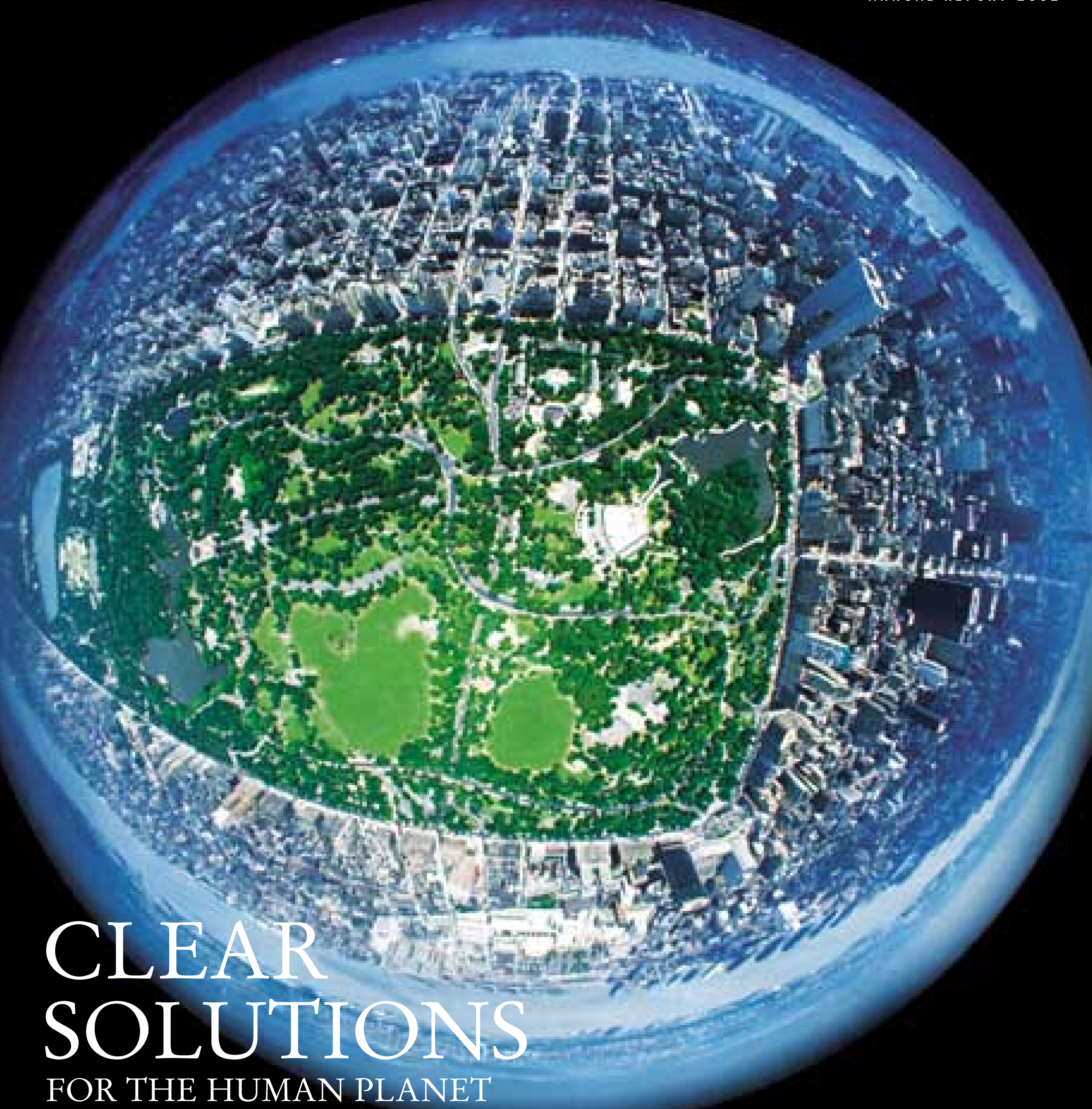
# TETRA TECH, INC.

www.tetratech.com

ANNUAL REPORT 2002



# CLEAR SOLUTIONS
## FOR THE HUMAN PLANET

South San Francisco Bay > Deep Aquifer > Underground Resistance > High Level Waste > Anthrax Cleanup > Securing the Dome
Green Building > The New Campus > Water Treatment Upgrades > Riverwalks > Alameda Corridor Revealed > BASINS

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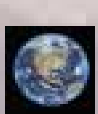
# A CLEAR VIEW



**The Blue Marble. It was one of the most significant images ever photographed—Earth as viewed from the vast perspective of space. Suddenly, it was clear to us—the viability of our species is intrinsically connected to the viability of our planet, the Human Planet. Yet much of what Man has done to the natural world in the cause of progress now threatens the species itself. We need clear sustainable solutions—clear solutions that nourish our most basic needs for food, shelter, water, security, family and community—clear solutions that improve our infrastructure and better manage our resources. In this issue, we look at twelve projects throughout the country—from protecting a unique urban estuary to securing our nation's capitol—a dozen of the most intriguing and important works this company is doing to ensure a sustainable role for us all within the larger community of life.**

*(front cover) Central Manhattan from two miles above the earth.*

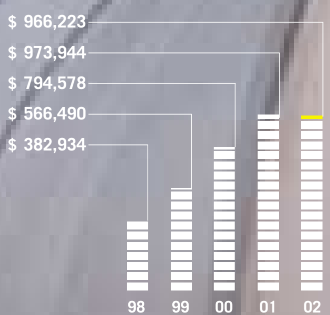
*(this page) The California Aqueduct flows across the Mojave Desert to sustain Southern California.*

## WHO WE ARE

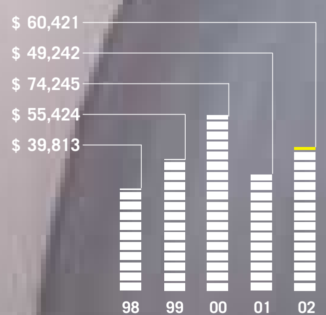
**Tetra Tech, Inc. is a leading provider of consulting, engineering and technical services. With more than 7,000 associates located in the United States and internationally, the Company supports commercial and government clients in the areas of resource management and infrastructure. Tetra Tech's services include research and development, applied science and technology, engineering design, construction management, and operations and maintenance.**

**(www.tetratech.com)**

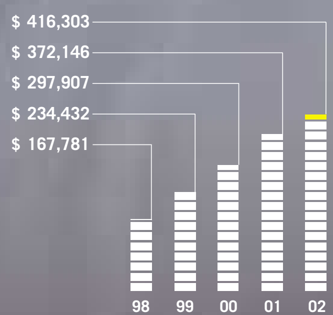
## FINANCIAL HIGHLIGHTS




**GROSS REVENUE**
(in thousands)




**INCOME FROM OPERATIONS**
(in thousands)




**STOCKHOLDERS' EQUITY**
(in thousands)

| Fiscal Year Ended (in thousands, except per share data) | Sept. 29, 2002 | Sept. 30, 2001 | Oct. 1, 2000 | Oct. 3, 1999 | Oct. 4, 1998 |
|---|---|---|---|---|---|
| Gross revenue | $ 966,223 | $ 973,944 | $ 794,578 | $ 566,490 | $ 382,934 |
| Net revenue | 740,715 | 730,064 | 598,121 | 432,080 | 297,597 |
| Income from operations | 60,421 | 49,242 | 74,245 | 55,424 | 39,813 |
| Net income | 31,910 | 30,825 | 40,442 | 29,115 | 20,586 |
| Basic earnings per share | 0.60 | 0.61 | 0.83 | 0.63 | 0.47 |
| Diluted earnings per share | 0.58 | 0.57 | 0.78 | 0.59 | 0.45 |
| Weighted average common shares outstanding: | | | | | |
| Basic | 52,760 | 50,939 | 48,754 | 46,449 | 43,703 |
| Diluted | 55,086 | 54,166 | 52,003 | 49,438 | 45,610 |
| Net cash flows from operating activities (1) | 95,211 | 44,274 | (12,188) | 30,258 | (6,620) |
| Working capital | 199,737 | 192,991 | 154,341 | 86,313 | 77,049 |
| Total assets | 671,980 | 607,221 | 526,038 | 380,478 | 266,610 |
| Long-term obligations, excluding current portion | 110,000 | 111,779 | 85,532 | 37,289 | 33,546 |
| Stockholders' equity | 416,303 | 372,146 | 297,907 | 234,432 | 167,781 |

(1) **Net cash flows from operating activities were reduced by $6.0 million, $5.2 million, $10.7 million, $9.3 million and $10.3 million for the fiscal years ended September 29, 2002, September 30, 2001, October 1, 2000, October 3, 1999 and October 4, 1998, respectively, as a result of our assignment of accounts receivable to the former owners of certain acquired companies.**

# To Our Share Owners and Customers >>

Fiscal 2002 was one of the most challenging years Tetra Tech has faced since its founding in 1966. We were tested by one of the most brutal global economies in decades, which included the dramatic downturn in the communications market. But the Tetra Tech business model works. Our people responded remarkably, and we strengthened our financial backbone. During the year, we generated $95 million in cash from operations, a record that doubles our previous best. While the communications market was a disappointment, we built our water-related businesses to be even stronger. Tetra Tech has much to be proud of.

The reduction in communications revenue was offset by increases in water-related revenue, making revenue essentially flat compared to fiscal 2001. Gross revenue decreased 1% from last year while net revenue (gross revenue less subcontractor costs) grew 2%. Our business shift toward markets that are historically more stable will increase Tetra Tech's overall stability, but will also preserve our exciting technical capabilities in communications.

Diluted earnings per share for fiscal 2002 increased 2%, to 58 cents from 57 cents in fiscal 2001. The expenses incurred to reduce the size of our communications business affected earnings per share in the last three quarters of the year. We finished rightsizing our communications business by the end of fiscal 2002. This has built a stronger foundation for fiscal 2003.

## FOR A CLEAR TOMORROW

Our strategy during the period of reduced client capital spending was to focus on defensive metrics that we could more firmly control, generating strong cash flow to strengthen our balance sheet. In one year, net debt, or debt less cash, was reduced by 41%, or $45 million. This strategy worked well, and although it caused us to slow our acquisition pace, we strengthened our financial underpinnings.

Tetra Tech finished the year with $716 million in backlog, up 13% from last year. Much of the backlog growth came from our Federal, state and local government clients. Our percentage of public sector work increased from 43% to 49% of net revenue, from fiscal 2001 to fiscal 2002. We had a number of significant contract wins, starting with the $40 million Navy Southwest Division engineering contract. Following our anthrax response work, performed under our EPA contracts in the first quarter of the year, we were awarded the $28 million EPA Technology Innovation Office (TIO) support contract, which will enhance the nation's understanding of technologies for detecting and decontaminating biological threats and provide training to thousands of Federal and state emergency responders. We were also awarded the Corps of Engineers' first contract to exclusively address infrastructure homeland defense, the $15 million Kansas City District program. Through this and many other government programs, Tetra Tech is proud to contribute its knowledge and problem solving skills to the war on terrorism. The challenge of living securely has returned from our past to become an essential element of everyday life, equally or more complex than the challenge of making communication systems clear or water clean.

Our water markets remained solid due to the ever-present challenge of providing fresh water to a growing, industrial society. We have been developing solutions to this challenge for the public sector for over 20 years and have built quite a toolbox of technologies and approaches. Tetra Tech made good progress at distributing these technologies down to state governments this year, and now has contracts in 25 states. Yet still there is much work to do. Thousands of cities and towns still manage water supply, water treatment, stormwater management and pollution control as separate, distinct problems. However, water is a flowing connected resource, and is best managed as such.

The City of Louisville, Kentucky, a forward-thinking client on the banks of the Ohio River, realized the importance of adopting a watershed management approach. In the summer, the City awarded Tetra Tech a $10 million contract to help change how the City manages its water resources. Two months later, Lansing, Michigan awarded Tetra Tech a similar contract. We believe that water contracts like these are the beginning of a continuing trend.

We believe there is also a trend toward smart infrastructure–making infrastructure communicate. At the beginning of fiscal 2003, we combined the Infrastructure and Communications business areas into a new Infrastructure business area. This change will allow the two groups to collaborate more closely on smart infrastructure solutions. In this market, as in water resource management, Tetra Tech is working to be at the forefront of solutions to the earth's complex problems.

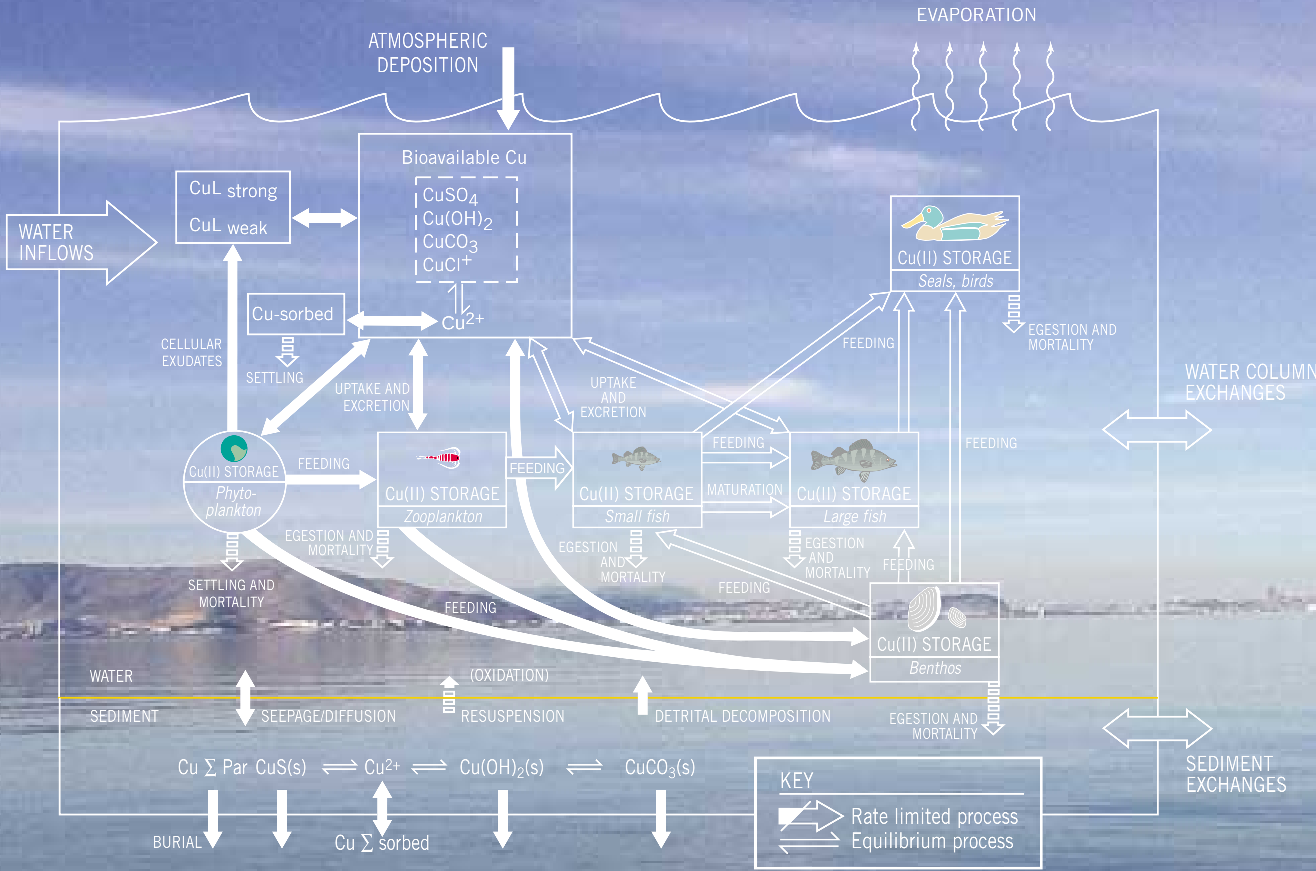
Sincerely,

Li-San Hwang

Li-San Hwang
Chairman
Chief Executive Officer

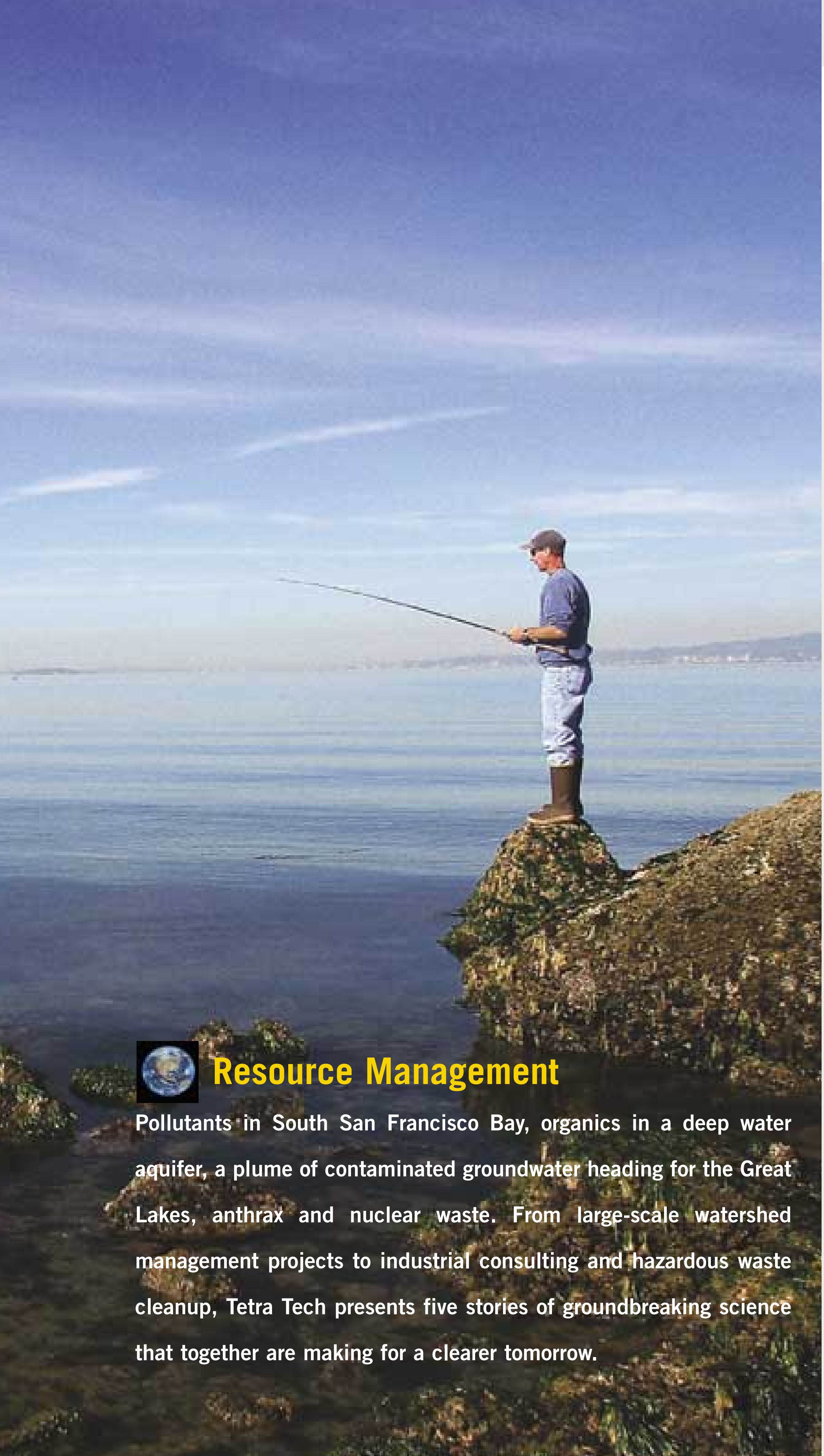
James M. Jaska

James M. Jaska
President




# Managing Our Resources

## FOR A CLEAR TOMORROW



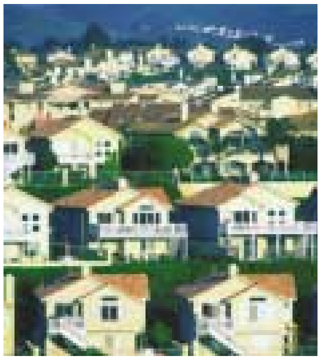
## Resource Management

**Pollutants in South San Francisco Bay, organics in a deep water aquifer, a plume of contaminated groundwater heading for the Great Lakes, anthrax and nuclear waste. From large-scale watershed management projects to industrial consulting and hazardous waste cleanup, Tetra Tech presents five stories of groundbreaking science that together are making for a clearer tomorrow.**

# Clearing the Tide For Silicon Valley

### Protecting South San Francisco Bay >

Microchip technology is the life-blood of this region, but state and federal regulatory agencies feared that early processes for manufacturing printed circuit boards had contributed to elevated copper levels in South San Francisco Bay—home to wildlife refuges, nature preserves and endangered species. So when tough new wastewater discharge requirements were imposed, the City of San Jose—together with stakeholders from industry and environmental advocacy groups—turned to Tom Grieb and Tetra Tech's Research and Development team to examine sources of copper to the South Bay and to develop a model of the processes that affect the cycling and toxicity of copper in it. But what they discovered was quite unexpected—that the South Bay's unique water chemistry protected the resident species from the toxic effects normally associated with elevated concentrations of copper. Tetra Tech's report to the South Bay stakeholders and the California Regional Water Quality Control Board resulted in new site-specific water quality objectives for this unique urban estuary and saved the City of San Jose millions of dollars by eliminating unnecessary permit restrictions. It has been hailed by both regulatory and environmental groups as a model for future environmental investigations and assures that beneficial uses and wildlife are equally protected. ■




# Reaching Down Deep

## Irvine Ranch Taps an Ancient Deep Aquifer >

Orange County, CA. 3 million people. 1 million households. Over 100,000 new households established in the past ten years. For the Irvine Ranch Water District, the increasing demand threatened to run the well dry. Political clouds forming over the Colorado River as a continued source of water for Southern Californians also motivated the District to act and act fast. Their solution—an untapped deep-water aquifer. But while the water's quality looked good, it also looked to have a light brown tint due to ancient organics. That is—while the thought of a *Saurolophus* roaming the Cretaceous forests of the Santa Ana Mountains is fascinating, *Saurolophus* in our drinking water is not. So to get the water running, Irvine Ranch tapped Tetra Tech's Steve Tedesco and his project team to engineer a clearer alternative. Their application of a nanofiltration membrane system to treat previously unusable colored water is a West Coast first. Irvine Ranch's newest water treatment plant—designed, built and placed in operation in less than 14 months. ■

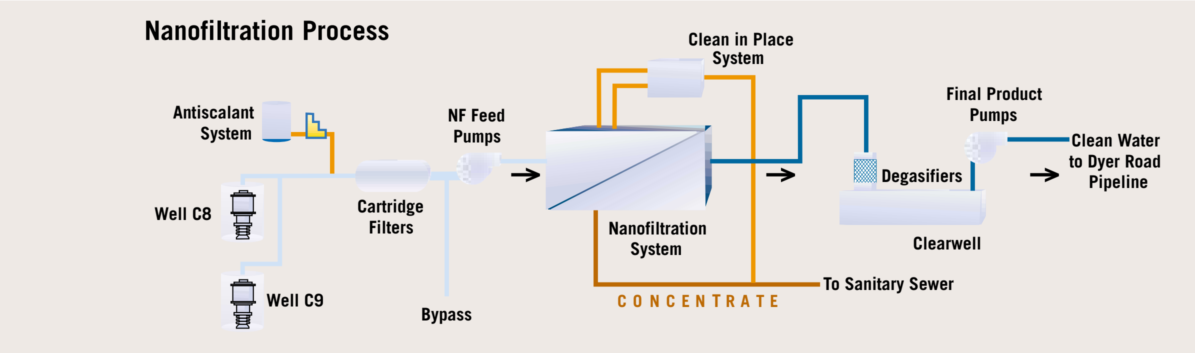
***(left to right) From orange groves to housing tracts, the city of Irvine, CA and its surrounding environs constitute one of the largest planned urban communities in the country.***

***The heart of the Deep Aquifer Treatment System is an 8.0-mgd nanofiltration (NF) membrane and three parallel NF trains, each producing 1,700 gallons of clear water per minute.***

***A cross section of one of the NF trains showing the nanofiltration membrane.***

***Irvine Ranch nanofiltration process.***

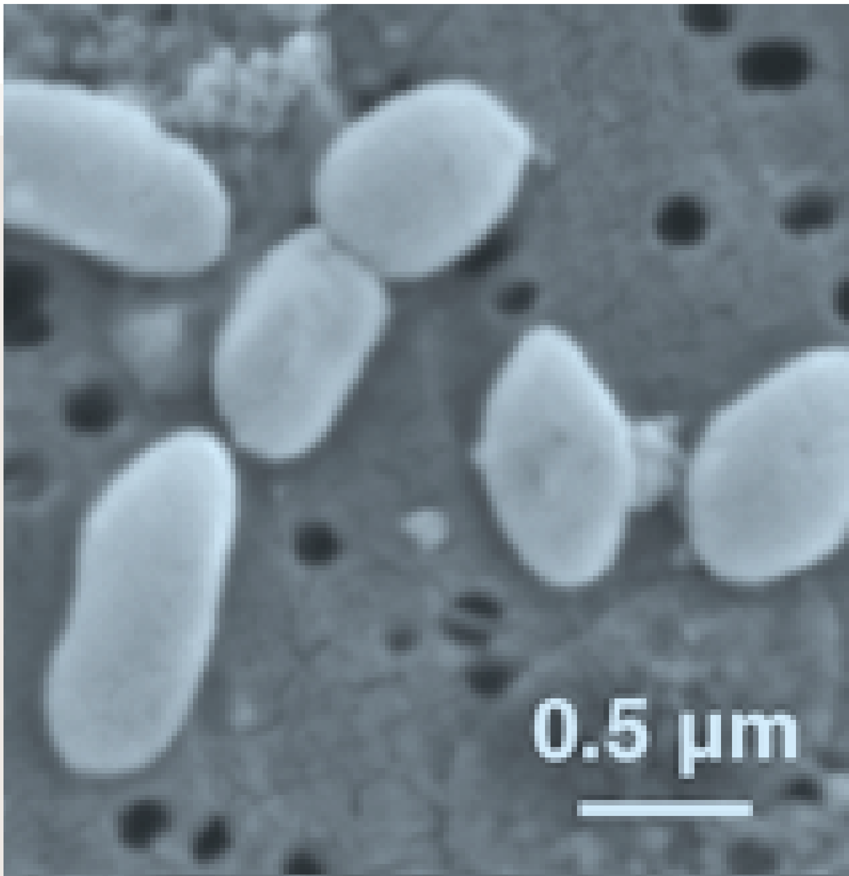
***By removing the "iced tea" coloring in this otherwise high quality water, the Irvine Ranch Water District can now produce drinking water for $336 per acre-foot, compared to $456 per acre-foot for water brought in from other sources.***

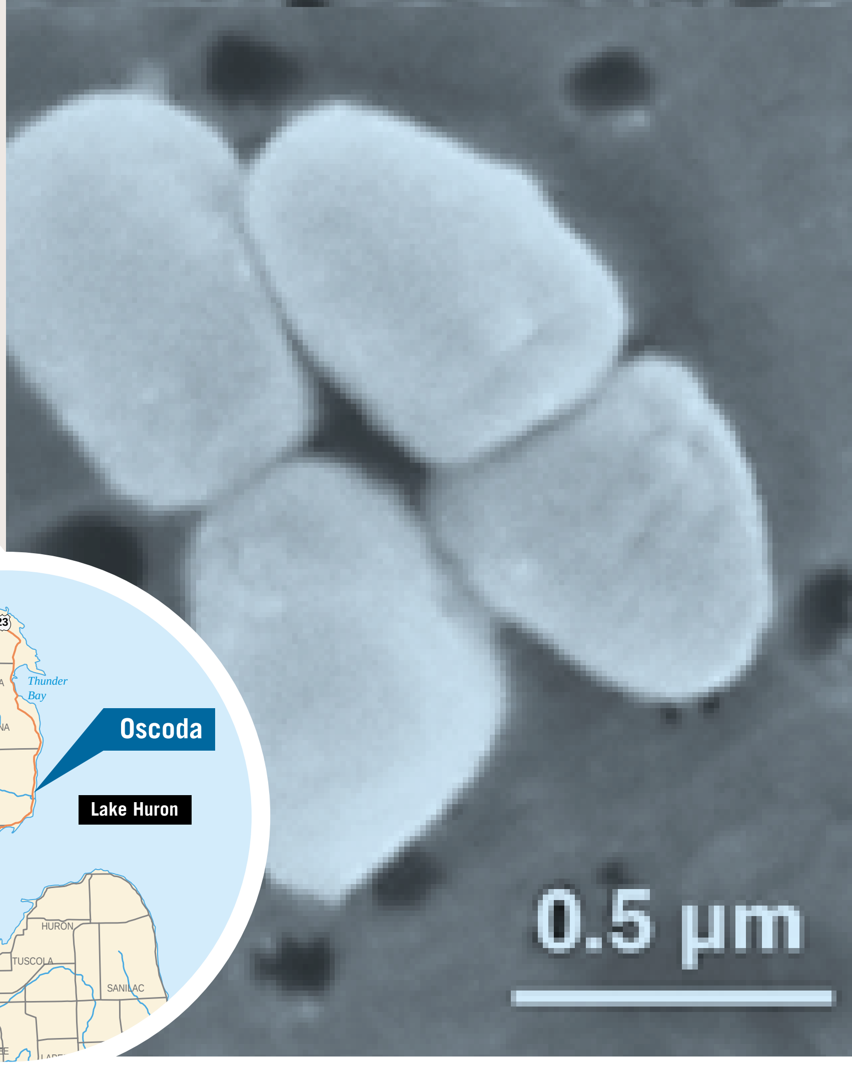

Nanofiltration Process
Antiscalant System
Well C8
Well C9
Cartridge Filters
Bypass
NF Feed Pumps
Clean in Place System
Nanofiltration System
CONCENTRATE
To Sanitary Sewer
Degasifiers
Clearwell
Final Product Pumps
Clean Water to Dyer Road Pipeline

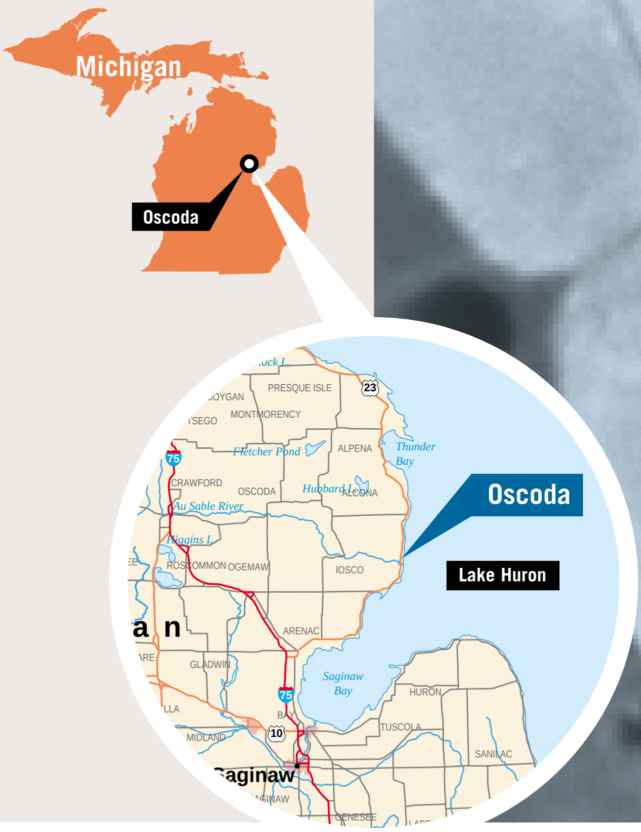
# Underground Resistance

## Halorespiring Bacteria Fend Off Advancing Solvents >

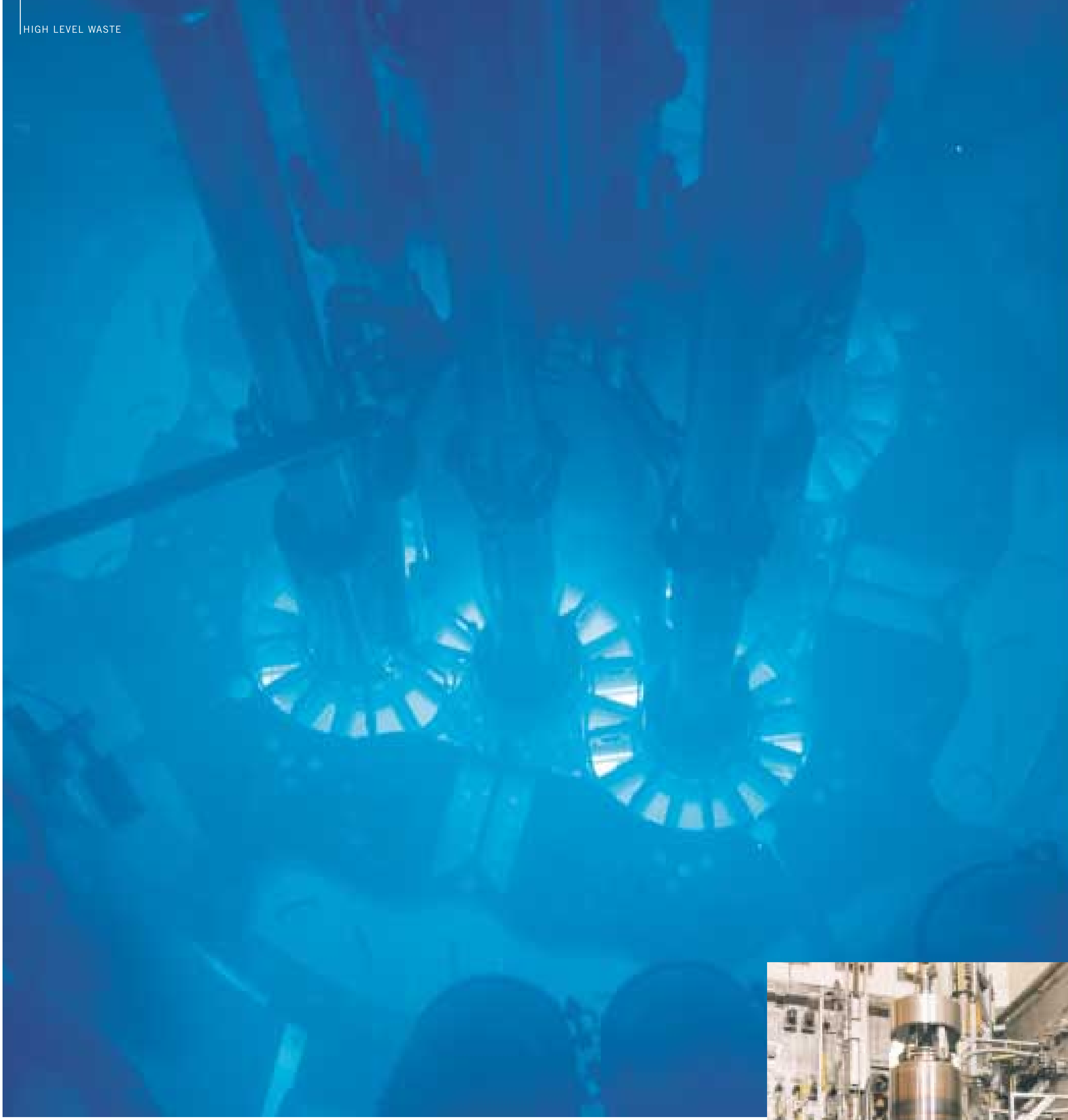
You could see them if you were standing on the moon—Superior, Huron, Michigan, Ontario and Erie—the Great Lakes. Yet despite their voluminous size, the Great Lakes are still vulnerable to impacts from industrial activities. And while we've done much to limit what flows into them today, the remnants of our industrial past are still seeping into this complex ecosystem. In the town of Oscoda, Michigan, Tetra Tech has amassed an army to confront one of our old enemies—the chlorinated solvents found in degreasing agents and dry cleaning compounds. Our recruits? Halorespiring bacteria adapted to derive energy from these solvents similar to the way we humans use oxygen. Tetra Tech's Erik Petrovskis designed and implemented the battle plan: a bio-barrier or underground dam designed to prevent a contaminated groundwater plume from reaching Lake Huron. To do this, Petrovskis and his project team at Tetra Tech—in a unique collaboration with university researchers—designed a closed loop circulation system in which a *Dehalococcoides* bacterial population was forced underground via an injection well and drawn through the subsurface aquifer by pumping groundwater from an extraction well down gradient. This bioaugmentation technology proved safe and effective in less than 72 days, with the solvent perchloroethylene successfully degraded to non-toxic end products. ■




*(above) Michigan has the longest fresh water shoreline in the world. Unfortunately, 78% of the Great Lakes' shoreline is impaired.*

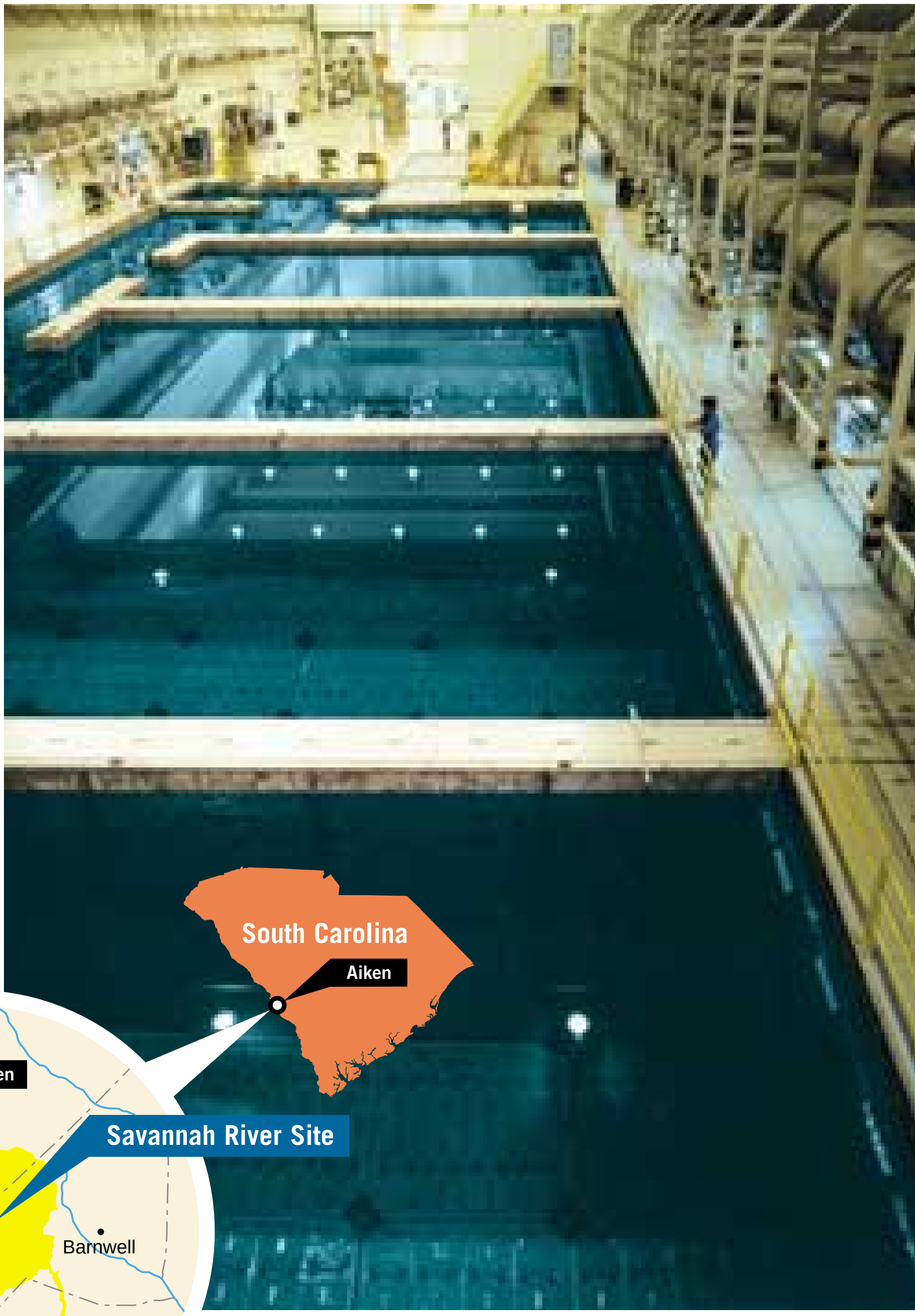


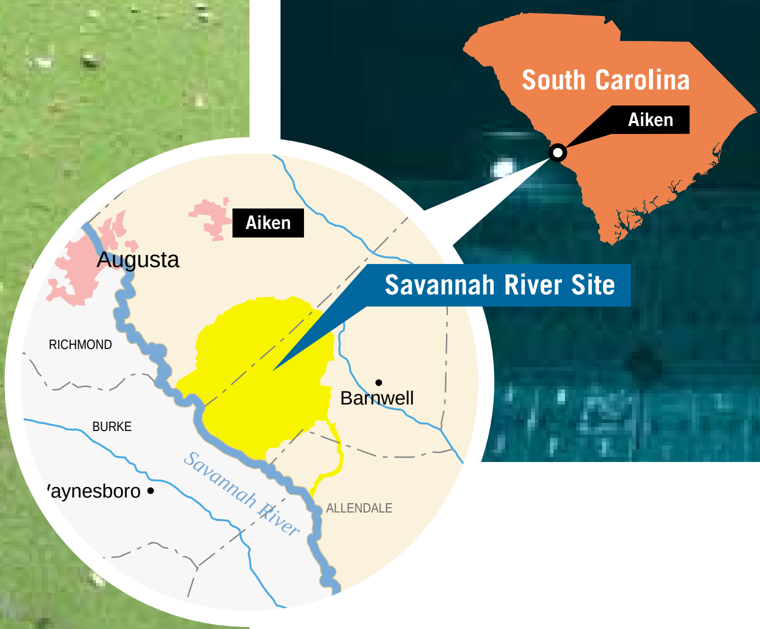
# Hot Relic of the Cold War

## The Low Down on High Level Waste >

It was the height of the Cold War and America needed tritium and plutonium. The Department of Energy's reactors along the Columbia River in eastern Washington were in full swing. But national security dictated the need for an additional site—a site that had lots of water, few people, and that was as far from the reactors in Hanford, Washington as possible. They found it in southeastern South Carolina on 310 square miles adjacent to the Savannah River. There on a ridge above the river, five reactors produced plutonium and other exotic materials by irradiation of specially designed targets. But here, unlike in >

commercial reactors, the spent nuclear fuel was recycled by dissolution to reclaim "unburned" fuel—dissolving the targets to obtain plutonium and other valuable materials. The unfortunate leftovers: a deadly concentration of fission products in a highly acidic soup known as high-level waste. As some of the most lethal material known to man, this high-level waste must be stored, treated and disposed of with great care. And that's the job of Tetra Tech's Jim Oliver and Phil Young. Working from their Aiken, South Carolina offices, they've aided the Department of Energy at many sites and in the many aspects of high-level waste management. As part of the disposal process, the Savannah River Site's high-level waste will be pumped from its holding tanks—37 million gallons in all—to the vitrification plant, where it will be transformed into glass cylinders. From there the solid waste will be shipped to Yucca Mountain in Nevada for final disposal. All that will remain at the Savannah River Site are 52 underground tanks filled with a million gallons of grout that are then capped for perpetuity. ■






*(left) Downstream from the Savannah River Site, this vast swamp allowed for the quick dispersion of the reactors' 170°F discharge water.*

*(previous page & right) Glowing blue beneath 40 feet of water, these spent fuel assemblies must cool in pools such as this one for 18 to 24 months before they can be placed into dry casks to await permanent disposal in Yucca Mountain, NV.*


# Coming to Our Nation's Defense

## United Effort Against an Unseen Foe >

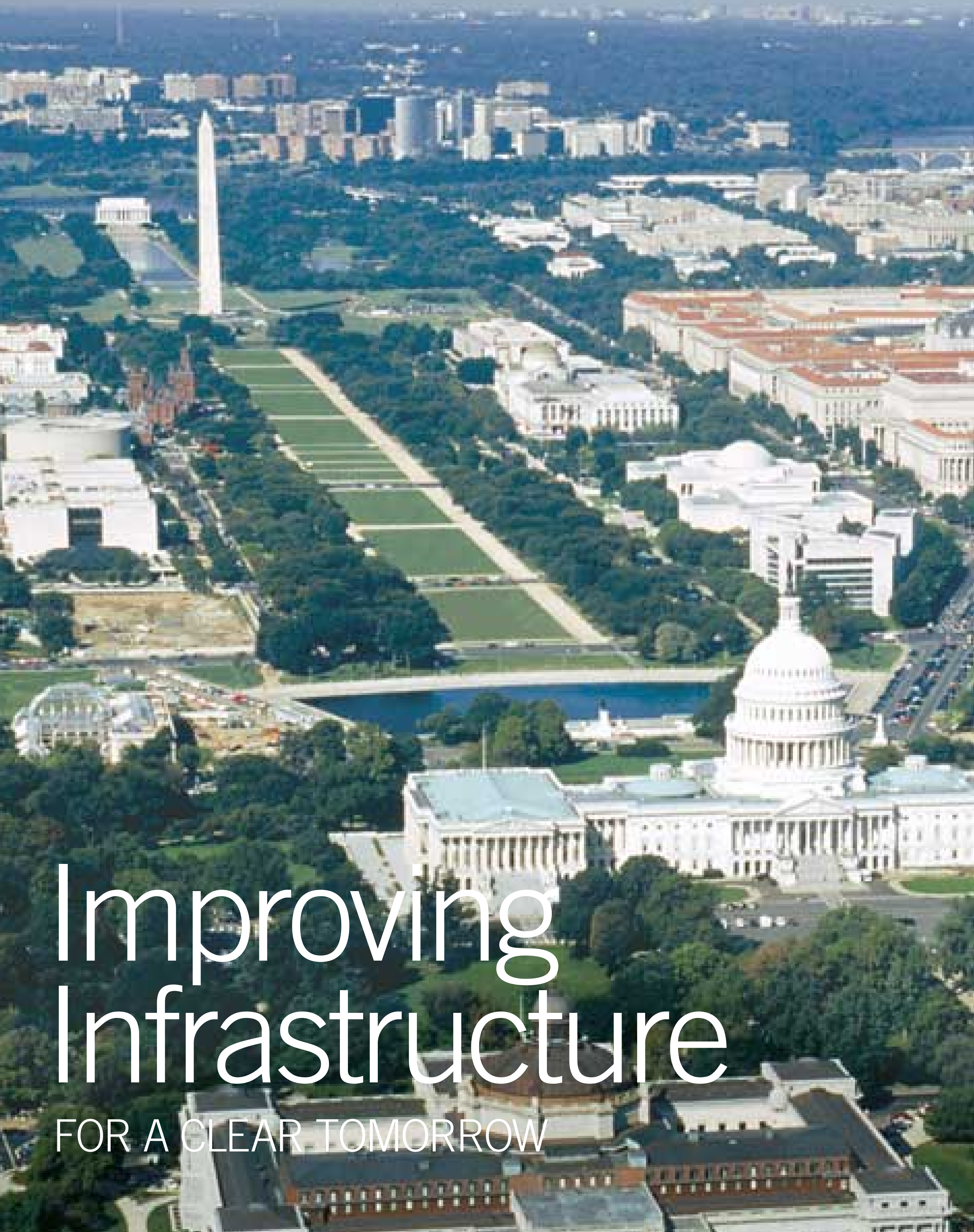
It was 9:30 at night when the call from the EPA's regional office reached Bob Helverson and Kevin Heym at Tetra Tech's Boothwyn, Pennsylvania office. The message was dire—bring all of your equipment and get down here—but otherwise gave no clue as to what they would be looking for or what potential threat they—we—were up against. Helverson and Heym and the rest of their response team were simply informed that there had been an "incident"—a suspicious letter found inside Senator Tom Daschle's office in the Hart Senate Office Building. They left for D.C. that night. Sampling inside Daschle's office, utilizing new Smart Ticket test strips, quickly revealed the culprit—anthrax. Immediately, the EPA called for backup. Tetra Tech personnel volunteered to respond for this dangerous duty, arriving from offices all over the country. In all, Tetra Tech employees would collect over 14,000 multimedia samples during the remediation process. Helverson and Heym

had even rewritten the decontamination protocol for workers exiting the hot zones—designing a series of three negatively pressurized 10' X 10' chambers wherein workers were rinsed using a common garden sprayer and bleach solution while standing in backyard "kiddie" pools. Sounds simple, but it worked. By the time the Hart building reopened for business nearly three months later, Helverson and Heym remarked, "You couldn't find a kiddie pool in D.C., anywhere!" ■

*(left) Tetra Tech provided the EPA with chlorine dioxide expertise for the fumigation phase of the anthrax decontamination project and designed the fumigation of the HVAC system in the Hart Senate Office Building.*

*(top right) For the past two years, Tetra Tech has been an active participant in terrorist response exercises for the EPA. In October 2001, under the emergency response provisions of the START Region 3 contract, Tetra Tech mobilized personnel and emergency response vehicles to Capitol Hill.*

*(bottom right) In a one week period, from the 18th of October through the 23rd, Tetra Tech searched for anthrax on all floors of the Hart Senate Office Building, several floors of the Dirksen and Ford buildings, portions of the Longworth building—and all of the U.S. Capitol and Supreme Court.*



# Improving Infrastructure

## FOR A CLEAR TOMORROW

## Infrastructure

**A green building in Manhattan, a smart school in New York, transportation breakthroughs in Los Angeles, securing our water supply and our nation. From transportation networks and industrial process design to meeting our water infrastructure needs, Tetra Tech presents six stories of design ingenuity that together are making for a clearer tomorrow.**

# Securing The Dome

### Designing Capitol Hill's Security Command Center >

Offices of the U.S. Senate and House of Representatives, the U.S. Supreme Court, the Library of Congress, the Capitol Power Plant and the Capitol Grounds—27 buildings and 25,000 federal employees. There, standing above it all, as decreed by George Washington in his plan for the heart of the American government, rises the Dome of the United States Capitol. A monument to the American people, it is perhaps one of the most symbolically important structures in the nation. Securing the 1.5 X 1.5 mile Capitol Hill Complex, some 15 million square feet including its vast underground installation, is no small task and one of significant national importance. Tetra Tech is proud to have been retained to provide design and engineering services for the Security Command Center. Utilizing a "virtual" design process including photo-realistic, 3D CADD techniques and animated fly-throughs, the design team was able to simultaneously apply ergonometric principles with technology to create a state-of-the-art, fully digital, inter-agency command center. ■

*Utilizing construction methods in which seams between the block walls and floor slabs are sealed before the insulation is installed, Battery Park City Site 18A may be the first residential high-rise to receive LEED (Leadership in Energy and Environmental Design) certification from the U.S. Green Building Council.*

# Lower Manhattan Goes Green

## Sustainable Design Enlivens Battery Park >

Created from the vast amounts of earth removed during the original construction of the World Trade Center, the neighborhood that came to be known as Battery Park in lower Manhattan still stands as tribute to those towers of American ingenuity—an ingenuity that continues to thrive in a community which leads the way in people-friendly and environmentally "green" buildings as mandated by the Hugh L. Carey Battery Park City Authority. There, on the banks of the Hudson, Tetra Tech's Marvin Lewin and his project team are engineering the country's first high-rise residential facility to fully incorporate sustainable design systems. Constructed from renewable and recycled resources, the new 24-story building at Battery Park City Site 18A must be 30% more energy-efficient than required by current New York state energy codes. Innovative features will include integrated photovoltaic panels, an on-site water treatment plant, air filtration and a humidity


control system—even thermostats that can be programmed by phone or Internet. And then there's the storm water collection system to keep the rooftop garden… green. ■

*(top & above) There were many plans suggested for the neighborhood that would come to be known as Battery Park City. And yet, every plan had three goals in common—to revitalize lower Manhattan, to encourage people to live downtown, and to create a "green" haven of trees and open space.*


# High Marks

## Innovative Campus Scores with Community >

In the scenic Finger Lakes region of New York, the "Crystal City" of Corning and her bucolic neighbor of Painted Post have grown together around a glass industry renowned the world over. Together, they are a community with a clear vision of the future and for their children. So when it came time to modernize their secondary schools, the Corning-Painted Post City School District turned to Tetra Tech's David Kuckuk, founding member of America's Schoolhouse Council, and his project team to rethink the District's approach—both in terms of education as well as finance and delivery of the project. Their answer—a new $61 million high school "campus," financed by an independent non-profit entity that draws its inspiration from the traditional college campus model. Although built to accommodate 2,000 students, each of the campus' four main wings has been designed as a separate school within the school—set around a central "Town Square" of core facilities, each autonomously servicing 500 students and a distinct faculty. It's a learner-centered approach that, in conjunction with the campus' high performance interior spaces, provides the best of both a large and small school—creating what Kuckuk has called the "Academic Hearth." ■

CORNING-PAINTED POST AREA SCHOOL DISTRICT

**New High School Campus**

***(left & above) The Corning Campus was the first school to apply for LEED certification in New York.***

# Uninterrupted Flow

## Quick Fix for Atlanta's Water Supply >

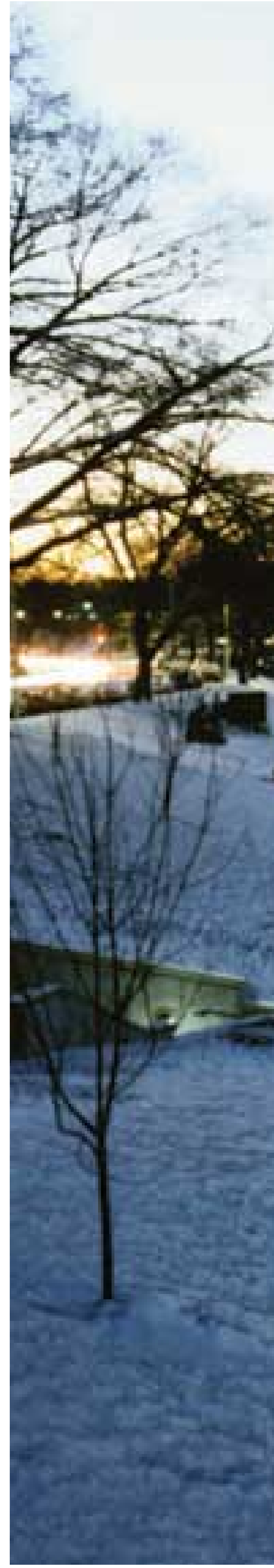
It begins as a spring, 3,200 feet up the aptly named "Chattahoochee Gap." Over the first 100 miles, the river falls almost 2,400 feet to form one of the South's premier lakes, Lake Lanier, before continuing downstream to provide water for millions of Georgians. Critical in meeting this demand is the City of Atlanta's 64 million gallon per day Chattahoochee Water Treatment Plant. When improvements were needed and needed in a hurry, including the construction of a residuals management facility and a new one million gallon filter back-wash recovery basin, Atlanta turned to Tetra Tech's Harold Schmidt to plan, permit and design both the delivery and construction methods. To facilitate the fast track approach, Schmidt and his design-build project team incorporated unconventional technologies usually reserved for the construction of harbors—drilling secant piles and creating a support structure even before excavating the first bucket of earth. In this way, as the tank was being dug, the walls—with support piles still in place—were being poured. A more conventional approach would have required 3 to 4 months of building time. Tetra Tech delivered a plan that had the Chattahoochee tank drilled and excavated, meeting the Consent Agreement reached with the Environmental Protection Department. ■

FLOOD DAMAGE IN KANSAS CITY

# Flood of Opportunity

## Creating a River in Kansas City >

Most of the time it's just a trickle, an inconsequential tributary that slowly winds through Kansas City before disappearing altogether into the Blue River and ultimately the Missouri River. But every once in a while, Mother Nature would fill Brush Creek to a raging torrent. And in 1977, a flood there killed 25 people and caused some $66 million in property damage. So the City of Kansas City and the Corps of Engineers came up with a plan. Simply put—a deeper and wider concrete ditch. Tetra Tech's Al Groves, however, had a much different idea. His experience taming wild rivers dates back nearly 40 years to San Antonio's renowned riverwalk, originally built by the Works Progress Administration in 1938 but extended by Groves and his associates for the 1968 Hemis Fair. For Brush Creek, Groves' team engineered what is in fact a series of small lakes and weirs and turned that inconsequential trickle into a beautiful consistent flow, with over a billion dollars in revenue generated along its now thriving banks. ■

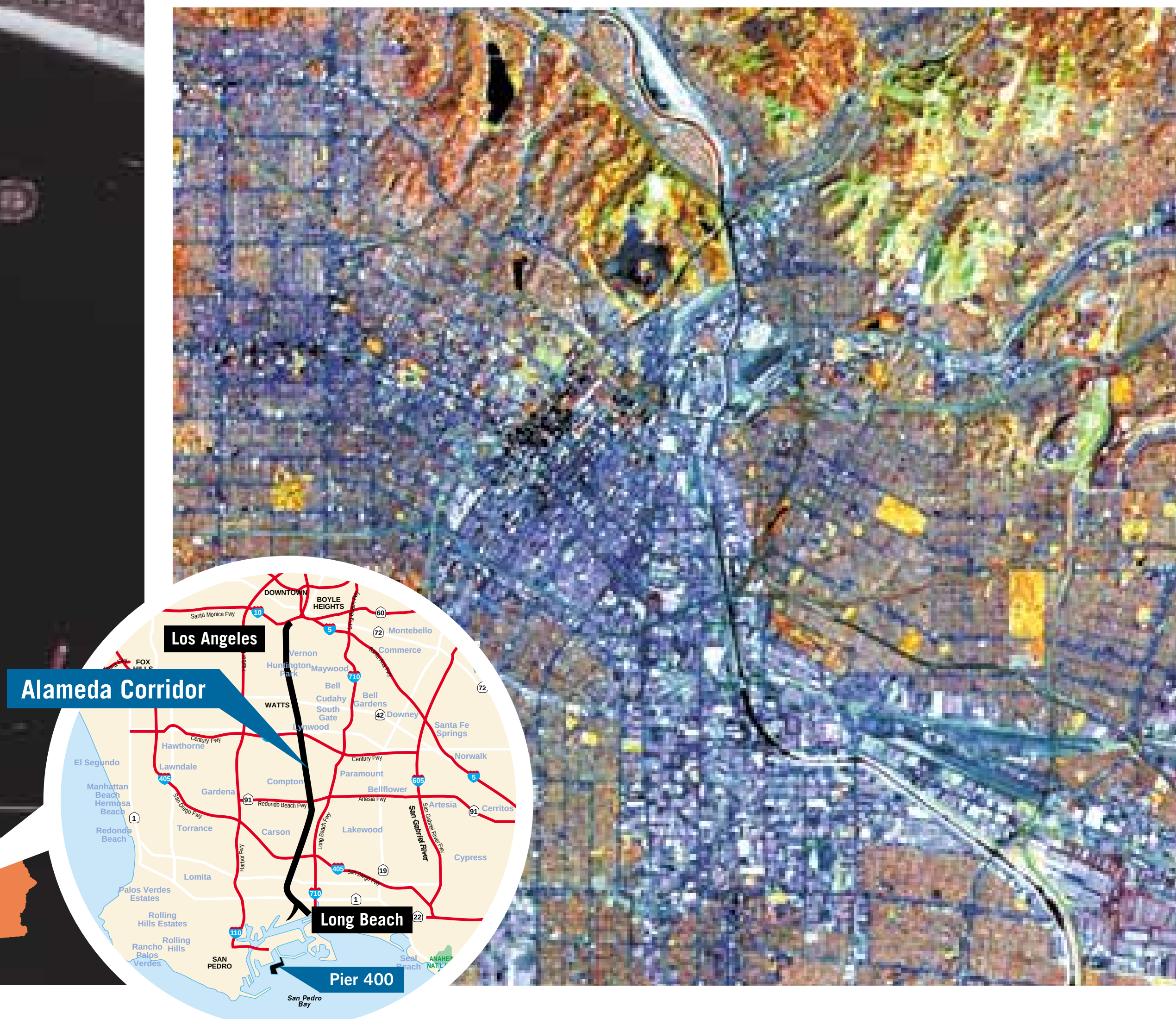

Kansas City
Missouri
Missouri R.
Brush Creek
Kansas City
70
JACKSON


# Avoiding Traffic

## Satellite Analysis Reveals the Alameda Corridor >

It's a staggering volume of cargo—10 million containers moving through the combined ports of Los Angeles and Long Beach every year. By 2020 that number will increase to some 30 million containers. Enter the Alameda Corridor—conceived as a 20-mile long, $2.5 billion freight and rail project design to transport goods from the largest port complex in the United States to all points north, south and east via the Intercontinental Railroad and the Federal highway system. But detangling 150 years of competing rail lines to cut a single swath through the urban heart of Southern California would prove to be one of the most ambitious transportation projects ever undertaken by the U.S. Department of Transportation. Although the project plan outlined a complex combination of surface improvements and bridges, it was the carving of a sub-surface rail trench—35 feet deep, 75 feet wide and 10 miles long—that proved the most challenging. Just where in the







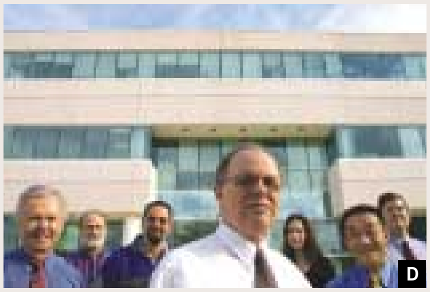
world would we put all that dirt? Tetra Tech engineer David Liu, working with his project team, helped to conceive and design the answer—Pier 400, a critical extension of the Los Angeles port complex. Still, it was the work of yet another Tetra Tech scientist, William Lyte, that really captured the attention of the DOT. Mr. Lyte and his team, partnering with the renowned Jet Propulsion Laboratory in Pasadena, California, developed software technology that allowed for high-resolution satellite imagery analysis of Federal Highway Intermodal Connectors along the Alameda Corridor. The resulting ICAT (Intermodal Connector Analysis Tool) can now be used for detailed analysis of transportation systems anywhere in the world. ■

*(left & top) The Alameda Corridor is the conduit to distribute goods from the largest port complex in the country.*

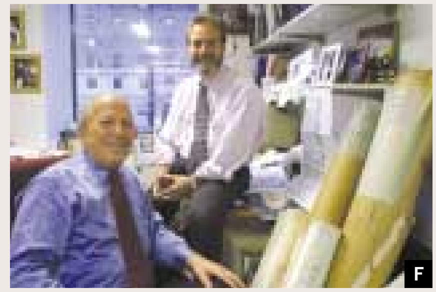
*(bottom right) Ikonos imagery such as this will provide a valuable contribution towards the reduction of Intermodal Connector design study costs and associated transportation planning.*

# In The Field >>












### A South San Francisco Bay
(L-R) Dr. Tom Grieb, Sally Liu, Clayton Creager, David Tucker (City of San Jose), and Dr. Tom Mumley (Regional Water Quality Control Board, Region 2) at the San Jose Waste Water Treatment Plant's discharge channel in San Jose, California.

### B Deep Aquifer
(L-R) Bret Icenogle, Steve Tedesco, and Cory Heggtveit at the Irvine Deep Aquifer Treatment Plant in Santa Ana, California.

### C Underground Resistance
(L-R) Michael Kovacich, Tesha Yielding, and Dr. Erik Petrovskis at Tetra Tech's Ann Arbor, Michigan office.

### D High Level Waste
(L-R) Jim Oliver, Phil Moore, Dr. Ernesto Faillace, Steve Connor, Michele Blackburn, Larry Ling (Department of Energy), and Phil Young outside Tetra Tech's Aiken, South Carolina office.

### E Anthrax Cleanup
(L-R) Bob Helverson, Bill Hagel, Matt Kandefer, and Kevin Scott in the equipment room at Tetra Tech's Boothwyn, Pennsylvania office.

### F Green Building
(L-R) Marvin Lewin and Peter Costa at Mr. Lewin's office in New York, New York.

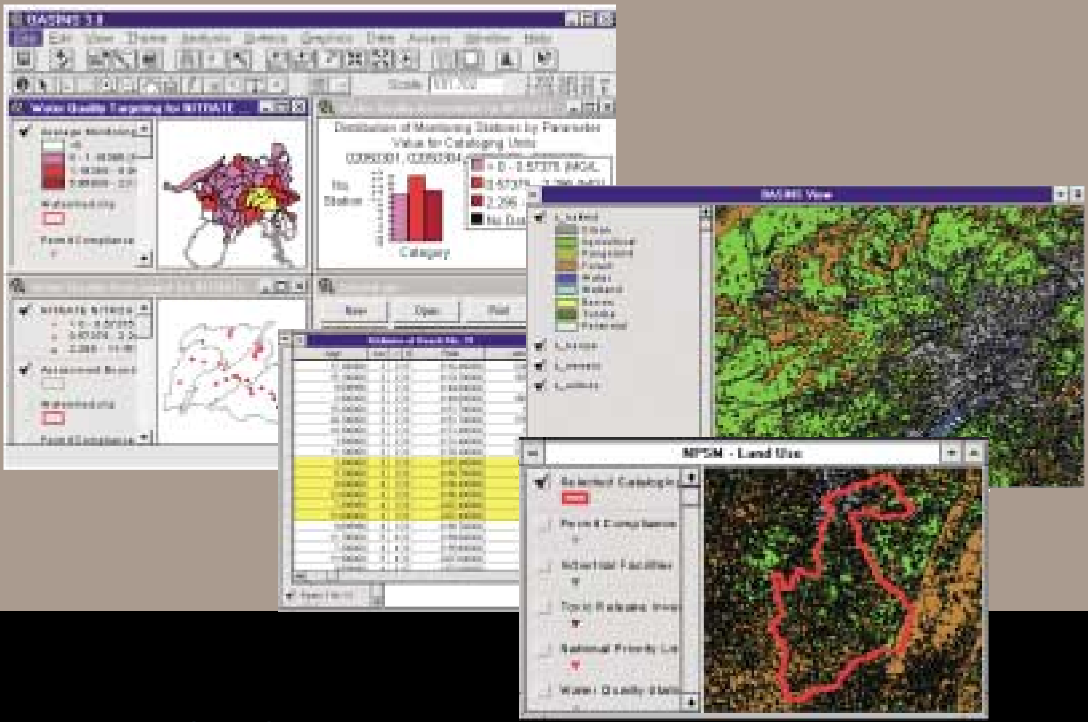
### G The New Campus
(Seated L-R) Christian Nielsen-Palacios, David J. Kuckuk, Bob Hastings (Standing L-R) Susan Deacon, Scott Duell, and Jamie Corts in the Ithaca, New York office.

### H Water Treatment Upgrades
(L-R) Troy Layton, Lee Hunt (City of Atlanta), and Harold Schmidt at the Chattahoochee Water Treatment Plant's Filtration Building in Atlanta, Georgia.

### I Riverwalks
Al Groves at his office in San Antonio, Texas.

### J Alameda Corridor Revealed
(L-R) Dr. Nevin Bryant (NASA JPL), Dr. Tom Logan (NASA JPL), and William Lyte at the Jet Propulsion Laboratory Visitor Center in Pasadena, California.

# THE LAST VIEW




(Seated L-R) Charlie MacPherson and George Townsend
(Standing L-R) Sean Donahoe, Dr. Paula Bienenfeld, Tom Magness, Robert Johnson, Jim Pagenkopf, Melissa DeSantis, Michael Betteker, Andrew Parker, and Henry Maguerra

Not shown: Dr. Leslie Shoemaker and Jim Parker

## BASINS

**Designing the EPA's Watershed Modeling System >**

**It was 30 years ago this year that the Federal Water Pollution Control Act Amendments of 1972 became part of our modern lexicon, more commonly known as the Clean Water Act. This Act gave the EPA authority to implement pollution control programs and requires states to set surface water quality standards. Since then, the nation has largely addressed its point source pollution—the easiest part of the nation's water pollution problem. Yet 40 percent of the nation's surface waters still do not meet water quality standards. The more complex problem is nonpoint source pollution, or pollution that does not emanate from a pipe.**

**Jim Pagenkopf and his project team have been using the latest mathematical and computer modeling techniques over the last decade to develop approaches and tools for addressing point and nonpoint source pollution. Known as BASINS (Better Assessment Science Integrating Point and Nonpoint Sources), this suite of computer applications has been adopted by the EPA as the national standard for assessing surface water quality. Tetra Tech has been distributing this technology down to the state level through hundreds of training seminars and state-specific contracts, and continues to update its water quality management "toolbox," going beyond BASINS to the next generation of software tools.**

**It's science and technology that continue to place Tetra Tech at the forefront of resource management and infrastructure design—science and technology that continue to seek clear solutions for the human planet.**

# Financial Table of Contents >>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# Selected Consolidated Financial Data >>

| Fiscal Year Ended (in thousands, except per share data) | Sept. 29, 2002 [1] | Sept. 30, 2001 [2] | Oct. 1, 2000 [3] | Oct. 3, 1999 [4] | Oct. 4, 1998 [5] |
|---|---|---|---|---|---|
| **Statements of Income Data** | | | | | |
| Gross revenue | $ 966,223 | $ 973,944 | $ 794,578 | $ 566,490 | $ 382,934 |
| Subcontractor costs | 225,508 | 243,880 | 196,457 | 134,410 | 85,337 |
| Net revenue | 740,715 | 730,064 | 598,121 | 432,080 | 297,597 |
| Cost of net revenue | 582,153 | 559,474 | 452,872 | 327,336 | 223,871 |
| Gross profit | 158,562 | 170,590 | 145,249 | 104,744 | 73,726 |
| Selling, general and administrative expenses | 98,141 | 121,348 | 71,004 | 49,320 | 33,913 |
| Income from operations | 60,421 | 49,242 | 74,245 | 55,424 | 39,813 |
| Net interest expense | 5,452 | 8,543 | 7,026 | 3,135 | 1,910 |
| Income before minority interest and income tax expense | 54,969 | 40,699 | 67,219 | 52,289 | 37,903 |
| Minority interest | – | – | – | – | 1,397 |
| Income before income tax expense | 54,969 | 40,699 | 67,219 | 52,289 | 36,506 |
| Income tax expense | 23,059 | 9,874 | 26,777 | 23,174 | 15,920 |
| Net income | $ 31,910 | $ 30,825 | $ 40,442 | $ 29,115 | $ 20,586 |
| Basic earnings per share | $ 0.60 | $ 0.61 | $ 0.83 | $ 0.63 | $ 0.47 |
| Diluted earnings per share | $ 0.58 | $ 0.57 | $ 0.78 | $ 0.59 | $ 0.45 |
| Weighted average common shares outstanding: | | | | | |
| Basic | 52,760 | 50,939 | 48,754 | 46,449 | 43,703 |
| Diluted | 55,086 | 54,166 | 52,003 | 49,438 | 45,610 |

| (in thousands) | Sept. 29, 2002 | Sept. 30, 2001 | Oct. 1, 2000 | Oct. 3, 1999 | Oct. 4, 1998 |
|---|---|---|---|---|---|
| **Balance Sheet Data** | | | | | |
| Working capital | $ 199,737 | $ 192,991 | $ 154,341 | $ 86,313 | $ 77,049 |
| Total assets | 671,980 | 607,221 | 526,038 | 380,478 | 266,610 |
| Long-term obligations, excluding current portion | 110,000 | 111,779 | 85,532 | 37,289 | 33,546 |
| Stockholders' equity | 416,303 | 372,146 | 297,907 | 234,432 | 167,781 |

(1) We have included the results of operations and financial positions of Thomas Associates Architects, Engineers, Landscape Architects P.C. and America's Schoolhouse Consulting Services, Inc. (collectively acquired March 25, 2002), Hartman & Associates, Inc. (acquired March 29, 2002) and Ardaman & Associates, Inc. (acquired June 28, 2002) from their respective effective acquisition dates.

(2) 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 their respective effective acquisition dates.

(3) 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 their respective effective acquisition dates.

(4) 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 their respective 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), McNamee, Porter & Seeley, Inc. (acquired July 8, 1998) and the Sentrex Group of Companies (acquired September 22, 1998) from their respective effective acquisition dates.

# Management's Discussion and Analysis of Financial Condition and Results of Operations >>

This Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements regarding future events and our future results that are based on current expectations, estimates, forecasts and projections about the industries in which we operate and the beliefs and assumptions of our management. Words such as "expects," "anticipates," "projects," "intends," "plans," "believes," "estimates," and similar expressions are intended to identify such forward-looking statements. Readers are cautioned that these forward-looking statements are only predictions and are subject to risks, uncertainties and assumptions that are difficult to predict. Therefore, actual results may differ materially and adversely from those expressed in any forward-looking statements. Readers are referred to risks and uncertainties identified below, as well as in any other documents filed by us with the Securities and Exchange Commission, specifically the most recent reports on Forms 10-K, 10-Q, and 8-K, each as it may be amended from time to time. We undertake no obligation to revise or update publicly any forward-looking statements for any reason.

## Overview >

Tetra Tech, Inc. is a leading provider of consulting, engineering and technical services. As a consultant, we assist our clients in defining problems and developing innovative and cost-effective solutions. Our consulting services are complemented by our engineering and technical services. These services span the lifecycle of a project, and include research and development, applied science and technology, engineering 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 have increased the size and scope of our business and have expanded our service offerings through a series of strategic acquisitions and internal growth.

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, changes in gross revenue may not be indicative of business trends. Accordingly, we report 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 indentified.

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 finance and accounting, information technology, marketing, and bid and proposal costs. These costs are generally unrelated to specific client projects and can vary as expenses are incurred supporting corporate activities and initiatives. We also include in SG&A expenses the charges to bad debt expense to provide reserves for account debtors and the amortization of certain intangible assets resulting from acquisitions.

We provide services to a diverse base of Federal, state and local government agencies, and commercial 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 2002 | Fiscal 2001 | Fiscal 2000 |
|---|---|---|---|
| Federal government | 25.1% | 24.5% | 29.1% |
| State and local governments | 23.5 | 18.1 | 16.3 |
| Commercial | 49.1 | 54.2 | 51.4 |
| International | 2.3 | 3.2 | 3.2 |
| Total | 100.0% | 100.0% | 100.0% |

Through fiscal 2002, we managed 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 2002 | Fiscal 2001 | Fiscal 2000 |
|---|---|---|---|
| Resource Management | 48.2% | 40.0% | 41.3% |
| Infrastructure | 36.1 | 34.0 | 31.8 |
| Communications | 14.9 | 25.3 | 25.6 |
| Other revenue | 0.8 | 0.7 | 1.3 |
| 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, notably the Federal government, 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;
- Reductions in the prices of services offered by our competitors;
- 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 2002, we purchased four companies in the following three transactions:

The Thomas Group of Companies—In March 2002, we acquired Thomas Associates Architects, Engineers, Landscape Architects P.C. and America's Schoolhouse Consulting Services, Inc. (collectively, TGI). The purchase was valued at approximately $22.4 million. TGI, a New York-based architectural and engineering firm, provides a full range of architectural, engineering and planning services for educational buildings and school systems primarily in the eastern region of the United States.

Hartman & Associates, Inc.—In March 2002, we acquired Hartman & Associates, Inc. (HAI). The purchase was valued at approximately $10.8 million. HAI, a Florida-based engineering services firm, provides engineering, construction management and consulting services primarily in the southeastern region of the United States.

Ardaman & Associates, Inc.—In June 2002, we acquired Ardaman & Associates, Inc. (AAI). The purchase was valued at approximately $22.0 million. AAI, a Florida-based engineering services firm, provides geotechnical, geophysical and hydrogeological consulting and engineering services primarily in the southeastern region of the United States.

## 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. 29, 2002 | Sept. 30, 2001 | Oct. 1, 2000 |
|---|---|---|---|
| Net revenue | 100.0% | 100.0% | 100.0% |
| Cost of net revenue | 78.6 | 76.6 | 75.7 |
| Gross profit | 21.4 | 23.4 | 24.3 |
| Selling, general and administrative expenses | 13.2 | 16.7 | 11.9 |
| Income from operations | 8.2 | 6.7 | 12.4 |
| Net interest expense | 0.8 | 1.1 | 1.2 |
| Income before income tax expense | 7.4 | 5.6 | 11.2 |
| Income tax expense | 3.1 | 1.4 | 4.4 |
| Net income | 4.3% | 4.2% | 6.8% |

## Fiscal 2002 Compared to Fiscal 2001 >

Net Revenue. Net revenue increased $10.7 million, or 1.5%, to $740.7 million in fiscal 2002 from $730.1 million in fiscal 2001.

Our Resource Management business area recognized growth in its net revenue of $64.6 million, or 22.1%, in fiscal 2002 from fiscal 2001. This growth was primarily due to an increase in our water resource management business, as well as our acquisition of AAI. Our Resource Management business experienced increases in net revenue from Federal, state and local government, and commercial clients. These increases were attributable in part to the nation's focus on addressing nonpoint source surface water pollution.

Our Infrastructure business area recognized growth in its net revenue of $19.3 million, or 7.8%, in fiscal 2002 from fiscal 2001. This growth was primarily due to our acquisitions of TGI and HAI. Excluding the net revenue provided by these acquisitions, we realized a decline in our net revenue of $9.1 million in fiscal 2002 from fiscal 2001. This decrease was primarily attributable to economic conditions impacting our commercial clients in certain geographic regions.

Our Communications business area recognized a decrease in its net revenue of $74.1 million, or 40.1%, in fiscal 2002 from fiscal 2001. This decrease was primarily due to the economic decline of the communications industry, as well as turmoil among wireless and wired communications providers and an overall reduction in spending by information carriers. As a result of this reduction in spending, we experienced contract delays, and certain of our existing and potential clients either postponed entering into new contracts or requested price concessions.

# Management's Discussion and Analysis of Financial Condition and Results of Operations >>

Overall, net revenue provided by our Federal and state and local government clients increased by 4.1% and 32.0%, respectively, in fiscal 2002 from fiscal 2001, while net revenue from our commercial and international clients decreased by 8.2% and 27.9%, respectively, in fiscal 2002 from fiscal 2001. We segregate from our total revenue the 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 2002 totaled $39.0 million. Excluding this net revenue, we realized a 3.9% decline in our net revenue in fiscal 2002 from fiscal 2001. Acquisitive net revenue for fiscal 2002 totaled $84.3 million. Excluding this net revenue, we realized a decline in our organic net revenue of 10.1%.

Gross revenue decreased $7.7 million, or 0.8%, to $966.2 million in fiscal 2002 from $973.9 million in fiscal 2001. As a percentage of gross revenue, subcontractor costs were 23.3% in fiscal 2002 compared to 25.0% in fiscal 2001.

Cost of Net Revenue. Cost of net revenue increased $22.7 million, or 4.1%, to $582.2 million in fiscal 2002 from $559.5 million in fiscal 2001. As a percentage of net revenue, cost of net revenue increased to 78.6% in fiscal 2002 from 76.6% in fiscal 2001. This increase is attributable to a reduction in direct costs that was not commensurate with the reduction in our net revenue, primarily in our Communications business.

Professional compensation, the largest component of our cost of net revenue, rose as the number of employees, measured as full-time equivalents, increased by 132, or 1.9%, to 6,952 in fiscal 2002 from 6,820 in fiscal 2001. Excluding the 853 employees employed by acquired companies, we experienced a reduction in the number of full-time equivalent employees.

Gross profit decreased $12.0 million, or 7.1%, to $158.6 million in fiscal 2002 from $170.6 million in fiscal 2001. As a percentage of net revenue, gross profit decreased to 21.4% in fiscal 2002 from 23.4% in fiscal 2001.

Selling, General and Administrative Expenses. SG&A expenses, exclusive of amortization expense, decreased $24.9 million, or 22.1%, to $87.3 million in fiscal 2002 from $112.2 million in fiscal 2001. As a percentage of net revenue, such SG&A expenses decreased to 11.8% in fiscal 2002 from 15.4% in fiscal 2001. The change from fiscal 2001 to fiscal 2002 resulted primarily from several significant factors. Fiscal 2001 included a $38.3 million charge taken in the third quarter to provide a reserve for an account debtor. Fiscal 2002 included a $9.3 million reduction of this charge due to the estimated ultimate recovery, of which $6.1 million was collected during the fourth quarter of fiscal 2002. Fiscal 2002 SG&A expenses also included a $4.1 million charge taken in the fourth quarter in connection with a jury verdict handed down in December 2002. Excluding the factors mentioned above, SG&A expenses increased $18.6 million, or 25.1%, to $92.5 million in fiscal 2002 from $73.9 million in fiscal 2001. The increase includes costs incurred related to the recovery of the $9.3 million, additional bad debt expense to reserve for solvency issues of other communications clients, as well as SG&A expenses of acquired companies.

Our SG&A expenses vary as a result of corporate initiatives such as business development and the upgrade of our corporate business systems, as well as other discretionary spending. We experienced higher proportional costs in these areas in fiscal 2002. Our SG&A expenses will continue to vary due to the timing and magnitude of discretionary expenditures. The amortization expense related to acquisitions increased $1.6 million, or 17.6%, to $10.8 million in fiscal 2002 from $9.2 million in fiscal 2001.

Net Interest Expense. Net interest expense decreased $3.0 million, or 36.2%, to $5.5 million in fiscal 2002 from $8.5 million in fiscal 2001. This decrease was primarily attributable to lower variable interest rates on borrowings on our credit facility, lower actual borrowings and interest income receivable on income tax refunds for prior years. In fiscal 2002, borrowings under our credit facility and indebtedness outstanding from our senior secured notes averaged $126.4 million at a weighted average interest rate of 4.8%, compared to $130.9 million at a weighted average interest rate of 7.1% in fiscal 2001. In addition, in October 2001, we received notification from the Internal Revenue Service of its approval of our request for an accounting method change for certain entities. Accordingly, in fiscal 2002, we amended our Federal income tax returns for the periods and entities impacted by this change. This change has no impact on our effective income tax rate. However, $2.6 million was included in interest income in fiscal 2002 for the retroactive refunds of income tax payments.

Income Tax Expense. Income tax expense increased $13.2 million, or 133.5%, to $23.1 million in fiscal 2002 from $9.9 million in fiscal 2001. Our effective tax rate increased from 24.3% in fiscal 2001 to 41.9% in fiscal 2002. The increase in our effective income tax rate is primarily due to lower estimated income tax credits for fiscal 2002 and changes in our effective income tax rates in state and local jurisdictions. In addition, fiscal 2001 included $7.0 million in income tax credits related to prior years.

## Fiscal 2001 Compared to Fiscal 2000 >

Net Revenue. Net revenue increased $131.9 million, or 22.1%, to $730.1 million in fiscal 2001 from $598.1 million in fiscal 2000. We recognized net revenue increases in actual dollars in all three business segments and all four client sectors. Our Resource Management business area recognized growth in its net revenue of 18.4% in fiscal 2001 from fiscal 2000 due primarily to an increase in our water and waste management business and certain fiscal 2001 acquisitions. Our Infrastructure business area recognized net revenue growth of 30.3% in fiscal 2001 from fiscal 2000 due primarily to the expansion of our infrastructure services throughout the United States and certain fiscal 2001 acquisitions. Although the net revenue growth in our Communications business area declined from growth levels we experienced in the past, we still achieved net revenue growth of 20.4% in this area in fiscal 2001 from fiscal 2000. 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, in fiscal 2001 from fiscal 2000.

We segregate from our total revenue the 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 an increase in our organic net revenue of 8.4%.

Gross revenue increased $179.4 million, or 22.6%, to $973.9 million in fiscal 2001 from $794.6 million in fiscal 2000. As a percentage of gross revenue, subcontractor costs were 25.0% in fiscal 2001 as compared to 24.7% in fiscal 2000.

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 to 76.6% in fiscal 2001 from 75.7% 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 employed by acquired companies, we experienced a reduction in the number of full-time equivalent employees. Gross profit increased $25.3 million, or 17.4%, to $170.6 million in fiscal 2001 from $145.2 million in fiscal 2000. As a percentage of net revenue, gross profit decreased to 23.4% in fiscal 2001 from 24.3% in fiscal 2000.

Selling, General and Administrative Expenses. SG&A expenses, exclusive of amortization expense, increased $47.6 million, or 73.8%, to $112.2 million in fiscal 2001 from $64.5 million in fiscal 2000. As a percentage of net revenue, such SG&A expenses increased to 15.4% in fiscal 2001 from 10.8% in fiscal 2000. This significant increase was primarily attributable to a $38.3 million charge taken in the third quarter of fiscal 2001 for an account debtor that had filed for bankruptcy protection. Excluding this charge, our SG&A expenses increased $9.3 million, or 14.4%, to $73.9 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 the upgrade of 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% 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 decreased $16.9 million, or 63.1%, to $9.9 million in fiscal 2001 from $26.8 million in fiscal 2000. This decrease was primarily due to the realization of certain tax credits. 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 was approximately 39.0%. Accordingly, we amended our fiscal 2000 Federal income tax return in fiscal 2001 to reflect these credits and amended income tax returns for fiscal years 1997, 1998 and 1999 in fiscal 2002. Fiscal 2001 includes $7.0 million in income tax credits related to prior years.

## Unaudited Quarterly Operating Results >

The following tables set forth certain unaudited quarterly operating results for each of our last three fiscal years ended September 29, 2002, September 30, 2001 and October 1, 2000. This data is also expressed as a percentage of net revenue for the respective quarters. The information has been derived from our 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 >>

| ($ in thousands) | Fiscal 2002 Quarter Ended Dec. 30, 2001 | Mar. 31, 2002 | Jun. 30, 2002 | Sep. 29, 2002 | Fiscal 2001 Quarter Ended Dec. 31, 2000 | Apr. 1, 2001 | Jul. 1, 2001 | Sep. 30, 2001 | Fiscal 2000 Quarter Ended Jan. 2, 2000 | Apr. 2, 2000 | Jul. 2, 2000 | Oct. 1, 2000 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Net revenue | $184,889 | $178,073 | $185,436 | $192,317 | $167,138 | $179,658 | $191,548 | $191,720 | $129,171 | $138,846 | $156,468 | $173,636 |
| Cost of net revenue | 139,977 | 142,851 | 148,607 | 150,718 | 128,405 | 138,254 | 147,022 | 145,793 | 100,417 | 109,562 | 116,266 | 126,627 |
| Gross profit | 44,912 | 35,222 | 36,829 | 41,599 | 38,733 | 41,404 | 44,526 | 45,927 | 28,754 | 29,284 | 40,202 | 47,009 |
| Selling, general and administrative expenses | 24,111 | 25,054 | 22,793 | 26,183 | 20,583 | 21,043 | 60,046 | 19,676 | 14,021 | 13,304 | 20,529 | 23,150 |
| Income (loss) from operations | 20,801 | 10,168 | 14,036 | 15,416 | 18,150 | 20,361 | (15,520) | 26,251 | 14,733 | 15,980 | 19,673 | 23,859 |
| Net interest expense (income) | 2,205 | 1,477 | 2,235 | (465) | 1,994 | 2,200 | 2,278 | 2,071 | 1,228 | 1,473 | 1,958 | 2,367 |
| Income (loss) before income tax expense (benefit) | 18,596 | 8,691 | 11,801 | 15,881 | 16,156 | 18,161 | (17,798) | 24,180 | 13,505 | 14,507 | 17,715 | 21,492 |
| Income tax expense (benefit) | 7,253 | 3,389 | 3,701 | 8,716 | 6,786 | 7,627 | (13,969) | 9,430 | 5,942 | 6,383 | 7,795 | 6,657 |
| Net income (loss) | $ 11,343 | $ 5,302 | $ 8,100 | $ 7,165 | $ 9,370 | $ 10,534 | $ (3,829) | $ 14,750 | $ 7,563 | $ 8,124 | $ 9,920 | $ 14,835 |

| (in thousands) | Fiscal 2002 Quarter Ended Dec. 30, 2001 | Mar. 31, 2002 | Jun. 30, 2002 | Sep. 29, 2002 | Fiscal 2001 Quarter Ended Dec. 31, 2000 | Apr. 1, 2001 | Jul. 1, 2001 | Sep. 30, 2001 | Fiscal 2000 Quarter Ended Jan. 2, 2000 | Apr. 2, 2000 | Jul. 2, 2000 | Oct. 1, 2000 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 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 | 75.7 | 80.2 | 80.1 | 78.4 | 76.8 | 77.0 | 76.8 | 76.0 | 77.7 | 78.9 | 74.3 | 72.9 |
| Gross profit | 24.3 | 19.8 | 19.9 | 21.6 | 23.2 | 23.0 | 23.2 | 24.0 | 22.3 | 21.1 | 25.7 | 27.1 |
| Selling, general and administrative expenses | 13.0 | 14.1 | 12.3 | 13.6 | 12.3 | 11.7 | 31.3 | 10.3 | 10.9 | 9.6 | 13.1 | 13.4 |
| Income (loss) from operations | 11.3 | 5.7 | 7.6 | 8.0 | 10.9 | 11.3 | (8.1) | 13.7 | 11.4 | 11.5 | 12.6 | 13.7 |
| Net interest expense (income) | 1.2 | 0.8 | 1.2 | (0.3) | 1.2 | 1.2 | 1.2 | 1.1 | 0.9 | 1.1 | 1.3 | 1.3 |
| Income (loss) before income tax expense (benefit) | 10.1 | 4.9 | 6.4 | 8.3 | 9.7 | 10.1 | (9.3) | 12.6 | 10.5 | 10.4 | 11.3 | 12.4 |
| Income tax expense (benefit) | 4.0 | 1.9 | 2.0 | 4.6 | 4.1 | 4.2 | (7.3) | 4.9 | 4.6 | 4.5 | 5.0 | 3.9 |
| Net income (loss) | 6.1% | 3.0% | 4.4% | 3.7% | 5.6% | 5.9% | (2.0)% | 7.7% | 5.9% | 5.9% | 6.3% | 8.5% |

## Liquidity and Capital Resources >

As of September 29, 2002, our working capital was $199.7 million, an increase of $6.7 million from $193.0 million as of September 30, 2001, of which cash and cash equivalents totaled $46.3 million and $16.2 million at September 29, 2002 and September 30, 2001, respectively. In fiscal 2002, net cash of $95.2 million was provided by operating activities and $52.2 million was used in investing activities, of which $45.1 million was related to business acquisitions. In fiscal 2001, net cash of $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 both fiscal 2002 and 2001, cash provided by operating activities was affected by the structure of certain transactions. In certain acquisitions, we assigned accounts receivable to the former owners of the acquired companies at the time of the transactions in lieu of cash consideration. This structure allowed us to reduce our cash used in investing activities. However, we needed to provide cash in future periods to finance the working capital requirements of the acquired companies. In fiscal 2002, in the AAI acquisition, accounts receivable in the aggregate amount of $7.4 million were assigned to the former owners. In fiscal 2001, in the Williams, Hatfield & Stoner, Inc. acquisition, accounts receivable in the aggregate amount of $3.8 million were assigned to the former owners. 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 previously assigned receivables in fiscal years 2002, 2001 and 2000 totaled $6.0 million, $5.2 million and $10.7 million, respectively. If we had not assigned these receivables at the time of acquisition, cash provided by operating activities in fiscal years 2002 and 2001 could have been $101.2 million and $49.5 million, respectively, and cash used in operating activities for fiscal year 2000 could have been $1.5 million.

Our capital expenditures during fiscal years 2002 and 2001 were approximately $7.2 million and $11.0 million, respectively. Capital expenditures were primarily for the replacement of field equipment, the enhancement of computer equipment and office improvement.

We have a credit agreement with various financial institutions (the "Credit Agreement") that 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 2002, maximum borrowings under the Facility were $25.0 million. At September 29, 2002, there were no outstanding borrowings under the Facility and standby letters of credit totaled $3.6 million. 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 Notes, totaling $92.0 million with an interest rate of 7.28%, and maturing on May 30, 2011; and Series B Notes, totaling $18.0 million with an interest rate of 7.08%, and maturing on May 30, 2008. At September 29, 2002, 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 2003. 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.

The following sets forth (in thousands) our contractual obligations at September 29, 2002:

**Payments due by period**

| | Total | Less than 1 year | 2-3 years | 4-5 years | More than 5 years |
|---|---|---|---|---|---|
| Long-term debt | $ 111,600 | $ 1,600 | $ 20,343 | $ 33,486 | $ 56,171 |
| Operating leases | 143,615 | 31,229 | 45,378 | 27,022 | 39,986 |
| Total | $ 255,215 | $ 32,829 | $ 65,721 | $ 60,508 | $ 96,157 |

## Critical Accounting Policies >

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements which have been prepared in accordance with accounting principles generally accepted in the United States of America. The presentation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. We base our estimates and assumptions on historical experience and on various other factors that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities. Actual results may differ from these estimates under different assumptions or conditions.

# Management's Discussion and Analysis of Financial Condition and Results of Operations >>

We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our consolidated financial statements.

Revenue Recognition: Contract revenue is recognized on the percentage-of-completion method based on contract costs incurred to date compared with total estimated contract costs. This method of revenue recognition requires us to prepare estimates of costs to complete for contracts in progress. In making such estimates, judgments are required to evaluate contingencies such as potential variances in schedule and the cost of material and labor, claims, and disputes or achievement of contractual performance standards. Changes in total estimated contract costs and losses, if any, are recognized in the period they are determined.

Allowance for Doubtful Accounts: Allowances for doubtful accounts are maintained for estimated losses resulting from the inability of our customers to make required payments. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

Legal Claims: From time to time, we may be involved in litigation relating to claims arising out of our operations in the normal course of business. We regularly evaluate our exposure to threatened or pending litigation and other business contingencies and accrue for estimated losses on such matters in accordance with Statement of Financial Accounting Standard (SFAS) No. 5, Accounting for Contingencies. Except as described below, we have not been affected by any litigation or other contingencies that have had, or are currently anticipated to have, a material impact on our results of operations or financial position. As additional information about current or future litigation or other contingencies becomes available, management will assess whether such information warrants the recording of additional expense relating to those contingencies. Such additional expense could potentially have a material impact on our results of operations and financial position.

On December 2, 2002, a jury in Washington County Court in Bartlesville, Oklahoma handed down a $4.1 million verdict against us in our dispute with Horsehead Industries, Inc., doing business as Zinc Corporation of America. We are in the process of filing an appeal in this matter and are also pursuing other legal alternatives related to this case. However, because a verdict has been rendered, we have established a $4.1 million reserve for this matter in SG&A expenses in our consolidated statement of income for the year ended September 29, 2002.

Income Taxes: We have embarked on several tax initiatives in order to reduce our effective tax rate. As a result, we recognized the benefit of certain tax credits during fiscal 2002 and fiscal 2001. The amount of credits recognized for financial statement purposes represent the amount that we estimate will be ultimately realizable.

## Recently Issued Financial Standards >

In July 2001, the Financial Accounting Standards Board (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 fiscal year ended September 29, 2002, goodwill amortization expense was $10.8 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. The adoption of this statement will result in our discontinuation of amortization of our goodwill. We are currently in the process of completing the two-step transitional impairment test required by SFAS No. 142 to determine whether there was a potential impairment to recorded goodwill as of September 30, 2002. Step one requires us to compare the fair value of each reporting unit with its respective carrying amount, including goodwill. If the carrying value exceeds its fair value, step two will be performed to measure the amount of impairment loss, if any. Step one of the transitional impairment test will be completed during the first six months of fiscal 2003. Step two of the transitional impairment test must be completed by September 28, 2003 and the resulting impairment loss, if any, will be recorded as a cumulative effect of accounting change in the consolidated statement of operations.

Although we are currently evaluating the impact of the adoption of SFAS No. 142, we believe that it is likely that a portion of our goodwill is impaired under SFAS No. 142, and the resulting impairment loss could have a material impact on our consolidated financial statements.

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. We are currently analyzing the impact of this statement and we will adopt this statement in fiscal 2003.

In July 2002, the FASB issued SFAS No. 146, Accounting for Exit or Disposal Activities. SFAS No. 146 addresses the recognition, measurement, and reporting of costs that are associated with exit and disposal activities, including certain lease termination costs and severance-type costs under a one-time benefit arrangement rather than an ongoing benefit arrangement or an individual deferred compensation agreement. SFAS No. 146 requires liabilities associated with exit or disposal activities to be expensed as incurred and will impact the timing of recognition for exit or disposal activities that are initiated after December 31, 2002. We will apply the provisions of SFAS No. 146 to any exit or disposal activities that we initiate after December 31, 2002.

## Market Risks >

We do not currently utilize any material derivative financial instruments that 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 $1.6 million of our long-term obligations in fiscal 2003. Assuming we pay our long-term obligations in the amount of $1.6 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 less than $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% with interest payments made semiannually. Principal payments on these notes will be paid annually at the rate of $13.1 million per year commencing fiscal 2005 through fiscal 2011. The Series B Notes bear interest at 7.08% with interest payments made semiannually. Principal payments on these notes will be paid annually at the rate of $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 $4.8 million. If interest rates decreased by 1%, the fair value could increase by $5.1 million. We presently have no material contracts under which the currency is not denominated in U.S. dollars. Accordingly, foreign exchange rate fluctuations would not have a material impact on our financial statements.

# Independent Auditors' Report >>

Tetra Tech, Inc.:

We have audited the accompanying consolidated balance sheets of Tetra Tech, Inc. and its subsidiaries as of September 29, 2002 and September 30, 2001, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended September 29, 2002. 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 29, 2002 and September 30, 2001, and the results of their operations and their cash flows for each of the three years in the period ended September 29, 2002, in conformity with accounting principles generally accepted in the United States of America.

Deloitte + Touche LLP

DELOITTE & TOUCHE LLP

Los Angeles, California
December 20, 2002

# Consolidated Balance Sheets >>

| | Sept. 29, 2002 | Sept. 30, 2001 |
|---|---|---|
| **ASSETS** | | |
| Current Assets: | | |
| Cash and cash equivalents | $ 46,345,000 | $ 16,240,000 |
| Accounts receivable—net | 137,354,000 | 152,761,000 |
| Unbilled receivables—net | 117,354,000 | 120,925,000 |
| Contract retentions | 5,090,000 | 5,103,000 |
| Prepaid expenses and other current assets | 18,588,000 | 13,927,000 |
| Income taxes receivable | 20,683,000 | 3,608,000 |
| Deferred income taxes | – | 3,723,000 |
| Total Current Assets | 345,414,000 | 316,287,000 |
| Property and Equipment: | | |
| Equipment, furniture and fixtures | 76,756,000 | 69,077,000 |
| Leasehold improvements | 8,217,000 | 6,715,000 |
| Total | 84,973,000 | 75,792,000 |
| Accumulated depreciation and amortization | (44,847,000) | (35,856,000) |
| Property and Equipment—Net | 40,126,000 | 39,936,000 |
| Intangible Assets—Net | 279,934,000 | 245,019,000 |
| Other Assets | 6,506,000 | 5,979,000 |
| Total Assets | $ 671,980,000 | $ 607,221,000 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| Current Liabilities: | | |
| Accounts payable | $ 60,038,000 | $ 53,977,000 |
| Accrued compensation | 34,228,000 | 29,738,000 |
| Billings in excess of costs on uncompleted contracts | 11,837,000 | 10,354,000 |
| Other current liabilities | 19,377,000 | 14,899,000 |
| Deferred income taxes | 18,638,000 | – |
| Current portion of long-term obligations | 1,559,000 | 14,328,000 |
| Total Current Liabilities | 145,677,000 | 123,296,000 |
| Long-term Obligations | 110,000,000 | 111,779,000 |
| 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 29, 2002 and September 30, 2001 | – | – |
| Exchangeable stock of a subsidiary | 13,239,000 | 13,239,000 |
| Common stock—authorized, 85,000,000 shares of $.01 par value; issued and outstanding 53,273,227 and 52,247,777 shares at September 29, 2002 and September 30, 2001, respectively | 533,000 | 522,000 |
| Additional paid-in capital | 207,505,000 | 195,126,000 |
| Accumulated other comprehensive loss | (1,784,000) | (1,641,000) |
| Retained earnings | 196,810,000 | 164,900,000 |
| Total Stockholders' Equity | 416,303,000 | 372,146,000 |
| Total Liabilities and Stockholders' Equity | $ 671,980,000 | $ 607,221,000 |

See accompanying Notes to Consolidated Financial Statements.

# Consolidated Statements of Income >>

| Fiscal Year Ended | Sept. 29, 2002 | Sept 30, 2001 | Oct. 1, 2000 |
|---|---|---|---|
| Revenue: | | | |
| Gross revenue | $ 966,223,000 | $ 973,944,000 | $ 794,578,000 |
| Subcontractor costs | 225,508,000 | 243,880,000 | 196,457,000 |
| Net Revenue | 740,715,000 | 730,064,000 | 598,121,000 |
| Cost of Net Revenue | 582,153,000 | 559,474,000 | 452,872,000 |
| Gross Profit | 158,562,000 | 170,590,000 | 145,249,000 |
| Selling, General and Administrative Expenses | 98,141,000 | 121,348,000 | 71,004,000 |
| Income From Operations | 60,421,000 | 49,242,000 | 74,245,000 |
| Interest Expense | 9,340,000 | 9,633,000 | 7,355,000 |
| Interest Income | 3,888,000 | 1,090,000 | 329,000 |
| Income Before Income Tax Expense | 54,969,000 | 40,699,000 | 67,219,000 |
| Income Tax Expense | 23,059,000 | 9,874,000 | 26,777,000 |
| Net Income | $ 31,910,000 | $ 30,825,000 | $ 40,442,000 |
| Basic Earnings Per Share | $ 0.60 | $ 0.61 | $ 0.83 |
| Diluted Earnings Per Share | $ 0.58 | $ 0.57 | $ 0.78 |
| Weighted Average Common Shares Outstanding: | | | |
| Basic | 52,760,000 | 50,939,000 | 48,754,000 |
| Diluted | 55,086,000 | 54,166,000 | 52,003,000 |

See accompanying Notes to Consolidated Financial Statements.

# Consolidated Statements of Stockholders' Equity >>

| Fiscal Years Ended Oct. 1, 2000, Sep. 30, 2001 and Sep. 29, 2002 | Exchangeable Stock | | Common Stock | | Additional Paid-In | Accumulated Other Comprehensive | Retained | |
|---|---|---|---|---|---|---|---|---|
| | Shares | Amount | Shares | Amount | Capital | Loss | Earnings | Total |
| BALANCE, OCTOBER 3, 1999 | 790,642 | $ 13,239,000 | 48,042,027 | $ 481,000 | $ 127,881,000 | $ (802,000) | $ 93,633,000 | $ 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 | (844,000) | 134,075,000 | 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 | (1,641,000) | 164,900,000 | 372,146,000 |
| Comprehensive income: | | | | | | | | |
| Net income | | | | | | | 31,910,000 | 31,910,000 |
| Foreign currency translation adjustment | | | | | | (143,000) | | (143,000) |
| Comprehensive income | | | | | | | | 31,767,000 |
| Shares issued in acquisitions | | | 423,996 | 5,000 | 5,529,000 | | | 5,534,000 |
| Stock options exercised | | | 323,756 | 3,000 | 2,683,000 | | | 2,686,000 |
| Shares issued in Employee Stock Purchase Plan | | | 278,152 | 3,000 | 3,418,000 | | | 3,421,000 |
| Tax benefit for disqualifying dispositions of stock options | | | | | 789,000 | | | 789,000 |
| Payment for fractional shares | | | (454) | – | (40,000) | | | (40,000) |
| BALANCE, SEPTEMBER 29, 2002 | 790,642 | $ 13,239,000 | 53,273,227 | $ 533,000 | $ 207,505,000 | $ (1,784,000) | $ 196,810,000 | $ 416,303,000 |

See accompanying Notes to Consolidated Financial Statements.

# Consolidated Statements of Cash Flows >>

| Fiscal Year Ended | Sept. 29, 2002 | Sept. 30, 2001 | Oct. 1, 2000 |
|---|---|---|---|
| Cash Flows From Operating Activities: | | | |
| Net income | $ 31,910,000 | $ 30,825,000 | $ 40,442,000 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | | |
| Depreciation and amortization | 23,354,000 | 21,362,000 | 13,709,000 |
| Deferred income taxes | 19,997,000 | (1,172,000) | 723,000 |
| Provision for losses on receivables | 3,479,000 | 44,025,000 | 3,056,000 |
| Changes in operating assets and liabilities, net of effects of acquisitions: | | | |
| Accounts receivable | 22,020,000 | (24,865,000) | (57,177,000) |
| Unbilled receivables | 5,770,000 | 6,571,000 | (32,489,000) |
| Contract retentions | 146,000 | (771,000) | 1,050,000 |
| Prepaid expenses and other assets | (3,721,000) | (3,974,000) | (4,337,000) |
| Accounts payable | 4,919,000 | (6,400,000) | 12,746,000 |
| Accrued compensation | (795,000) | 472,000 | 3,053,000 |
| Billings in excess of costs on uncompleted contracts | 1,483,000 | (6,401,000) | 10,075,000 |
| Other current liabilities | 2,935,000 | (4,801,000) | (2,185,000) |
| Income taxes receivable/payable | (16,286,000) | (10,597,000) | (854,000) |
| Net Cash Provided By (Used In) Operating Activities | 95,211,000 | 44,274,000 | (12,188,000) |
| Cash Flows From Investing Activities: | | | |
| Capital expenditures | (7,165,000) | (11,017,000) | (14,745,000) |
| Payments for business acquisitions, net of cash acquired | (45,079,000) | (40,165,000) | (27,515,000) |
| Net Cash Used In Investing Activities | (52,244,000) | (51,182,000) | (42,260,000) |
| Cash Flows From Financing Activities: | | | |
| Payments on long-term obligations | (74,927,000) | (195,636,000) | (67,763,000) |
| Proceeds from issuance of long-term obligations | 56,000,000 | 204,000,000 | 112,000,000 |
| Proceeds from issuance of common stock | 6,067,000 | 8,229,000 | 8,545,000 |
| Payment of deferred financing fees | – | (890,000) | – |
| Net Cash (Used In) Provided By Financing Activities | (12,860,000) | 15,703,000 | 52,782,000 |
| Effect of Exchange Rate Changes on Cash | (2,000) | (112,000) | 1,034,000 |
| Net Increase (Decrease) in Cash and Cash Equivalents | 30,105,000 | 8,683,000 | (632,000) |
| Cash and Cash Equivalents at Beginning of Year | 16,240,000 | 7,557,000 | 8,189,000 |
| Cash and Cash Equivalents at End of Year | $ 46,345,000 | $ 16,240,000 | $ 7,557,000 |
| Supplemental Cash Flow Information: | | | |
| Cash paid during the year for: | | | |
| Interest | $ 9,370,000 | $ 7,184,000 | $ 6,734,000 |
| Income taxes, net of refunds received | $ 17,667,000 | $ 19,107,000 | $ 27,844,000 |

(Continued)

# Consolidated Statements of Cash Flows >>

| Fiscal Year Ended | Sept. 29, 2002 | Sept. 30, 2001 | Oct. 1, 2000 |
|---|---|---|---|
| Supplemental Non-Cash Investing and Financing Activities: | | | |
| In fiscal 2002, the Company purchased all of the capital stock of Thomas Associates Architects, Engineers, Landscape Architects P.C.; America's Schoolhouse Consulting Services, Inc., Hartman & Associates, Inc. and Ardaman & Associates, Inc. In conjunction with these acquisitions, liabilities were assumed as follows: | | | |
| Fair value of assets acquired | $ 69,371,000 | | |
| Cash paid | (50,552,000) | | |
| Issuance of common stock | (5,018,000) | | |
| Purchase price receivable | 455,000 | | |
| Other acquisition costs | (130,000) | | |
| Liabilities assumed | $ 14,116,000 | | |
| 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 |

See accompanying Notes to Consolidated Financial Statements.

(Concluded)

# Notes to Consolidated Financial Statements >>

Fiscal years ended September 29, 2002,
September 30, 2001 and October 1, 2000

## 1. Significant Accounting Policies >

Business – Tetra Tech, Inc. (the "Company") is a provider of consulting, engineering and technical services. Through fiscal 2002, the Company supported its commercial and government clients in the areas of resource management, infrastructure and communications. The Company's services include research and development, applied science and technology, engineering 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 2002, 2001 and 2000 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 expenses are expensed in the period incurred.

Net revenue under Federal government contracts and subcontracts accounted for approximately 25.1%, 24.5% and 29.1% of net revenue for the fiscal years ended September 29, 2002, September 30, 2001 and October 1, 2000, 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 write-down would be recorded to reduce the related asset to its estimated fair value.

Intangible assets as of September 29, 2002 and September 30, 2001 consist principally of goodwill resulting from business acquisitions that is being amortized over periods ranging from 15 to 30 years. Additionally, value was ascribed to other intangible assets, including backlog, in business acquisitions. The accumulated amortization of intangible assets as of September 29, 2002 and September 30, 2001 was $37.8 million and $27.0 million, respectively.

Income Taxes – The Company files a consolidated Federal income tax return and combined California franchise tax return, as well as other returns that are required in the states and jurisdictions 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.

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 fair value of the senior secured notes at September 29, 2002 was approximately $118,000,000.

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 29, 2002, approximately 12.3% 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. 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. 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. The adoption of this statement will result in the discontinuation of amortization of the Company's goodwill. The Company is currently in the process of completing the two-step transitional impairment test required by SFAS No. 142 to determine whether there was a potential impairment to recorded goodwill as of September 30, 2002. Step one requires the Company to compare the fair value of each reporting unit with its respective carrying amount, including goodwill. If the carrying value exceeds its fair value, step two will be performed to measure the amount of impairment loss, if any. Step one of the transitional impairment test will be completed during the first six months of fiscal 2003. Step two of the transitional impairment test must be completed by September 28, 2003 and the resulting impairment loss, if any, will be recorded as a cumulative effect of accounting change in the consolidated statement of operations.

Although the Company is currently evaluating the impact of the adoption of SFAS No. 142, the Company believes that it is likely that a portion of its goodwill is impaired under SFAS No. 142, and the resulting impairment loss could have a material impact on the Company's consolidated financial statements.

SFAS No. 142 also requires disclosure of the after-tax impact to reported net income and earnings per share of the adoption of the statement for all periods presented. The following table recognizes the after-tax impact of the Company's operational results of the adoption of SFAS No. 142 as if the statement had been in effect for all periods presented:

| **Fiscal Year Ended** | **Sept. 29, 2002** | **Sept. 30, 2001** | **Oct. 1, 2000** |
|---|---|---|---|
| Reported net income | $ 31,910,000 | $ 30,825,000 | $ 40,442,000 |
| Add back: Goodwill amortization | 10,811,000 | 9,192,000 | 6,463,000 |
| Adjusted net income | $ 42,721,000 | $ 40,017,000 | $ 46,905,000 |
| **Basic earnings per share** | | | |
| Reported basic earnings per share | $ 0.60 | $ 0.61 | $ 0.83 |
| Add back: Goodwill amortization per basic share | 0.21 | 0.18 | 0.13 |
| Adjusted basic earnings per share | $ 0.81 | $ 0.79 | $ 0.96 |
| **Diluted earnings per share** | | | |
| Reported diluted earnings per share | $ 0.58 | $ 0.57 | $ 0.78 |
| Add back: Goodwill amortization per diluted share | 0.20 | 0.17 | 0.12 |
| Adjusted diluted earnings per share | $ 0.78 | $ 0.74 | $ 0.90 |

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 will adopt it in fiscal 2003.

In July 2002, the FASB issued SFAS No. 146, Accounting for Exit or Disposal Activities. SFAS No. 146 addresses the recognition, measurement, and reporting of costs that are associated with exit and disposal activities, including certain lease termination costs and severance-type costs under a one-time benefit arrangement rather than an ongoing benefit arrangement or an individual deferred compensation agreement. SFAS No. 146 requires liabilities associated with exit or disposal activities to be expensed as incurred and will impact the timing of recognition for exit or disposal activities that are initiated after December 31, 2002. The Company will apply the provisions of SFAS No. 146 to any exit or disposal activities initiated after December 31, 2002.

## 2. Mergers and Acquisitions >

On October 25, 1999, the Company acquired 100% of the capital stock of LC of Illinois, Inc. and HFC Technologies, Inc. (collectively, LCI), 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, primarily in the midwestern region of the United States. 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 throughout the United States. 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 owners 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 owners 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 $1.4 million and consisted of cash and 64,977 shares of Company common stock.

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 the United States. The purchase was valued at approximately $9.1 million and consisted of cash and 181,173 shares of Company common stock. Simultaneously with the acquisition, WHS distributed to its former owners accounts receivable valued at approximately $3.8 million.

On May 21, 2001, the Company acquired 100% of the capital stock of Vertex Engineering Services, Inc. (VES), a provider of environmental engineering, consulting and surety and insurance construction management services throughout the United States. The purchase was valued at approximately $10.4 million and consisted of cash and 386,437 shares of Company common stock.

On May 25, 2001, the Company acquired 100% of the capital stock of Maxim Technologies, Inc. (MTI), a provider of environmental and engineering consulting services throughout the United States. The purchase was valued at approximately $14.0 million and consisted of cash and 296,995 shares of Company common stock.

On June 1, 2001, the Company acquired certain assets of Commonwealth Technology, Inc. (CTI), a provider of environmental and infrastructure engineering and consulting services primarily in the southeastern region of the United States. The purchase was valued at approximately $3.6 million and consisted of cash and 103,715 shares of Company common stock.

On June 27, 2001, the Company acquired 100% of the capital stock of The Design Exchange Architects, Inc. (DXA), a provider of architectural, planning and interior design services primarily in the eastern region of the United States. The purchase was valued at approximately $1.4 million and consisted of cash.

On June 29, 2001, the Company acquired 100% of the capital stock of Western Utility Contractors, Inc. and Western Utility Cable, Inc. (collectively, WUC), providers of engineering, design and construction services primarily in the midwestern region of the United States. The purchase was valued at approximately $16.0 million and consisted of cash.

On September 26, 2001, the Company acquired, through its wholly-owned subsidiary, MFG, Inc., certain assets of Shepherd Miller, Inc. (SMI), a provider of environmental and engineering consulting services to the mining industry throughout the United States. The purchase was valued at approximately $2.8 million and consisted of cash and 53,005 shares of Company common stock.

On September 26, 2001, the Company acquired Sciences International, Inc. (SII), a provider of health and environmental risk assessment services to private industries, governments and law firms throughout the United States. The purchase was valued at approximately $5.1 million and consisted of cash and 140,040 shares of Company common stock.

On March 25, 2002, the Company acquired, through its wholly-owned subsidiary, The Thomas Group of Companies, Inc., 100% of the capital stock of Thomas Associates Architects, Engineers, Landscape Architects P.C. and America's Schoolhouse Consulting Services, Inc. (collectively, TGI), a provider of architectural, engineering and planning services for educational buildings and school systems primarily in the eastern region of the United States. The purchase was valued at approximately $22.4 million and consisted of cash and 392,126 shares of Company common stock and is subject to a purchase price and purchase allocation adjustment based upon the final determination of TGI's net asset value as of March 25, 2002.

On March 29, 2002, the Company acquired 100% of the capital stock of Hartman & Associates, Inc. (HAI), a provider of engineering, construction management and consulting services in the southeastern region of the United States. The purchase was valued at approximately $10.8 million, consisted of cash and is subject to a purchase price and purchase allocation adjustment based upon the final determination of HAI's net asset value as of March 29, 2002.

On June 28, 2002, the Company acquired 100% of the capital stock of Ardaman & Associates, Inc. (AAI), a provider of geotechnical, geophysical and hydrogeological consulting and engineering services in the southeastern region of the United States. The purchase was valued at approximately $22.0 million, consisted of cash and is subject to a purchase price and purchase allocation adjustment based upon the final determination of AAI's net asset value as of June 28, 2002.

All of the acquisitions above were accounted for as purchases and, accordingly, the purchase prices of the businesses acquired were allocated to the assets and liabilities acquired based upon their fair values. The excess of the purchase cost of the acquisitions over the fair value of the net assets acquired was recorded as goodwill and is included in Intangible Assets—Net in the accompanying consolidated balance sheets. The results of operations of each of the companies acquired have been included in the Company's financial statements from the effective acquisition dates.

Goodwill and other identifiable intangible assets recognized in the acquisitions of TGI, HAI and AAI totaled $43.7 million, which is not deductible for tax purposes. Goodwill was assigned to the Resource Management and Infrastructure segments in the amounts of $14.6 million and $27.3 million, respectively. Other identifiable assets were assigned to the Resource Management and Infrastructure segments in the amounts of $0.2 million and $1.6 million, respectively.

The effect of unaudited pro forma operating results of the WCI, DXA, SMI, SII and HAI acquisitions, had they been acquired on October 2, 2000, is not material.

The following table presents summarized unaudited pro forma operating results assuming that the Company had acquired RMC, WHS, VES, MTI, CTI, WUC, TGI and AAI on October 2, 2000:

| **Fiscal Year Ended** | Sept. 29, 2002 | **Sept. 30, 2001** |
|---|---|---|
| Gross revenue | $1,002,553,000 | $1,095,436,000 |
| Net revenue | 774,102,000 | 829,490,000 |
| Income before income tax expense | 55,710,000 | 49,136,000 |
| Net income | 32,340,000 | 35,971,000 |
| Basic earnings per share | 0.61 | 0.69 |
| Diluted earnings per share | 0.59 | 0.65 |
| Weighted average common shares outstanding: | | |
| Basic | 52,923,000 | 51,921,000 |
| Diluted | 55,249,000 | 55,148,000 |

## 3. Accounts Receivable >

Accounts receivable consisted of the following at September 29, 2002 and September 30, 2001:

| | Sept. 29, 2002 | **Sept. 30, 2001** |
|---|---|---|
| Billed accounts receivable | $ 150,188,000 | $ 197,859,000 |
| 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 | 118,741,000 | 121,724,000 |
| Costs and fee retention billable upon audit of total contract costs | 5,090,000 | 5,103,000 |
| Total unbilled accounts receivable | 123,831,000 | 126,827,000 |
| Billings in excess of costs on uncompleted contracts | (11,837,000) | (10,354,000) |
| Allowance for uncollectible accounts: | | |
| Allowance for doubtful accounts | (12,834,000) | (45,098,000) |
| Allowance for disallowed costs | (1,387,000) | (799,000) |
| Total allowance for uncollectible accounts | (14,221,000) | (45,897,000) |
| Total | $ 247,961,000 | $ 268,435,000 |

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 was a $38.3 million reserve for an account debtor that filed for Chapter 11 protection under the U.S. Bankruptcy Code. The related charge is included in selling, general and administrative expenses in the accompanying consolidated statement of income for the year ended September 30, 2001. Also included in fiscal 2002 selling, general and administrative expenses is an estimated ultimate recovery of $9.3 million from the $38.3 million charge, of which $6.1 million was collected in the fourth quarter of fiscal 2002. The allowance for disallowed costs relates 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. There can be no assurance that DCAA audits will not result in material cost disallowances in the future.

Allowances to provide for doubtful accounts have been determined through reviews of specific amounts determined to be uncollectible, potential write-offs as a result of debtors who have filed for bankruptcy protection, plus an 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 29, 2002, September 30, 2001 and October 1, 2000 consisted of the following:

| Fiscal Year Ended | Sept. 29, 2002 | Sept. 30, 2001 | Oct. 1, 2000 |
|---|---|---|---|
| Current: | | | |
| Federal | $ 25,385,000 | $ 6,963,000 | $ 20,845,000 |
| State | 6,170,000 | 4,083,000 | 5,224,000 |
| Deferred | (8,496,000) | (1,172,000) | 708,000 |
| Total income tax expense | $ 23,059,000 | $ 9,874,000 | $ 26,777,000 |

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

| | Sept. 29, 2002 | Sept. 30, 2001 |
|---|---|---|
| Allowance for doubtful accounts | $ 5,198,000 | $ 2,925,000 |
| Accrued vacation | 4,648,000 | 3,632,000 |
| Depreciation | (4,319,000) | (3,489,000) |
| Prepaid expense | (1,438,000) | (1,540,000) |
| State taxes | 3,212,000 | 1,176,000 |
| Other | 1,329,000 | 1,041,000 |
| Cash to accrual | (3,482,000) | (22,000) |
| Unearned revenue | (23,786,000) | – |
| Net deferred income tax (liability) asset | $ (18,638,000) | $ 3,723,000 |

During fiscal 2002, the Company received notification from the Internal Revenue Service of its approval of the Company's request to change its accounting method for recognizing revenue for tax purposes for certain entities. The tax effect of unearned revenue for tax purposes is presented as a deferred income tax liability in the above table.

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

| Fiscal Year Ended | Sept. 29, 2002 | | Sept. 30, 2001 | | Oct. 1, 2000 | |
|---|---|---|---|---|---|---|
| | Amount | % | Amount | % | Amount | % |
| Tax at Federal statutory rate | $ 19,239,000 | 35.0 % | $ 14,245,000 | 35.0 % | $ 23,527,000 | 35.0 % |
| Tax credits | (2,257,000) | (4.1)% | (9,428,000) | (23.2)% | (2,800,000) | (4.2)% |
| Goodwill | 3,324,000 | 6.0 % | 3,159,000 | 7.8 % | 2,053,000 | 3.1 % |
| State taxes, net of Federal benefit | 2,645,000 | 4.8 % | 2,116,000 | 5.2 % | 3,495,000 | 5.2 % |
| Other | 108,000 | 0.2 % | (218,000) | (0.5)% | 502,000 | 0.7 % |
| Total income tax expense | $ 23,059,000 | 41.9 % | $ 9,874,000 | 24.3 % | $ 26,777,000 | 39.8 % |

## 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%.

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 and commenced 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 29, 2002, there were no outstanding borrowings under the Credit Agreement and standby letters of credit totaled $3.6 million. Outstanding borrowings on the Senior Secured Notes totaled $110.0 million at September 29, 2002.

At September 29, 2002, approximately $1.6 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.

## 6. Stockholders' Equity >

In connection with the fiscal 2000 acquisition of ENG and the fiscal 1998 acquisition of the Sentrex Group of Companies, the Company issued an aggregate of 920,354 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 terminated, except as to outstanding options and all options granted to date by the Company have been at 100% of the market value 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.

Pursuant to the Company's 1992 Incentive Stock Plan, key employees could 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. The 1992 Incentive Stock Plan terminates in December 2002, except as to the outstanding options, and all options granted to date by the Company have been at 100% of the market value at the date of grant. These options become exercisable after one year, become fully vested no later than five years after grant and terminate no later than ten years after grant.

Pursuant to the Company's 2002 Stock Option Plan, key employees may be granted options to purchase an aggregate of 4,000,000 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, become fully vested no later than four years after grant and terminate no later than ten years after grant.

Pursuant to the Company's 1992 Stock Option Plan for Nonemployee Directors, nonemployee directors could 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. The 1992 Stock Option Plan for Nonemployee Directors terminates in December 2002, except as to the outstanding options, and all options granted to date by the Company have been at 100% of the market value at 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 and terminate no later than ten years after grant.

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. 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 National Market on the day in question.

During the three years in the period ended September 29, 2002, option activity was as follows:

| | Number of Options | Weighted Average Exercise Price |
|---|---|---|
| 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 |
| Balance, September 30, 2001 | 4,434,031 | 12.70 |
| Granted | 1,026,355 | 19.10 |
| Exercised | (323,756) | 8.33 |
| Cancelled | (309,171) | 16.19 |
| Outstanding at September 29, 2002 | 4,827,459 | $ 14.13 |
| Exercisable at September 29, 2002 | 2,613,040 | $ 10.62 |
| Exercisable at September 30, 2001 | 2,178,656 | $ 8.76 |

The following table summarizes information concerning outstanding and exercisable options as of September 29, 2002:

| 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 |
| $ 2.79 – $ 4.09 | 259,476 | 1.07 | $ 3.47 | 259,476 | $ 3.47 |
| $ 4.46 – $ 6.60 | 264,600 | 3.05 | 5.21 | 264,600 | 5.21 |
| $ 6.64 – $ 9.01 | 1,072,177 | 5.42 | 8.23 | 795,889 | 8.06 |
| $ 10.05 – $ 15.05 | 931,478 | 6.32 | 12.25 | 737,714 | 11.81 |
| $ 15.15 – $ 22.43 | 2,170,034 | 8.39 | 19.59 | 522,731 | 18.24 |
| $ 23.08 – $ 28.00 | 129,694 | 8.51 | 24.64 | 32,630 | 24.65 |
| $ 2.79 – $ 28.00 | 4,827,459 | 6.65 | $ 14.13 | 2,613,040 | $ 10.62 |

The Company applies APB Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations in accounting for its stock option plans. 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. 29, 2002 | Sept. 30, 2001 | Oct. 1, 2000 |
|---|---|---|---|
| Net income—as reported | $ 31,910,000 | $ 30,825,000 | $ 40,442,000 |
| Net income—pro forma | 28,042,000 | 27,316,000 | 36,324,000 |
| Basic earnings per share—as reported | $ 0.60 | $ 0.61 | $ 0.83 |
| Diluted earnings per share—as reported | 0.58 | 0.57 | 0.78 |
| Basic earnings per share—pro forma | 0.53 | 0.54 | 0.75 |
| Diluted earnings per share—pro forma | 0.51 | 0.50 | 0.70 |

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 2002, 2001 and 2000 are $9.56, $8.77 and $4.38, respectively. The following assumptions were used in completing the model:

| Fiscal Year Ended | Sept. 29, 2002 | Sept. 30, 2001 | Oct. 1, 2000 |
|---|---|---|---|
| Dividend yield | 0.0% | 0.0% | 0.0% |
| Expected volatility | 64.0% | 48.6% | 46.5% |
| Risk-free rate of return, annual | 2.3% | 3.4% | 7.7% |
| Expected life | 3.98 yrs. | 3.85 yrs. | 3.51 yrs. |

## 7. Earnings Per Share >

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

| Fiscal Year Ended | Sept. 29, 2002 | Sept. 30, 2001 | Oct. 1, 2000 |
|---|---|---|---|
| Numerator— | | | |
| Net income | $ 31,910,000 | $ 30,825,000 | $ 40,442,000 |
| Denominator for basic earnings per share—Weighted average shares | 52,760,000 | 50,939,000 | 48,754,000 |
| Denominator for diluted earnings per share— | | | |
| Denominator for basic earnings per share | 52,760,000 | 50,939,000 | 48,754,000 |
| Potential common shares: | | | |
| Stock options | 1,091,000 | 1,971,000 | 2,001,000 |
| Exchangeable stock of a subsidiary | 1,235,000 | 1,256,000 | 1,248,000 |
| Potential common shares | 2,326,000 | 3,227,000 | 3,249,000 |
| Denominator for diluted earnings per share | 55,086,000 | 54,166,000 | 52,003,000 |
| Basic earnings per share | $ 0.60 | $ 0.61 | $ 0.83 |
| Diluted earnings per share | $ 0.58 | $ 0.57 | $ 0.78 |

For the fiscal years ended September 29, 2002, September 30, 2001 and October 1, 2000, 2.3 million, 0.9 million and 0.5 million options, respectively, were excluded from the calculation of potential common shares because the exercise price of the excluded options exceeded the average market price for the respective periods.

## 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 $43.1 million, $38.0 million and $28.3 million for the fiscal years ended September 29, 2002, September 30, 2001 and October 1, 2000, respectively. Amounts payable under noncancelable operating lease commitments are as follows during the fiscal years ending in:

| | |
|---|---|
| 2003 | $ 31,229,000 |
| 2004 | 26,064,000 |
| 2005 | 19,314,000 |
| 2006 | 14,907,000 |
| 2007 | 12,115,000 |
| Thereafter | 39,986,000 |
| Total | $ 143,615,000 |

## 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 29, 2002, September 30, 2001 and October 1, 2000, employer contributions relating to the plans were approximately $8.7 million, $10.0 million and $7.2 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, except as described below, will not have a material adverse effect on the Company's financial position and results of operations.

On December 2, 2002, a jury in Washington County Court in Bartlesville, Oklahoma handed down a $4.1 million verdict against the Company in its dispute with Horsehead Industries, Inc., doing business as Zinc Corporation of America. The Company is in the process of filing an appeal in this matter and is also pursuing other legal alternatives related to this case. However, because a verdict has been rendered, the Company established a $4.1 million reserve for this matter in selling, general and administrative expenses in the accompanying consolidated statement of income for the year ended September 29, 2002.

## 11. Operating Segments >

During fiscal 2002, 2001 and 2000, the Company's management organized its operations into three operating segments: Resource Management, Infrastructure and Communications. The Resource Management operating segment provides 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 established these operating segments based upon the services provided, the different marketing strategies associated with the services, and the specialized needs of their respective 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.

# Notes to Consolidated Financial Statements >>

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

Reportable Segments:

| **Fiscal year ended September 29, 2002** | **Resource Management** | **Infrastructure** | **Communications** | **Total** |
|---|---|---|---|---|
| Gross Revenue | $ 516,443 | $ 317,908 | $ 161,882 | $ 996,233 |
| Net Revenue | 356,983 | 267,254 | 110,634 | 734,871 |
| Income from Operations | 44,902 | 29,740 | 1,637 | 76,279 |
| Depreciation Expense | 2,946 | 4,758 | 4,343 | 12,047 |
| Segment Assets | 263,847 | 115,154 | 79,460 | 458,461 |

| **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 |

Reconciliations:

| Fiscal Year Ended | Sept. 29, 2002 | Sept 30, 2001 | Oct. 1, 2000 |
|---|---|---|---|
| Gross Revenue | | | |
| Gross revenue from reportable segments | $ 996,233 | $ 1,007,769 | $ 819,733 |
| Elimination of inter-segment revenue | (35,854) | (38,948) | (32,796) |
| Other revenue | 5,844 | 5,123 | 7,641 |
| Total consolidated gross revenue | $ 966,223 | $ 973,944 | $ 794,578 |
| Net Revenue | | | |
| Net revenue from reportable segments | $ 734,871 | $ 724,941 | $ 590,480 |
| Other revenue | 5,844 | 5,123 | 7,641 |
| Total consolidated net revenue | $ 740,715 | $ 730,064 | $ 598,121 |
| Income from Operations | | | |
| Income from operations of reportable segments | $ 76,279 | $ 58,154 | $ 81,787 |
| Other (expense) income | (5,047) | 280 | (1,079) |
| Amortization of intangibles | (10,811) | (9,192) | (6,463) |
| Total consolidated income from operations | $ 60,421 | $ 49,242 | $ 74,245 |
| Total Assets | | | |
| Total assets from reportable segments | $ 458,461 | $ 370,196 | $ 337,316 |
| Intangible assets not allocated to segments | 279,946 | 245,019 | 190,452 |
| Elimination of inter-segment assets | (66,427) | (7,994) | (1,730) |
| Total consolidated total assets | $ 671,980 | $ 607,221 | $ 526,038 |

Geographic Information:

| Fiscal Year Ended | Sept. 29, 2002 | | Sept. 30, 2001 | | Oct. 1, 2000 | |
|---|---|---|---|---|---|---|
| | Net Revenue [a] | Long-Lived Assets [b] | Net Revenue [a] | Long-Lived Assets [b] | Net Revenue [a] | Long-Lived Assets [b] |
| United States | $ 723,983 | $ 324,194 | $ 706,862 | $ 288,220 | $ 579,593 | $ 226,731 |
| Foreign countries | 16,732 | 2,372 | 23,202 | 2,714 | 18,528 | 2,367 |

[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 $186.4 million, $179.0 million and $174.2 million for fiscal years ended September 29, 2002, September 30, 2001 and October 1, 2000, respectively. Both the Resource Management and Infrastructure operating segments report revenue from the U.S. government.

## 12. Quarterly Financial Information—Unaudited >

In the opinion of management, the following unaudited quarterly data for the fiscal years ended September 29, 2002 and September 30, 2001 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)<br>Fiscal Year 2002 | First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
|---|---|---|---|---|
| Gross revenue | $ 253,028 | $ 226,128 | $ 238,171 | $ 248,896 |
| Net revenue | 184,889 | 178,073 | 185,436 | 192,317 |
| Gross profit | 44,912 | 35,222 | 36,829 | 41,599 |
| Income from operations(1) | 20,801 | 10,168 | 14,036 | 15,416 |
| Net income(2) | 11,343 | 5,302 | 8,100 | 7,165 |
| Basic earnings per share | $ 0.22 | $ 0.10 | $ 0.15 | $ 0.13 |
| Diluted earnings per share | 0.21 | 0.10 | 0.15 | 0.13 |
| Weighted average common shares outstanding: | | | | |
| Basic | 52,351 | 52,440 | 52,976 | 53,271 |
| Diluted | 55,233 | 54,945 | 55,201 | 54,964 |

| (In thousands, except per share data)<br>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 |

(1) During the fourth quarter of fiscal 2002, the Company recorded certain changes in estimates to allowance for doubtful accounts, contingent liabilities and discretionary compensation accruals based upon changes in facts and circumstances in these respective areas. The allowance for doubtful accounts was adjusted to reflect the actual and estimated recovery of $9.3 million in the case of the bankrupt account debtor, as described in Note 3, of which $6.1 million was collected in the fourth quarter of fiscal 2002. The reserve for contingent liabilities was increased by $4.1 million to provide for a jury verdict that was handed down against the Company in December 2002. Discretionary compensation accruals were reduced by approximately $2.6 million.

(2) During the fourth quarter of fiscal 2002, income tax expense was increased by $2.8 million to reflect changes in estimates of income tax credits and the state and local effective tax rate.

# Securities Information >>

Tetra Tech's common stock is traded on the Nasdaq National Market under the symbol TTEK. There were 2,760 stockholders of record as of December 13, 2002. 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 per share for the common stock for the last two fiscal years, as reported by the Nasdaq National Market, are set forth in the following tables.

| Fiscal Year 2002 | High | Low |
|---|---|---|
| First Quarter | $ 23.78 | $ 17.16 |
| Second Quarter | 21.40 | 11.46 |
| Third Quarter | 15.16 | 12.66 |
| Fourth Quarter | 14.52 | 7.71 |

| 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 |

# Corporate Information >>

## Directors

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

James M. Jaska
President
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
Private Investor
Former advisor to the Chairman
Tetra Tech, Inc.

Hugh M. Grant
Business Consultant
Former Vice-Chairman and
Regional Managing Partner
Ernst & Young LLP

## Corporate Counsel

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## Corporate Officers

Li-San Hwang
Chairman and
Chief Executive Officer

James M. Jaska
President

Richard A. Lemmon
Executive Vice President,
Administration and Secretary

David W. King
Executive Vice President,
Chief Financial Officer
and Treasurer

James T. Haney
Executive Vice President

Dan L. Batrack
Senior Vice President

Mark A. Walsh
Senior Vice President

Charles R. Faust
Vice President

Arkan Say
Vice President

Craig L. Christensen
Vice President and Controller

Janis B. Salin
Vice President and General
Counsel

## Corporate Offices

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## Transfer Agent & Registrar

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## Stock Listing

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

## Shareholder Inquiries

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## Form 10-K

The Company's Form 10-K may
be obtained by writing to Investor
Relations. The Form 10-K is also
available at www.tetratech.com

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## Resource Management >> Infrastructure


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