,171 | 138,846 | 156,468 | 173,636 |
| Gross profit | 28,754 | 29,284 | 40,202 | 47,009 |
| Income from operations | 14,733 | 15,980 | 19,673 | 23,859 |
| Net income | 7,563 | 8,124 | 9,920 | 14,835 |
| Basic earnings per share | \$ 0.16 | \$ 0.17 | \$ 0.20 | \$ 0.30 |
| Diluted earnings per share | 0.15 | 0.16 | 0.19 | 0.28 |
| Weighted average common shares outstanding: | | | | |
| Basic | 48,066 | 48,187 | 49,109 | 49,651 |
| Diluted | 50,522 | 51,425 | 52,630 | 53,237 |

INDEPENDENT AUDITORS' REPORT

Tetra Tech, Inc.:

We have audited the accompanying consolidated balance sheets of Tetra Tech, Inc. and its subsidiaries as of September 30, 2001 and October 1, 2000, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended September 30, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Tetra Tech, Inc. and its subsidiaries as of September 30, 2001 and October 1, 2000, and the results of their operations and their cash flows for each of the three years in the period ended September 30, 2001, in conformity with accounting principles generally accepted in the United States of America.

Deloitte + Touche LLP

DELOITTE & TOUCHE LLP

Los Angeles, California

November 14, 2001

SECURITIES INFORMATION

Tetra Tech's common stock is traded on the Nasdaq National Market under the symbol TTEK. There were 2,213 stockholders of record as of December 11, 2001. Tetra Tech has not paid any cash dividends since its inception and does not intend to pay any cash dividends on its common stock in the foreseeable future. The high and low sales prices for the common stock for the last two fiscal years, as reported by the National Association of Securities Dealers, Inc., are set forth in the following tables. The prices have been adjusted to reflect, on a retroactive basis, the five-for-four stock split, effected in the form of a 25% stock dividend, in December 2001.

| Fiscal Year 2001 | | High | | Low |
|------------------|----|-------|----|-------|
| First Quarter | \$ | 30.05 | \$ | 19.80 |
| Second Quarter | | 25.50 | | 13.60 |
| Third Quarter | | 25.06 | | 14.40 |
| Fourth Quarter | | 21.72 | | 15.92 |

| Fiscal Year 2000 | | High | | Low |
|------------------|----|-------|----|-------|
| First Quarter | \$ | 14.10 | \$ | 8.40 |
| Second Quarter | | 22.60 | | 10.70 |
| Third Quarter | | 21.20 | | 12.75 |
| Fourth Quarter | | 25.15 | | 16.90 |

CORPORATE INFORMATION

Directors

Li-San Hwang
Chairman and
Chief Executive Officer
Tetra Tech, Inc.

J. Christopher Lewis
General Partner
Riordan, Lewis & Haden

Patrick C. Haden
General Partner
Riordan, Lewis & Haden

James J. Shelton
Retired Officer and Director
Baker Hughes Incorporated

Daniel A. Whalen
Advisor to the Chairman
Tetra Tech, Inc.

Corporate Counsel

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300 South Grand Avenue
Twenty-Ninth Floor
Los Angeles, California 90071

Independent Auditors

Deloitte & Touche LLP
350 South Grand Avenue
Los Angeles, California 90071

Corporate Officers

Li-San Hwang
Chairman and
Chief Executive Officer

James M. Jaska
President,
Chief Financial Officer and Treasurer

Richard A. Lemmon
Executive Vice President,
Administration and Secretary

Michael J. Nigro
Executive Vice President,
Resource Management

Glenn S. Burkhardt
Executive Vice President,
Infrastructure

Michael C. Bush
Executive Vice President,
Communications

James T. Haney
Executive Vice President,
Corporate Development

Charles R. Faust
Vice President

Corporate Offices

Tetra Tech, Inc.
670 North Rosemead Boulevard
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Fax: (626) 351-1188

Transfer Agent & Registrar

U.S. Stock Transfer Corporation
1745 Gardena Avenue
Second Floor
Glendale, California 91204

Stock Listing

The Company's common stock
is traded on the Nasdaq National Market
(Symbol: TTEK)

Shareholders Inquiries

Investor Relations
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E-Mail: IR@tetrattech.com
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Form 10-K

The Company's Form 10-K may be obtained
by writing to Investor Relations.



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