



FORM 10-K

TETRA TECH INC – TTEK

Filed: December 16, 2005 (period: October 02, 2005)

Annual report which provides a comprehensive overview of the company for the past year

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-K

(Mark
One)



**ANNUAL REPORT PURSUANT TO SECTION 13
OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the Fiscal Year Ended October 2, 2005.

or



**TRANSITION REPORT PURSUANT TO SECTION 13
OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the Transition Period from _____ to _____
Commission File Number 0-19655

TETRA TECH, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

95-4148514
(I.R.S. Employer
Identification No.)
3475 East Foothill Boulevard, Pasadena, California 91107
(Address of principal executive offices) (zip code)

(626) 351-4664
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:
None

Securities registered pursuant to Section 12(g) of the Act:
Common Stock, \$.01 par value

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

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes No

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

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes No

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

The aggregate market value of the registrant's common stock held by non-affiliates on April 1, 2005 was \$694.2 million (based upon the closing price of a share of registrant's common stock as reported by the Nasdaq National Market on that date).

On December 2, 2005, 57,124,174 shares of the registrant's common stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of registrant's Annual Report to Stockholders for the fiscal year ended October 2, 2005 are incorporated by reference in Part I and Part II of this report where indicated. Portions of registrant's Proxy Statement for its 2006 Annual Meeting of Stockholders are incorporated by reference in Part III of this report where indicated.

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This Annual Report on Form 10-K (“Report”), including the “Management’s Discussion and Analysis of Financial Condition and Results of Operations” which is incorporated by reference from our 2005 Annual Report to Stockholders, contains forward-looking statements regarding future events and our future results that are subject to the safe harbors created under the Securities Act of 1933 (the “Securities Act”) and the Securities Exchange Act of 1934 (the “Exchange Act”). These statements are based on current expectations, estimates, forecasts and projections about the industries in which we operate and the beliefs and assumptions of our management. Words such as “expects,” “anticipates,” “targets,” “goals,” “projects,” “intends,” “plans,” “believes,” “estimates,” “seeks,” “continues,” “may,” variations of such words, and similar expressions are intended to identify such forward-looking statements. In addition, any statement that refers to projections of our future financial performance, our anticipated growth and trends in our businesses, and other characterizations of future events or circumstances, are forward-looking statements. Readers are cautioned that these forward-looking statements are only predictions and are subject to risks, uncertainties and assumptions that are difficult to predict, including those identified below under “Risk Factors,” and elsewhere herein and in the 2005 Annual Report to Stockholders. Therefore, actual results may differ materially and adversely from those expressed in any forward-looking statements. We undertake no obligation to revise or update publicly any forward-looking statements for any reason.

PART I

Item 1. Business

General

We are a leading provider of consulting, engineering and technical services in the areas of resource management and infrastructure. We also provide communications services. As a consultant, we assist our clients in defining problems and developing innovative and cost-effective solutions. These services span the lifecycle of a project and include research and development, applied science and technology, engineering design, program management, construction, construction management, and operations and maintenance.

Since our initial public offering in December 1991, we have increased the size and scope of our business, expanded our service offerings and diversified our client base and the markets we serve through strategic acquisitions and internal growth. We expect to focus on internal growth, and to continue to pursue complementary acquisitions to expand our geographic reach and increase the breadth and depth of our service offerings to address existing and emerging markets. As of the end of fiscal 2005, we had more than 7,200 full-time equivalent employees worldwide, located primarily in North America in more than 270 locations.

Our operating results for fiscal 2005 reflect the execution of the business plan we initiated in fiscal 2004 to improve our profitability. In particular, we have been engaged in consolidation and strategic realignment efforts, which focused on exiting from unprofitable commercial contracts. As part of this process, we identified and recorded contract losses, bad debt expenses, goodwill impairment charges and certain other consolidation costs. These activities resulted in operating losses in fiscal 2005.

We were incorporated in Delaware in February 1988 and are headquartered in Pasadena, California. The mailing address of our headquarters is 3475 East Foothill Boulevard, Pasadena, California 91107, and the telephone number at that location is (626) 351-4664. Our corporate website is located at www.tetrattech.com. Through a link on the Investors section of our website, we make available the following filings as soon as reasonably practicable after they are electronically filed with or furnished to the Securities and Exchange Commission (SEC): our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and any amendments to those reports filed or furnished pursuant to Section 13(d) or 15(d) of the Exchange Act. All such filings are available free of charge.

Industry Overview

Due to increased competition, changing regulatory environments and rapid technological advancement, many government and commercial organizations face new and complex challenges. These organizations are turning to professional service firms to assist them with addressing these challenges. Each organization presents its own unique set of issues and often seeks professional service firms with industry-specific expertise to analyze its problems and develop appropriate solutions. These solutions are then implemented by firms possessing the required engineering and technical service capabilities. Each of the following three business areas faces its own unique set of challenges:

Resource Management. The world's natural resources (water, air and soil) are interdependent and create a delicate balance. Factors such as agricultural and residential development, commercial construction and industrialization often upset this balance. Public concern over environmental issues, especially water quality and availability, has been a driving force behind numerous laws and regulations that are designed to prevent environmental degradation and mandate restorative measures. Government and commercial organizations are focusing on resource management to comply with environmental laws and regulations, respond to public pressure and attain operating efficiencies. Two areas particularly affected by these trends are water management and waste management.

- *Water Management.* Insufficient water supplies, concern over the cost, quality and availability of water and the aging infrastructure used to capture, safeguard and distribute water are critical social and economic concerns. According to the U.S. Environmental Protection Agency (EPA), contamination of groundwater and surface water resulting from agricultural and urban development is one of the most serious environmental problems facing the United States. To address these concerns, government and commercial organizations often seek water management technical services.
- *Waste Management.* In the past, many waste disposal practices caused significant environmental damage. Since the 1970s, more stringent controls on municipal and industrial waste have been adopted by governments around the world to protect the environment. Organizations seek waste management technical services to comply with complex and evolving environmental regulations, to minimize the economic and social impact of waste generation and disposal, and to realize significant cost savings through increased operating efficiencies.

Infrastructure. Continued population growth and increased user expectations place significant strains on an overburdened infrastructure, thereby requiring additional development. This development includes water and wastewater treatment plants, transportation, pipelines, and communication and power networks, as well as educational, recreational and correctional facilities. In addition, as existing facilities age, they require upgrading or replacement. Further, the trend toward outsourcing of services is causing public and private organizations that develop and maintain these facilities to evaluate their cost structures and establish more efficient alternatives. After September 11, 2001, the need to protect civil infrastructure and provide additional security and communications-related infrastructure became significant. The federal government has increasingly turned to professional service firms to provide these services, particularly at seaports and airports. These factors have increased the need for planning, engineering design, program management, construction management, and operations and maintenance services of the type that we provide.

Communications. Technological change and government deregulation have spurred sweeping changes in the communications infrastructure industry. Various service providers are consolidating in order to offer their subscribers a comprehensive set of services and to maintain dominance in their markets. As these trends continue, network service providers have turned to professional service firms for advice and assistance in planning, deploying and maintaining their communications infrastructure.

The Tetra Tech Solution

Tetra Tech provides consulting, engineering and technical services that assist clients in identifying industry-specific problems, defining appropriate solutions and implementing those solutions. The Engineering News Record dated July 2005 ranked us as the leader in water supply, treatment and desalination, transmission lines and aqueducts, and site assessment and compliance of the Top 500 Design Firms. In addition, we were ranked in the top ten in other categories including dams and reservoirs, hazardous waste, nuclear waste, and marine and port facilities. The following factors distinguish us from our competitors:

Understanding Client Needs. The ability to identify client needs is essential to strategic planning and execution. Even before the proposal process begins, we assist our clients by helping them define their business objectives and strategies and identify issues that are critical to their success. We strive to develop numerous contacts at various levels within our clients' organizations to help us identify the key issues from a variety of perspectives. We believe that our long history and exposure to a broad client base increases our awareness of the issues being confronted by organizations and thereby helps us identify and solve our clients' problems.

Capitalizing on Our Extensive Technical Experience. Since the inception of our predecessor in 1966, we have provided innovative consulting and engineering services, historically focusing on cost-effective solutions to water resource management and environmental problems. We have been successful in leveraging this foundation of scientific and engineering capabilities into other market areas, including transportation and educational facilities. Our services are provided by a wide range of professionals including: archaeologists, biologists, chemical engineers, chemists, civil engineers, computer scientists, economists, electrical engineers, environmental engineers, environmental scientists, geologists, hydrogeologists, mechanical engineers, oceanographers, project managers and toxicologists. Because of the experience that we have gained from thousands of completed projects, we often are able to apply proven solutions to client problems without the time-consuming process of developing new approaches.

Offering a Full Range of Services. Our depth of consulting, engineering and technical skills allows us to respond to client needs at every phase of a project, including initial planning, research and development, applied science and technology, engineering design, program management and construction management. Once a particular project is completed, we are able to offer our clients additional value-added services such as operations and maintenance. Our expertise across industries and our broad service offerings enable us to be a single-source provider to many of our clients.

Providing Broad Geographic Coverage and Local Expertise. We believe that proximity to our clients is instrumental to understanding their needs and delivering comprehensive services. We have significantly broadened our geographic presence in recent years through strategic acquisitions and internal growth. We currently have operations in 49 states. We have also increased our international presence, and currently have limited operations in Afghanistan, Canada, China, Germany, Greece, India, Iraq, Japan, the Netherlands, Peru, the Philippines and Poland.

Company Strategy

Our objective is to become the leading provider of consulting, engineering and technical services in our chosen business areas. To achieve this objective, we plan to continue the following primary strategies that we believe have been integral to our success:

Strengthen Project and Financial Performance. We take a disciplined approach to monitoring, managing and improving our return on investment in each of our business areas through our attempts to promptly bill and collect accounts receivable, negotiate appropriate contract terms and manage our contract performance to minimize schedule delays and cost overruns. We believe that our focus on the

improvement of our project and financial disciplines enables us to generate cash flow through operations and thereby fund internal growth and acquisitions.

Leverage Existing Client Base. Some of our clients engage us to provide limited services. We believe that we can increase our revenue by selling additional services to our existing client base. For example, we may be able to secure an operation and maintenance contract after working with a client on the design and construction phases of a facility. In addition, we believe that our ability to offer a full spectrum of services will allow us to grow our business and compete more effectively for larger projects.

Identify and Expand Into New Business Areas. We use our consulting services and certain of our technical services as entry points to evaluate new business areas. After our consulting practice is established in a new business area, we can expand our operations by offering additional technical services. For example, based on our work in watershed management consulting services, we identified and expanded into water infrastructure engineering services.

Expand Service Offerings and Geographic Presence Through Acquisitions. We believe that acquisition opportunities exist that will allow us to continue our growth in selected business areas, broaden our service offerings and extend our geographic presence. We intend to make acquisitions that will enable us to strengthen our position in certain key business areas, or further strengthen our position in our more established service offerings. We believe that our reputation and public company status make us an attractive partner and provide us with an advantage in pursuing acquisitions.

Focus on Public Sector Projects. We intend to continue marketing to public sector organizations and bidding for projects to stay on the leading edge of policy development. This experience helps us identify market opportunities and enhances our ability to serve other public and commercial clients. Additionally, public sector contracts often provide more predictable revenue and returns than commercial sector contracts.

Services

We provide our clients with consulting, engineering and technical services that focus on our clients' specific needs. We offer these services individually or as part of our full service approach to problem solving. We are currently performing services under contracts ranging from small site investigations to large and complex infrastructure projects. Our service offerings include:

- *Research and development* to formulate solutions to complex problems and develop advanced computer simulation techniques for modeling problems, ranging in scale from microscopic to global;
- *Applied science and technology* to assess a wide range of problems and develop practical and cost-effective solutions through the application of scientific methods, new technologies and data interpretation;
- *Engineering design* to provide services from concept development and initial planning and design through project completion;
- *Program management* to provide experienced and specialized program managers and project teams to assist clients in managing large and complex projects through completion;
- *Construction management* to provide experienced and specialized construction managers to assist clients in minimizing the risk of cost overruns, delays and contractual conflicts; and
- *Operations and maintenance* to allow clients to outsource routine functions, permitting them to streamline contractor relationships and reduce operating costs.

Reportable Segments

We managed our business in three reportable segments in fiscal 2005: resource management, infrastructure and communications. Management established these segments based upon the services provided, the different marketing strategies associated with these services and the specialized needs of their respective clients. Our resource management reportable segment provides engineering and consulting services related primarily to water quality and availability, environmental restoration, productive reuse of defense facilities, and strategic environmental resource planning to both public and private organizations. Our infrastructure reportable segment provides engineering, program management and construction management services for the additional development, upgrade and replacement of existing civil and security infrastructure to both public and private organizations. Our communications reportable segment provides network planning, engineering, site acquisition, construction and construction management services to telecommunications companies, wireless service providers and cable operators.

Because of our decision to exit the wireless business and the nature of the communications infrastructure services we currently provide, we began implementing a plan to consolidate our remaining communications business into our infrastructure segment in late fiscal 2005. That process has continued in the first quarter of fiscal 2006, and we are analyzing the impact on our reportable segment disclosures.

The following table presents, for the periods indicated, the approximate percentage of our revenue, net of subcontractor costs, attributable to our reportable segments:

<u>Reportable Segment</u>	<u>Fiscal Year</u>		
	<u>2005</u>	<u>2004</u>	<u>2003</u>
Resource management	63.9%	60.1%	59.0%
Infrastructure	33.5	32.3	32.7
Communications	2.6	7.6	8.3
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

Financial information for these segments can be found in Note 15, "Reportable Segments," included under the heading "Notes to Consolidated Financial Statements" in our 2005 Annual Report to Stockholders, which is incorporated by reference herein.

Resource Management

One of our major concentrations is water resource management, in which we have a leading position in understanding the interrelationships of water quality and human activities. We support high priority government programs for water quality improvement, environmental restoration, productive reuse of defense facilities and strategic environmental resource planning. We provide comprehensive services, including research and development, applied science and technology, engineering design, construction management, program management, and operations and maintenance. Our service offerings in the resource management segment are focused on the following project areas:

Surface Water Projects: Public concern with the quality of rivers, lakes and streams, as well as coastal and marine waters, and the ensuing legislative and regulatory response, is driving demand for our services. Over the past 39 years, we have developed a specialized set of technical skills that positions us to compete effectively for surface water and watershed management projects. We provide water resource services to federal government clients such as the EPA, the U.S. Department of Defense (DoD) and the U.S. Department of Energy (DOE), and to a broad base of commercial sector clients including those in the chemical, pharmaceutical, utility, aerospace and petroleum industries. We also provide surface water services to state and local government agencies, particularly in the area of watershed management.

Groundwater Projects: Groundwater is the source of drinking water for much of the U.S. population and a substantial portion of the water used for residential, industrial and agricultural purposes. Our activities in the groundwater field are diverse and typically include projects such as investigating and identifying sources of chemical contamination, examining the extent of contamination, analyzing the speed and direction of contamination migration, and designing and evaluating remedial alternatives. In addition, we conduct monitoring studies to assess the effectiveness of groundwater treatment and extraction wells.

Waste Management Projects: We currently provide a wide range of engineering and consulting services for hazardous waste contamination and remediation projects, from initial site assessment through design and implementation phases of remedial solutions. In addition, we perform risk assessments to determine the probability of adverse health effects that may result from exposure to toxic substances. We also provide waste minimization and pollution prevention services and evaluate the effectiveness of innovative technologies and novel solutions to environmental problems.

Regulatory Compliance Projects: Our regulatory compliance services include advising our clients on the full spectrum of regulatory requirements under the Resource Conservation and Recovery Act, the Comprehensive Environmental Response, Compensation, and Liability Act, the Clean Water Act, the Clean Air Act, the National Environmental Policy Act, and other environmental laws and regulations. Although we provide services to both government and commercial sector clients, our current emphasis is on providing regulatory compliance services to the U.S. Army, Navy and Air Force.

Infrastructure

In our infrastructure segment, we focus on the development of water infrastructure projects; institutional facilities; commercial, recreational, and leisure facilities; transportation projects; and systems and security projects. These facilities and projects are an essential part of everyday life and also sustain economic activity, the security of our infrastructure, and the quality of life. Our engineers, architects and planners work in partnership with our clients to provide adequate infrastructure development within their financial constraints. We assist clients with infrastructure projects by providing management consulting, engineering design, program management, construction management, and operations and maintenance. Our service offerings in the infrastructure segment are focused on the following project areas:

Water Infrastructure Projects: Our technical services are applied to all aspects of water quantity and quality management ranging from stormwater management through drainage and flood control projects to major water and wastewater treatment plants. Our experience includes planning, design and construction services for drinking water projects, the design of water treatment facilities and reservoirs, and the design of distribution systems including pipelines and pump stations.

Institutional Facilities Projects: We provide planning, architectural, engineering and construction management services, including land development and interior building design, for educational, healthcare and research facilities. We have completed engineering and construction management projects for a wide range of clients with specialized needs such as security systems, training and audiovisual facilities, clean rooms, laboratories, medical facilities and emergency preparedness facilities.

Commercial, Recreational and Leisure Facilities Projects: We specialize in the planning and design of water-related entertainment and leisure facilities such as theme park attractions and large marine aquariums. Our projects also include high-rise office buildings, museums, hotels, parks, visitor centers and marinas. We have designed complex aquatic life support systems and provided structural, civil and mechanical engineering and design of interpretive exhibits for a series of large aquarium

projects. We have also designed integrated interior building systems for heat, light, security and communications to improve building energy efficiency and cost effectiveness.

Transportation Project: We provide architectural, engineering and construction management services for transportation projects to improve public safety and mobility. Our projects include roadway improvements, commuter railway stations, airport expansions, bridges, major highways, and the repair, replacement and upgrading of older transportation facilities.

Systems Support and Security Projects: We provide technology systems integration to improve national security, principally for federal infrastructure. Our projects range from infrastructure vulnerability assessments to security engineering design and project management services. We also provide systems analysis and information management to optimize the U.S. commercial aviation system, and outsourced technical services to improve national security.

Communications

In the communications segment, we focus on the delivery of technical solutions necessary to design and build communications infrastructure projects. Our capabilities support various technologies including broadband and wireless communications. Our communications clients seek consulting, engineering design, program management and construction management services. Our service offerings are focused in the areas of network feasibility, planning, engineering, development and maintenance.

Project Examples

The following table presents brief examples of current projects in our three segments:

<u>Segment</u>	<u>Representative Projects</u>
Resource Management	<ul style="list-style-type: none"> • Providing engineering services for U.S. Bureau of Reclamation projects throughout the southwestern United States. Providing water quality modeling, watershed management, public consensus building, and engineering solutions for water supplies. • Assisting the EPA Office of Wastewater Management in conducting the Clean Water Needs Survey to assess financial needs for constructing wastewater treatment plants and other clean water-related infrastructure. • Supporting environmental activities at U.S. Air Force installations worldwide to assist the U.S. Air Force in its environmental mission in the areas of environmental conservation and planning, environmental quality, environmental restoration, and design and construction. • Providing engineering, project management, and construction management to help reconstruct Iraq for the U.S. Army Corps of Engineers. • Providing program management and technical support for the Comprehensive Long-term Environmental Action Navy (CLEAN) program under a ten-year contract. Activities include installation restoration, base realignment and closure and underground storage tank programs. • Providing environmental operations and maintenance services at Vandenberg Air Force Base in California. Also providing operations and maintenance services for a wastewater treatment plant and a hazardous waste collection plant, air monitoring and other services. • Providing program management services for environmental restoration of the Rocky Mountain Arsenal, a former chemical weapons manufacturing plant.

Segment

Representative Projects

- Providing environmental restoration services at Base Realignment and Closure (BRAC) sites for various agencies within the DoD.
 - Serving as prime contractor for National Environmental Policy Act studies at DOE facilities. The work helps ensure that the DOE's proposed defense and energy related actions comply with applicable environmental regulations.
- Infrastructure
- Implementing production process engineering efficiencies. Upgrading information management systems and implemented ISO 14000 compliant environmental management systems for several Fortune 50 industrial clients.
 - Providing planning, engineering and systems integration services to support the change from ground-based navigation to satellite navigation for all civil aviation in the United States.
 - Providing engineering and technical support services to create a national missile defense system.
 - Providing engineering design services for the upgrade of building systems, including air, power and data distribution systems, for several locations of a major luxury hotel chain.
 - Providing multi-modal transportation planning and design services for Boston, Massachusetts' first citywide transportation plan since the 1960s.
 - Providing engineering and construction management services for the upgrade of water distribution and treatment facilities serving Atlanta, Georgia.
 - Providing planning and engineering design services for a new educational facility in Corning, New York.
 - Providing engineering and design services for integrated voice, video and data networks inside buildings for large corporations, colleges and health care facilities nationwide.
- Communications
- Assisting a leading provider of broadband services with deployment and maintenance of a high capacity broadband fiber optic network in the western and midwestern United States.
 - Providing engineering design and construction management services for a fiber-to-the-premise network for 14 cities in Utah.

Clients

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 revenue, net of subcontractor costs, attributable to our client sectors:

<u>Client Sector</u>	<u>Fiscal Year</u>		
	<u>2005</u>	<u>2004</u>	<u>2003</u>
Federal government	47.5%	45.5%	34.8%
State and local government	16.5	16.5	20.9
Commercial	35.7	37.1	44.0
International	0.3	0.9	0.3
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

Federal government agencies are among our most significant clients. During fiscal 2005, the DoD, EPA and DOE accounted for approximately 26.4%, 7.2% and 4.6%, respectively, of our revenue, net of subcontractor costs. By comparison, during fiscal 2004, the DoD, EPA and DOE accounted for approximately 27.7%, 6.8% and 4.9%, respectively, of our revenue, net of subcontractor costs. We often support multiple programs within a single federal agency, both domestically and internationally. We assist state and local government clients in a variety of jurisdictions across the country. No single state or local government client accounted for more than 10% of our revenue, net of subcontractor costs, in fiscal 2005. Our commercial sector clients include companies in the chemical, mining, pharmaceutical, aerospace, automotive, petroleum, communications and utility industries. No single commercial sector client accounted for more than 10% of our revenue, net of subcontractor costs, in fiscal 2005.

The following table presents a list of representative clients in our three segments. We have not included international clients because they represent a significantly smaller percentage of our client base.

Reportable Segment	Representative Clients		
	Federal Government	State and Local Governments	Commercial
Resource Management	U.S. Environmental Protection Agency; U.S. Air Force; U.S. Navy; U.S. Army; U.S. Coast Guard; U.S. Forest Service; U.S. Bureau of Reclamation; U.S. Department of Energy; U.S. Agency for International Development; Federal Energy Regulatory Commission; U.S. Postal Service	California Department of Health Services; Washington Department of Ecology; Prince Georges County, Maryland; Clarmont County, Ohio; City of San Jose, California; Salton Sea Authority	Lockheed Martin Corporation; Merck & Co.; General Electric Company; Exelon Corporation; Hewlett–Packard Company; Unocal Corporation
Infrastructure	U.S. Army Corps of Engineers; U.S. Bureau of Reclamation; U.S. Navy; Federal Emergency Management Agency; U.S. Department of the Interior; U.S. Federal Aviation Administration; U.S. Department of Homeland Security; U.S. National Aeronautics and Space Administration	City of Breckenridge, Colorado; Washington, D.C. Department of Transportation; City of Detroit, Michigan; City of Portland, Oregon; Texas Parks and Wildlife Department; King County, Washington; Delaware Department of Transportation; Delaware Department of Corrections; Boston, Massachusetts Water and Sewer Commission	Boeing Corporation; E.I. DuPont de Nemours and Company; Ford Motor Company; General Motors Corporation; Lowe’s Company; Marriott Corporation
Communications		Utah Telecommunications Open Infrastructure Agency (UTOPIA)	Comcast Cable Communications, Inc.; Verizon Communications

Contracts

Our services are billed under three principal types of contracts with our clients: fixed-price, time-and-materials, and cost-plus. The following table presents, for the periods indicated, the approximate percentage of our revenue, net of subcontractor costs, derived from these types of contracts:

<u>Contract Type</u>	<u>Fiscal Year</u>		
	<u>2005</u>	<u>2004</u>	<u>2003</u>
Fixed-price	33.0%	32.4%	37.1%
Time-and-materials	48.3	42.7	41.2
Cost-plus	18.7	24.9	21.7
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

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

Some contracts made with the federal government are subject to annual approval of funding. Federal government agencies may impose spending restrictions that limit the continued funding of our existing contracts and may limit our ability to obtain additional contracts. These limitations, if significant, could have a material adverse effect on us. All contracts made with the federal government may be terminated by the government at any time, with or without cause.

Federal government agencies have formal policies against continuing or awarding contracts that would create actual or potential conflicts of interest with other activities of a contractor. These policies may prevent us in certain cases from bidding for or performing government contracts resulting from or related to certain work we have performed. In addition, services performed for a commercial or government sector client may create conflicts of interest that preclude or limit our ability to obtain work for a private organization. We attempt to identify actual or potential conflicts of interest and to minimize the possibility that such conflicts could affect our work under current contracts or our ability to compete for future contracts. We have, on occasion, declined to bid on a project because of an existing or potential conflict of interest.

Our contracts with the federal government are subject to audit by the government, primarily by the Defense Contract Audit Agency (DCAA). The DCAA generally seeks to: (1) identify and evaluate all activities that either contribute to, or have an impact on, proposed or incurred costs of government contracts; (2) evaluate the contractor's policies, procedures, controls and performance; and (3) prevent or avoid wasteful, careless and inefficient production or service. To accomplish this, the DCAA examines our internal control systems, management policies and financial capability; evaluates the accuracy, reliability and reasonableness of our cost representations and records; and assesses compliance by us with Cost Accounting Standards (CAS) and defective-pricing clauses found within the Federal Acquisition

Regulations (FAR). The DCAA also performs the annual review of our overhead rates and assists in the establishment of our final rates. This review focuses on the allowability of cost items and the applicability of CAS. The DCAA also audits cost-based contracts, including the close-out of those contracts.

The DCAA also reviews all types of federal proposals, including those of award, administration, modification and re-pricing. The DCAA considers our cost accounting system, estimating methods and procedures, and specific proposal requirements. Operational audits are also performed by the DCAA. A review of our operations at every major organizational level is also conducted during the proposal review period. During the course of its audit, the DCAA may disallow costs if it determines that we accounted for such costs in a manner inconsistent with CAS. Under a government contract, only those costs that are reasonable, allocable and allowable are recoverable. A disallowance of costs by the DCAA could have a material adverse effect on us.

We maintain controls to avoid the occurrence of fraud and other unlawful activities due to our corporate policies and the severity of the legal remedies available to the government, including the required payment of damages and/or penalties, criminal and civil sanctions, and debarment. In addition, we maintain preventative audit programs and mitigation measures to ensure that appropriate control systems are in place.

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

Marketing and Business Development

We utilize both a centralized corporate marketing department and local business development groups within each of our operations. Our corporate marketing department assists management in establishing our business plan, our target markets and an overall marketing strategy. The corporate marketing department also identifies and tracks the development of large federal programs, assesses new business areas, assists in the selection of appropriate partners for new projects and assists in the bid process for new projects. We market throughout the organizations we target, focusing primarily on senior representatives in government organizations and senior management in private companies. In addition, the corporate marketing department supports marketing activities company-wide by coordinating corporate promotional and professional activities, including appearances at trade shows, direct mailings and public relations.

Most business development activities are performed through our local offices by technical or project management staff. We believe that these offices and personnel have a greater understanding of local issues, laws and regulations and, therefore, can better target their marketing activities. These business development activities are coordinated by operations managers located in certain of our offices. These activities include meetings with potential clients and state, county and municipal regulators, presentations to civic and professional organizations and seminars on current technical topics.

Acquisitions and Divestitures

We have historically acquired a significant number of companies and we expect to make future acquisitions. Acquisitions are inherently risky, and no assurance can be given that our previous or future acquisitions will be successful or will not have a material adverse effect on our financial position, results of operations or cash flow. Acquisitions in excess of a certain size will require the approval of our lenders and noteholders. Prior acquisitions have resulted in a wide range of outcomes, including some that have not performed as we had anticipated. We have divested one operating unit and arranged to sell two operating units due to operating and financial performance concerns. The risks associated with acquisitions and divestitures are more fully discussed in the section of this Report entitled "Risk Factors."

Competition

The market for our services is generally highly competitive. We often compete with many other firms ranging from small regional firms to large international firms that may have greater financial and marketing resources.

We perform a broad spectrum of consulting, engineering and technical services across the resource management, infrastructure and communications segments. Services within these segments are provided to a client base that includes federal agencies, such as the DoD, the DOE, the U.S. Department of the Interior, the EPA and the U.S. Postal Service, state and local agencies, and the commercial sector. Our competition varies and is a function of the business areas in which, and client sectors for which, we perform our services. The range of competitors for any one procurement can vary from one to 100 firms, depending upon technical qualifications, the relative value of the project, geographic location, the financial terms and risks associated with the work, and any restrictions placed upon competition by the client. Historically, clients have chosen among competing firms by weighing the quality, innovation and timeliness of the firm's service versus its cost to determine which firm offers the best value. When less work becomes available in a given market, price becomes an increasingly important factor.

We believe that our principal competitors include, in alphabetical order, AECOM Technology Corporation; Anteon Corporation; Black & Veatch Corporation; Brown & Caldwell; Camp, Dresser & McKee Inc.; CH2M Hill Companies Ltd.; Computer Associates International, Inc.; Earth Tech, Inc., a subsidiary of Tyco International Ltd.; Jacobs Engineering Group, Inc.; MasTec, Inc.; MWH Global, Inc.; Quanta Services, Inc.; Science Applications International Corporation; The Shaw Group, Inc.; TRC Companies, Inc.; URS Corporation; and Weston Solutions, Inc.

Backlog

As of October 2, 2005, our backlog was approximately \$900 million, compared to \$1.1 billion as of October 3, 2004. The decrease was primarily related to our decision to exit from the wireless communications business and fixed-price construction work outside our normal scope of services for commercial clients. We include in backlog only those contracts for which funding has been provided and work authorizations have been received. We estimate that approximately \$761 million of the backlog as of October 2, 2005 will be recognized during fiscal 2006. No assurance can be given that all amounts included in backlog will ultimately be realized, even if evidenced by written contracts. For example, certain of our contracts with the federal government and other clients can be terminated at will. If any of these clients terminate their contracts prior to completion, we may not be able to recognize that revenue.

Regulation

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

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

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

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

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

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

In addition, services provided to the DoD are monitored by the Defense Contract Management Agency and audited by the DCAA. Our government clients can also terminate any of their contracts, and many of our government contracts are subject to renewal or extension annually. For additional information on risks associated with our government-related business, please refer to the section entitled "Risk Factors."

Seasonality

We experience seasonal trends in our business. Our revenue is typically lower in the first quarter of our fiscal year, primarily due to the Thanksgiving, Christmas and, in certain years, New Year's holidays that fall within the first quarter. Many of our clients' employees, as well as our own employees, take vacations during these holidays. This results in fewer billable hours worked on projects, and correspondingly, less revenue recognized. Our revenue is typically higher in the second half of the fiscal year, due to weather conditions during spring and summer that result in higher billable hours. In addition,

our revenue is typically higher in the fourth quarter of the fiscal year due to the federal government's fiscal year-end spending practices.

Potential Liability and Insurance

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

We maintain a comprehensive general liability policy with an umbrella policy that covers losses beyond the general liability limits. We also maintain professional errors and omissions liability and contractor's pollution liability insurance policies. Currently, we have \$26.0 million of coverage per occurrence on our general liability policy, which includes a deductible of \$250,000. The errors and omissions and contractor's pollution liability insurance policies have limits of \$30.0 million per loss and in the aggregate. They include a per claim self-insured retention in the amount of \$250,000. As we expand our services into additional markets, such as fixed-price remediation with insurance and unexploded ordnance (UXO) services, we obtain the necessary types of insurance coverages for such activities, as required by our clients.

We obtain insurance coverage through a broker that is experienced in the professional liability field. The broker and our risk manager regularly review the adequacy of our insurance coverage. However, because there are various exclusions and retentions under our insurance policies, or an insurance carrier may become insolvent, there can be no assurance that all potential liabilities will be covered by our insurance or paid by our carrier.

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

Employees

As of October 2, 2005, we had more than 7,700 total employees, including more than 7,200 full-time equivalent employees. Our professional staff includes archaeologists, biologists, chemical engineers, chemists, civil engineers, computer scientists, economists, electrical engineers, environmental engineers, environmental scientists, geologists, hydrogeologists, mechanical engineers, oceanographers, project managers and toxicologists. As of October 2, 2005, we had 348 employees represented by 33 labor organizations. We consider the relationships with our employees to be good. We believe that our ability to retain and expand our staff of qualified professionals will be an important factor in determining our future growth and success. To date, we believe that we have been successful in recruiting qualified employees, but there is no assurance that we will continue to be successful in the future. On certain engagements, we supplement our consultants with independent contractors. We believe that the practice of retaining independent contractors on an engagement basis provides us with significant flexibility in adjusting professional personnel levels in response to changes in demand for our services.

Item 1A. Risk Factors

Set forth below and elsewhere in this Report and in other documents we file with the SEC are risks and uncertainties that could cause actual results to differ materially from the results contemplated by the forward-looking statements contained in the Report.

Our quarterly and annual operating results may fluctuate significantly, which could have a negative effect on the price of our common stock

Our quarterly and annual revenue, expenses and operating results may fluctuate significantly because of a number of factors, including:

- Unanticipated changes in contract performance that may affect profitability, particularly with contracts that are fixed-price or have funding limits;
- The seasonality of the spending cycle of our public sector clients, notably the federal government, and the spending patterns of our commercial sector clients;
- Budget constraints experienced by our federal, state and local government clients;
- Acquisitions or the integration of acquired companies;
- Divestiture or discontinuance of operating units;
- Employee hiring, utilization and turnover rates;
- The number and significance of client contracts commenced and completed during the period;
- Creditworthiness and solvency of clients;
- The ability of our clients to terminate contracts without penalties;
- Delays incurred in connection with a contract;
- The size, scope and payment terms of contracts;
- Contract negotiations on change orders and collections of related accounts receivable;
- The timing of expenses incurred for corporate initiatives;
- Reductions in the prices of services offered by our competitors;
- Threatened or pending litigation;
- Changes in accounting rules; and
- General economic or political conditions.

Variations in any of these factors could cause significant fluctuations in our operating results from quarter to quarter and could result in net losses.

We derive the majority of our revenue from government agencies, and any disruption in government funding or in our relationship with those agencies could adversely affect our business

In fiscal 2005, we derived approximately 64.0% of our revenue, net of subcontractor costs, from contracts with federal, state and local government agencies. Federal government agencies are among our most significant clients. These agencies generated 47.5% of our revenue, net of subcontractor costs, in fiscal 2005 as follows: 26.4% from the DoD, 7.2% from the EPA, 4.6% from the DOE, and 9.3% from various other federal agencies. A significant amount of this revenue is derived under multi-year contracts, many of which are appropriated on an annual basis. As a result, at the beginning of a project, the related

contract may be only partially funded, and additional funding is normally committed only as appropriations are made in each subsequent year. Our backlog includes only the projects that have funding appropriated.

The demand for our government-related services is generally related to the level of government program funding. Accordingly, the success and further development of our business depends, in large part, upon the continued funding of these government programs and upon our ability to obtain contracts under these programs. There are several factors that could materially affect our government contracting business, including the following:

- Changes in and delays or cancellations of government programs, requirements or appropriations;
- Budget constraints or policy changes resulting in delay or curtailment of expenditures relating to the services we provide;
- Re-competes of government contracts;
- The timing and amount of tax revenue received by federal, state and local governments;
- Curtailment of the use of government contracting firms;
- Competing political priorities and changes in the political climate with regard to the funding or operation of the services we provide;
- The adoption of new laws or regulations affecting our contracting relationships with the federal, state or local governments;
- Unsatisfactory performance on government contracts by us or one of our subcontractors, negative government audits, or other events that may impair our relationship with the federal, state or local governments;
- A dispute with or improper activity by any of our subcontractors; and
- General economic or political conditions.

These and other factors could cause government agencies to delay or cancel programs, to reduce their orders under existing contracts, to exercise their rights to terminate contracts or not to exercise contract options for renewals or extensions. Any of these actions could have a material adverse effect on our revenue or timing of contract payments from these agencies.

The loss of key personnel or our inability to attract and retain qualified personnel could significantly disrupt our business

We depend upon the efforts and skills of our executive officers, senior managers and consultants. With limited exceptions, we do not have employment agreements with any of these individuals. The loss of the services of any of these key personnel could adversely affect our business. Although we have obtained non-compete agreements from certain principals and stockholders of companies we have acquired, we generally do not have non-compete or employment agreements with key employees who were once equity holders of these companies. Further, many of our non-compete agreements have expired. We do not maintain key-man life insurance policies on any of our executive officers or senior managers. In addition, our consolidation efforts within our civil infrastructure business and our shift to a more centralized structure for the operation of our overall business could result in the loss of key employees.

Our future growth and success depends on our ability to attract and retain qualified scientists and engineers. The market for these professionals is competitive and we may not be able to attract and retain such professionals. We typically grant these employees stock options and a reduction in our stock price could impact our ability to retain these professionals.

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

We account for most of our contracts on the percentage-of-completion method of accounting. Generally, our use of this method results in recognition of revenue and profit ratably over the life of the contract, based on the proportion of costs incurred to date to total costs expected to be incurred. The effect of revisions to revenue and estimated costs, including the achievement of award and other fees, is recorded when the amounts are known and can be reasonably estimated. Such revisions could occur in any period and their effects could be material. The uncertainties inherent in the estimating process make it possible for actual costs to vary from estimates, including reductions or reversals of previously recorded revenue and profit, and such differences could be material.

The value of our common stock could continue to be volatile

Our common stock has experienced substantial price volatility. In addition, the stock market has experienced extreme price and volume fluctuations that have affected the market price of many companies and that have often been unrelated to the operating performance of these companies. The overall market and the price of our common stock may continue to fluctuate greatly. The trading price of our common stock may be significantly affected by various factors, including:

- Quarter-to-quarter variations in our financial results, including revenue, profits, day sales in receivables, backlog, and other measures of financial performance or financial condition;
- Announcements by us or our competitors of significant events, including acquisitions;
- Resolution of threatened or pending litigation;
- Changes in investors' and analysts' perceptions of our business or any of our competitors' businesses;
- Investors' and analysts' assessments of reports prepared or conclusions reached by third parties;
- Changes in environmental legislation;
- Investors' perceptions of our performance of services in countries in which the U.S. military is engaged, including Afghanistan and Iraq;
- Broader market fluctuations; and
- General economic or political conditions.

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

Our failure to properly manage projects may result in additional costs or claims

Our engagements often involve large-scale, complex projects. The quality of our performance on such projects depends in large part upon our ability to manage the relationship with our clients, and to effectively manage the project and deploy appropriate resources, including third-party contractors and our own personnel, in a timely manner. If we miscalculate the resources or time we need to complete a project with capped or fixed fees, or the resources or time we need to meet contractual milestones, our operating results could be adversely affected. Further, any defects or errors, or failures to meet our clients' expectations, could result in claims for damages against us. Our contracts generally limit our liability for damages that arise from negligent acts, errors, mistakes or omissions in rendering services to our clients.

However, we cannot be sure that these contractual provisions will protect us from liability for damages in the event we are sued.

Over the past two fiscal years, we have experienced significant project cost overruns on the performance of fixed-price construction work. We have bid on and accepted contracts with unfavorable terms and conditions; performed on projects without properly defined scopes; maintained low levels of productivity and entered into projects that were outside our normal scope of services. Although we have implemented procedures intended to address these issues, no assurance can be given that we will not experience project management issues in the future.

There are risks associated with our acquisition strategy that could adversely impact our business and operating results

A significant part of our growth strategy is to acquire other companies that complement our lines of business or that broaden our technical capabilities and geographic presence. We expect to continue to acquire companies as an element of our growth strategy; however, our ability to make acquisitions is more restricted under the May 2005 amendments to our Credit Agreement and Note Purchase Agreement. Acquisitions involve certain known and unknown risks that could cause our actual growth or operating results to differ from our expectations or the expectations of securities analysts. For example:

- We may not be able to identify suitable acquisition candidates or to acquire additional companies on acceptable terms;
- We compete with others to acquire companies which may result in decreased availability of, or increased price for, suitable acquisition candidates;
- We may not be able to obtain the necessary financing, on favorable terms or at all, to finance any of our potential acquisitions;
- We may ultimately fail to consummate an acquisition even if we announce that we plan to acquire a company;
- We may not be able to retain key employees of an acquired company which could negatively impact that company's future performance;
- We may fail to successfully integrate or manage these acquired companies due to differences in business backgrounds or corporate cultures;
- If we fail to successfully integrate any acquired company, our reputation could be damaged. This could make it more difficult to market our services or to acquire additional companies in the future; and
- These acquired companies may not perform as we expect and we may fail to realize anticipated revenue and profits.

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

Further, acquisitions may also cause us to:

- Issue common stock that would dilute our current stockholders' ownership percentage;
- Assume liabilities, including environmental liabilities;

- Record goodwill that will be subject to impairment testing and potential periodic impairment charges;
- Incur amortization expenses related to certain intangible assets;
- Lose existing or potential contracts as a result of conflict of interest issues;
- Incur large and immediate write-offs; or
- Become subject to litigation.

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

Downturns in the financial markets and reductions in state and local government budgets could negatively impact the capital spending of our clients and adversely affect our revenue and operating results

Downturns in the capital markets can impact the spending patterns of certain clients. Our state and local government clients may face budget deficits that prohibit them from funding new or existing projects. In addition, our existing and potential clients may either postpone entering into new contracts or request price concessions. Difficult financing and economic conditions may cause some of our clients to delay payments for services we perform, thereby increasing the average number of days our receivables are outstanding. Further, these conditions may result in the inability of some of our clients to pay us for services that we have already performed. If we are not able to reduce our costs quickly enough to respond to the revenue decline from these clients, our operating results may be adversely affected. Accordingly, these factors affect our ability to forecast with any accuracy our future revenue and earnings from business areas that may be adversely impacted by market conditions.

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

Our expected future growth presents numerous managerial, administrative, operational and other challenges. Our ability to manage the growth of our operations will require us to continue to improve our management information systems and our other internal systems and controls. In addition, our growth will increase our need to attract, develop, motivate and retain both our management and professional employees. The inability of our management to effectively manage our growth or the inability of our employees to achieve anticipated performance could have a material adverse effect on our business.

Adverse resolution of an Internal Revenue Service examination process may harm our operating results or financial condition

We are currently under examination by the Internal Revenue Service (IRS) for fiscal years 1997 through 2003. The major issue raised by the IRS relates to the \$14.5 million of research and experimentation (R&E) credits that we recognized during the years under examination. The amount of credits recognized for financial statement purposes represents the amount that we estimate will be ultimately realizable. Should the IRS determine that the amount of R&E credits to which we are entitled is more or less than the amount recognized, we will recognize the difference as income tax expense in the period in which the determination is made.

If we do not successfully implement our new enterprise resource planning system, our cash flows may be impaired and we may incur further costs to integrate or upgrade our systems

In fiscal 2004, we began implementation of a new company-wide enterprise resource planning (ERP) system, principally for accounting and project management. In the event we do not complete the project successfully, we may experience reduced cash flows due to an inability to issue invoices to our clients and collect cash in a timely manner. It is also possible that the cost of completing this project could exceed our current projections and negatively impact future operating results.

Our international operations expose us to risks such as foreign currency fluctuations and different business cultures, laws and regulations

During fiscal 2005, we derived approximately 0.3% of our revenue, net of subcontractor costs, from international clients. Some contracts with our international clients are denominated in foreign currencies. As such, these contracts contain inherent risks including foreign currency exchange risk and the risk associated with expatriating funds from foreign countries. In addition, certain expenses are also denominated in foreign currencies. If our revenue and expenses denominated in foreign currencies increases, our exposure to foreign currency fluctuations may also increase. We periodically enter into forward exchange contracts to mitigate such foreign currency exposures.

In addition, the different business cultures associated with international operations may not be fully appreciated before we sign an agreement, and thereby expose us to risk. Likewise, we need to understand prior to signing a contract international laws and regulations, such as foreign tax and labor laws, and U.S. laws and regulations applicable to companies engaging in business outside of the U.S., such as the Foreign Corrupt Practices Act. For these reasons, pricing and executing international contracts is more difficult and carries more risk than pricing and executing domestic contracts. Our experience has also shown that it is typically more difficult to collect on international work that has been performed and billed.

Our revenue from commercial clients is significant, and the credit risks associated with certain of these clients could adversely affect our operating results

In fiscal 2005, we derived approximately 35.7% of our revenue, net of subcontractor costs, from commercial clients. We rely upon the financial stability and creditworthiness of these clients. To the extent the credit quality of these clients deteriorates or these clients seek bankruptcy protection, our ability to collect our receivables, and ultimately our operating results, may be adversely affected. Periodically, we have experienced bad debt losses.

As a government contractor, we are subject to a number of procurement rules and regulations and other public sector liabilities, any deemed violation of which could lead to fines or penalties or lost business

We must comply with and are affected by laws and regulations related to the formation, administration and performance of government contracts. For example, we must comply with FAR, the Truth in Negotiations Act, CAS and DoD security regulations, as well as many other rules and regulations. These laws and regulations affect how we do business with our clients and, in some instances, impose added costs on our business. A violation of these laws and regulations could result in the imposition of fines and penalties against us or the termination of our contracts. Moreover, as a federal government contractor, we must maintain our status as a responsible contractor. Failure to do so could lead to suspension or debarment, making us ineligible for federal government contracts and potentially ineligible for state and local government contracts.

Most of our government contracts are awarded through a regulated competitive bidding process, and the inability to complete existing government contracts or win new government contracts over an extended period could harm our operations and adversely affect our future revenue

Most of our government contracts are awarded through a regulated competitive bidding process. Some government contracts are awarded to multiple competitors, which increases overall competition and pricing pressure and may require us to make sustained post-award efforts to realize revenue under the government contracts. In addition, government clients can generally terminate or modify their contracts at their convenience. Moreover, even if we are qualified to work on a new government contract, we might not be awarded the contract because of existing government policies designed to protect small businesses and underrepresented minority contractors. The inability to complete existing government contracts or win new government contracts over an extended period could harm our operations and adversely affect our future revenue.

A negative government audit could result in an adverse adjustment of our revenue and costs, could impair our reputation, and could result in civil and criminal penalties

Government agencies, such as the DCAA, routinely audit and investigate government contractors. These agencies review a contractor's performance under its contracts, cost structure and compliance with applicable laws, regulations and standards. If the agencies determine through these audits or reviews that we improperly allocated costs to specific contracts, they will not reimburse us for these costs. Therefore, an audit could result in substantial adjustments to our revenue and costs.

Further, although we have internal controls in place to oversee our government contracts, no assurance can be given that these controls are sufficient to prevent isolated violations of applicable laws, regulations and standards. If the agencies determine that we or one of our subcontractors engaged in improper conduct, we may be subject to civil or criminal penalties and administrative sanctions, payments, fines and suspension or prohibition from doing business with the government, any of which could materially affect our financial condition. In addition, we could suffer serious harm to our reputation.

Our business and operating results could be adversely affected by our inability to accurately estimate the overall risks, revenue or costs on a contract

We generally enter into three principal types of contracts with our clients: fixed-price, time-and-materials, and cost-plus. Under our fixed-price contracts, we receive a fixed price irrespective of the actual costs we incur and, consequently, we are exposed to a number of risks. These risks include underestimation of costs, problems with new technologies, unforeseen costs or difficulties, delays beyond our control, price increases for materials, and economic and other changes that may occur during the contract period. Under our time-and-materials contracts, we are paid for labor at negotiated hourly billing rates and for other expenses. Profitability on these contracts is driven by billable headcount and cost control. Many of our time-and-materials contracts are subject to maximum contract values and, accordingly, revenue relating to these contracts is recognized as if these contracts were fixed-price contracts. Under our cost-plus contracts, some of which are subject to contract ceiling amounts, we are reimbursed for allowable costs and fees, which may be fixed or performance-based. If our costs exceed the contract ceiling or are not allowable under the provisions of the contract or any applicable regulations, we may not be able to obtain reimbursement for all such costs.

Accounting for a contract requires judgments relative to assessing the contract's estimated risks, revenue and costs, and on making judgments on other technical issues. Due to the size and nature of many of our contracts, the estimation of overall risk, revenue and cost at completion is complicated and subject to many variables. Changes in underlying assumptions, circumstances or estimates may also adversely

affect future period financial performance. If we are unable to accurately estimate the overall revenue or costs on a contract, then we may experience a lower profit or incur a loss on the contract.

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

Our backlog as of October 2, 2005 was approximately \$900 million. We cannot guarantee that the revenue projected in our backlog will be realized or, if realized, will result in profits. In addition, project cancellations or scope adjustments may occur, from time to time, with respect to contracts reflected in our backlog. For example, certain of our contracts with the federal government and other clients are terminable at the discretion of the client with or without cause. These types of backlog reductions could adversely affect our revenue and margins. Accordingly, our backlog as of any particular date is an uncertain indicator of our future earnings.

The consolidation of our client base could adversely impact our business

Recently, there has been consolidation within our current and potential commercial client base, particularly in the telecommunications industry. Future consolidation activity could have the effect of reducing the number of our current or potential clients, and lead to an increase in the bargaining power of our remaining clients. This potential increase in bargaining power could create greater competitive pressures and effectively limit the rates we charge for our services. As a result, our revenue and margins could be adversely affected.

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

We occasionally enter into subcontracts and other contractual arrangements so that we can jointly bid and perform on a particular project. Success on these joint projects depends in large part on whether our partners fulfill their contractual obligations satisfactorily. If any of our partners fails to satisfactorily perform their contractual obligations as a result of financial or other difficulties, we may be required to make additional investments and provide additional services in order to make up for our partner's shortfall. If we are unable to adequately address our partner's performance issues, then our client could terminate the joint project, exposing us to legal liability, loss of reputation and reduced profit or loss on the project.

Our inability to find qualified subcontractors could adversely affect the quality of our service and our ability to perform under certain contracts

Under some of our contracts, we depend on the efforts and skills of subcontractors for the performance of certain tasks. Our reliance on subcontractors varies from project to project. In fiscal 2005, subcontractor costs comprised 30.1% of our revenue. The absence of qualified subcontractors with which we have a satisfactory relationship could adversely affect the quality of our service and our ability to perform under some of our contracts.

Changes in existing environmental laws, regulations and programs could reduce demand for our environmental services, which could cause our revenue to decline

A significant amount of our resource management business is generated either directly or indirectly as a result of existing federal and state laws, regulations and programs related to pollution and environmental protection. Accordingly, a relaxation or repeal of these laws and regulations, or changes in governmental policies regarding the funding, implementation or enforcement of these programs, could result in a decline in demand for environmental services that may have a material adverse effect on our revenue.

Our industry is highly competitive and we may be unable to compete effectively

We provide specialized consulting, engineering and technical services in the areas of resource management, infrastructure and communications to a broad range of government and commercial sector clients. The market for our services is highly competitive and we compete with many other firms. These firms range from small regional firms to large international firms. Some of our competitors have achieved substantially more market penetration in certain markets in which we compete. In addition, some of our competitors have substantially more experience, financial resources and/or financial flexibility than we do.

We compete for projects and engagements with a number of competitors that can vary from one to 100 firms. Historically, clients have chosen among competing firms based on technical capabilities, the quality and timeliness of the firm's service, and geographic presence. If competitive pressures force us to make price concessions or otherwise reduce prices for our services, then our revenue and margins will decline and our results from operations would be harmed.

Restrictive covenants in our Credit Agreement and Note Purchase Agreement relating to our senior secured notes may restrict our ability to pursue certain business strategies

Our Credit Agreement and Note Purchase Agreement relating to our senior secured notes restrict our ability to, among other things:

- Incur additional indebtedness;
- Create liens securing debt or other encumbrances on our assets;
- Make loans or advances;
- Pay dividends or make distributions to our stockholders;
- Purchase or redeem our stock;
- Repay indebtedness that is junior to indebtedness under our Credit Agreement and Note Purchase Agreement;
- Acquire the assets of, or merge or consolidate with, other companies; and
- Sell, lease or otherwise dispose of assets.

Our Credit Agreement and Note Purchase Agreement also require that we maintain certain financial ratios, which we may not be able to achieve. We failed to meet these required financial ratios at the end of the second quarter of fiscal 2005. We obtained waivers of the technical defaults caused by these failures and amendments to these agreements in May 2005. The covenants in these agreements may impair our ability to finance future operations or capital needs or to engage in certain business activities. Refer to Note 7, "Long-Term Obligations," included under the heading "Notes to Consolidated Financial Statements" in our 2005 Annual Report to Stockholders, which is incorporated by reference herein.

Our services expose us to significant risks of liability and it may be difficult to obtain or maintain adequate insurance coverage

Our services involve significant risks of professional and other liabilities that may substantially exceed the fees we derive from our services. Our business activities could expose us to potential liability under various environmental laws and under workplace health and safety regulations. In addition, we sometimes assume liability by contract under indemnification agreements. We cannot predict the magnitude of such potential liabilities.

We obtain insurance from third parties to cover our potential risks and liabilities. It is possible that we may not be able to obtain adequate insurance to meet our needs, may have to pay an excessive amount for

the insurance coverage we want, or may not be able to acquire any insurance for certain types of business risks.

Our liability for damages due to legal proceedings may harm our operating results or financial condition

We are a party to lawsuits in the normal course of business. Various legal proceedings are currently pending against us and certain of our subsidiaries alleging, among other things, breach of contract or tort in connection with the performance of professional services. We cannot predict the outcome of these proceedings with certainty. In some actions, parties are seeking damages that exceed our insurance coverage or for which we are not insured. If we sustain damages that exceed our insurance coverage or that are not covered by insurance, there could be a material adverse effect on our business, operating results or financial condition.

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

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

Changes in accounting for equity-related compensation could impact the way we use stock-based compensation to attract and retain employees

In December 2004, Financial Accounting Standards Board (FASB) issued a revision to Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004), *Share-Based Payment* (FAS 123R), that requires us to expense the value of employee stock options and similar awards. Under FAS 123R, shared-based payment (SBP) awards result in a cost that will be measured at fair value on the awards' grant date, based on the estimated number of awards that are expected to vest. Compensation cost for awards that vest would not be reversed if the awards expire without being exercised. We are allowed to select from two alternative transition methods, each of which has different reporting implications. Under the first method, the Modified Prospective Application, FAS 123R applies to new awards and modified awards after the effective date, and to any unvested awards as service is rendered on or after the effective date. Under the second method, the Modified Retrospective Application, FAS 123R can be applied to either all prior years for which SFAS No. 123 was effective or only to prior interim periods in the year of adoption. We plan to adopt FAS 123R using the Modified Prospective Application. For us, the effective date for FAS 123R is the first quarter of fiscal 2006, and FAS 123R will apply to all outstanding and unvested SBP awards at our adoption date. We have completed a preliminary evaluation of the effect of adoption of FAS 123R. Due to the fact that we use stock options as a form of compensation, the adoption of FAS 123R will have an impact of approximately \$8 million to \$11 million on our results of operations in fiscal 2006 based upon options outstanding as of October 2, 2005.

Compliance with changing regulation of corporate governance and public disclosure will result in additional expenses

Changing laws, regulations and standards relating to corporate governance and public disclosure, including the Sarbanes-Oxley Act of 2002, new Securities and Exchange Commission (SEC) regulations, and Nasdaq Stock Market rules, are creating additional disclosure and other compliance requirements for us. We are committed to maintaining high standards of corporate governance and public disclosure. As a

result, we intend to invest appropriate resources to comply with evolving standards, and this investment may result in increased general and administrative expenses and a diversion of management time and attention from revenue-generating activities to compliance activities.

Problems such as computer viruses or terrorism may disrupt our operations and harm our operating results

Despite our implementation of network security measures, our servers are vulnerable to computer viruses, break-ins and similar disruptions from unauthorized tampering with our computer systems. Any such event could have a material adverse effect on our business, operating results and financial condition. In addition, the effects of war or acts of terrorism could have a material adverse effect on our business, operating results and financial condition. The terrorist attacks on September 11, 2001 disrupted commerce and intensified uncertainty regarding the U.S. economy and other economies. The continued threat of terrorism and heightened security and military action in response to this threat, or any future acts of terrorism, may cause further disruptions and create further uncertainties. To the extent that such disruptions or uncertainties result in delays or cancellations of customer contracts, our business, operating results and financial condition could be materially and adversely affected.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Our corporate headquarters is located in Pasadena, California. This facility contains approximately 68,000 square feet of office space. In addition, we lease office space in over 270 locations in the United States. In total, our facilities contain approximately 2.2 million square feet of office space and are subject to leases that expire beyond fiscal year 2005. We also rent additional office space on a month-to-month basis.

We believe that our existing facilities are adequate to meet current requirements and that suitable additional or substitute space will be available as needed to accommodate any expansion of operations and for additional offices.

For additional information concerning our obligations under leases, see Note 11, "Leases," included under the heading "Notes to Consolidated Financial Statements" in our 2005 Annual Report to Stockholders, which is incorporated by reference herein.

Item 3. Legal Proceedings

We are subject to certain claims and lawsuits typically filed against the engineering and consulting professions, primarily alleging professional errors or omissions. We carry professional liability insurance, subject to certain deductibles and policy limits, for such claims as they arise. From time to time we establish reserves for litigation that is considered probable of a loss. Management's opinion is that the resolution of the outstanding claims will not have a material adverse effect on our consolidated financial position, results of operations or cash flows. See "Item 1. Business—Potential Liability and Insurance."

We continue to be involved in a contract dispute with Horsehead Industries, Inc., doing business as Zinc Corporation of America (ZCA). In April 2002, a Washington County Court in Bartlesville, Oklahoma dismissed with prejudice our counter-claims relating to receivables due from ZCA and other costs. In December 2002, the Court rendered a judgment for \$4.1 million and unquantified legal fees against us in this dispute. In February 2004, the Court quantified the previous award and ordered us to pay approximately \$2.6 million in ZCA's attorneys' and consultants' fees and expenses, together with post-judgment interest.

We have posted bonds and filed appeals with respect to the earlier judgments. On December 27, 2004, the Court of Civil Appeals of the State of Oklahoma rendered a decision relating to certain aspects of our appeals. In its decision, the Court vacated the \$4.1 million verdict against us. In addition, the Court upheld the dismissal of our counter-claims. The Court has not yet ruled on the status of ZCA's attorneys' and consultants' fees and expenses. Several legal alternatives remain available to both parties including appeals to the Oklahoma Supreme Court. On January 18, 2005, both we and ZCA filed petitions for hearing with the Oklahoma Court of Civil Appeals. Although our legal counsel in these matters continues to believe that a favorable outcome is reasonably possible, final outcome of these matters cannot yet be accurately predicted. As a result, we continue to maintain the amounts recorded in our restated fiscal 2002 financial statements, consisting of \$4.1 million in accrued liabilities relating to the original judgment, and a \$2.6 million accrual for ZCA's attorneys' and consultants' fees and expenses. Once the legal proceedings relating to ZCA are finally resolved, accruals will be adjusted appropriately.

Item 4. Submission of Matters to a Vote of Security Holders

None.

PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters

The information required by this Item is incorporated by reference to the information appearing under the heading "Securities Information" in our 2005 Annual Report to Stockholders.

Item 6. Selected Financial Data

The information required by this Item is incorporated by reference to the information appearing under the heading "Selected Consolidated Financial Data" in our 2005 Annual Report to Stockholders.

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

The information required by this Item is incorporated by reference to the information appearing under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our 2005 Annual Report to Stockholders.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

The information required by this Item is incorporated by reference to the information appearing under the heading "Financial Market Risks" in the "Management's Discussion and Analysis of Financial Condition and Results of Operations" section of our 2005 Annual Report to Stockholders.

Item 8. Financial Statements and Supplementary Data

The information required by this Item is incorporated by reference to the information appearing under the headings "Report of Independent Registered Public Accounting Firm," "Consolidated Balance Sheets," "Consolidated Statements of Operations," "Consolidated Statements of Stockholders' Equity," "Consolidated Statements of Cash Flows," and "Notes to Consolidated Financial Statements" in our 2005 Annual Report to Stockholders.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Evaluation of disclosure controls and procedures and changes in internal control over financial reporting

As of October 2, 2005, we carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, including the effect of the material weakness discussed below. Based on our management's evaluation (with the participation of our principal executive officer and principal financial officer), our principal executive officer and principal financial officer have concluded that, as of the end of the period covered by this Report, our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act), were effective.

As disclosed in our Annual Report on Form 10–K for the fiscal year ended October 3, 2004, we restated our financial statements for the fiscal years ended in 2001 through 2003 and concluded that a material weakness existed in our internal controls. The principal factors contributing to this condition were the failure to properly apply generally accepted accounting principles in certain project and litigation related circumstances and insufficient coordination between accounting and operational personnel on project management and forecast disciplines. As of October 2, 2005, we completed our implementation of remediation steps to address the material weakness described above and the status of our remediation plan is as follows:

- We have implemented increased levels of review and approval relative to complex and judgmental accounting issues;
- Our internal legal counsel, operations management and financial management have implemented procedures and guidelines to analyze all litigation, potential litigation and claims;
- We have added certain key personnel with technical accounting expertise. This included the hiring of segment controllers and additional senior management resources in our corporate accounting group;
- We have reconfigured our finance and accounting organization such that all segment controllers and operating unit controllers now report directly to our corporate finance and accounting management. Previously, operating unit finance management reported directly to operations management at their operating units;
- We have implemented project management and contract accounting training initiatives. To date, all financial and accounting management have been trained. This continuing education will be on–going in the future; and
- We have developed and implemented a regular review of the accounting for all significant contracts that includes proper coordination between financial and operational management.

During fiscal 2005 and the year–end closing process, we completed our testing to validate that all newly implemented controls are operating effectively as designed. Other than as described above, there was no change in our internal control over financial reporting during our fourth quarter of fiscal 2005 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

As previously disclosed, we undertook an investigation of possible irregularities at one of our operating units. In early fiscal 2006, we completed the investigation and have concluded that there is no credible evidence that any of the alleged irregularities require adjustment to any of the previously issued financial statements.

Management’s Report on Internal Control over Financial Reporting

The information required by this item is included in our 2005 Annual Report to Stockholders, which is incorporated herein by reference.

Item 9B. Other Information

None.

PART III

Item 10. Directors and Executive Officers of the Registrant

The information required by this item relating to our directors and nominees, and compliance with Section 16(a) of the Exchange Act is included under the captions “Proposal No. 1—Election of Directors” and “Ownership of Securities—Section 16(a) Beneficial Ownership Reporting Compliance” in our Proxy Statement related to the 2006 Annual Meeting of Stockholders and is incorporated herein by reference.

The information required by this item relating to our executive officers is included under the caption “Executive Compensation and Related Information—Information Concerning Executive Officers” in our Proxy Statement related to the 2006 Annual Meeting of Stockholders and is incorporated herein by reference.

We have adopted a code of ethics that applies to our principal executive officer and all members of our finance department, including our principal financial officer and principal accounting officer. This code of ethics, entitled “Finance Code of Professional Conduct,” is posted on our website. The Internet address for our website is www.tetrattech.com, and the code of ethics may be found through a link to the Investors section of our website.

We intend to satisfy the disclosure requirement under Item 5.05 of Form 8-K for any amendment to, or waiver from, a provision of this code of ethics by posting any such information on our website, at the address and location specified above.

Item 11. Executive Compensation

The information required by this item is included under the captions “Proposal No. 1—Election of Directors—Director Compensation” and “Executive Compensation and Related Information” in our Proxy Statement related to the 2006 Annual Meeting of Stockholders and is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this item relating to security ownership of certain beneficial owners and management, and securities authorized for issuance under equity compensation plans, is included under the captions “Ownership of Securities” and “Proposal No. 2—Approval of 2005 Stock Incentive Plan—Equity Compensation Plan Information” in our Proxy Statement related to the 2006 Annual Meeting of Stockholders and is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions

The information required by this item is included under the caption “Executive Compensation and Related Information” in our Proxy Statement related to the 2006 Annual Meeting of Stockholders and is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services

The information required by this item is included under the captions “Proposal No. 3—Ratification of Independent Registered Public Accounting Firm” and “Policy on Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services of Independent Registered Public Accounting Firm” in our Proxy Statement related to the 2006 Annual Meeting of Stockholders and is incorporated herein by this reference.

PART IV

Item 15. Exhibits and Financial Statement Schedules

- (a.) 1. **Financial Statements**
The Index to Financial Statements and Financial Statement Schedule on page 34 is incorporated herein by reference as the list of financial statements required as part of this Report.
2. **Financial Statement Schedule**
The Index to Financial Statements and Financial Statement Schedule on page 34 is incorporated herein by reference as the list of financial statement schedules required as part of this Report.
3. **Exhibits**
The exhibit list in the Index to Exhibits on pages 40–42 is incorporated herein by reference as the list of exhibits required as part of this Report.

INDEX TO FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULE
Item 15(a)

	Page Number in Form 10-K	Heading in 2005 Annual Report to Stockholders
Management's Report on Internal Control Over Financial Reporting	*	Management's Report on Internal Control Over Financial Reporting
Reports of Independent Registered Public Accounting Firms	*	Reports of Independent Registered Public Accounting Firms
Consolidated Balance Sheets at October 2, 2005 and October 3, 2004	*	Consolidated Balance Sheets
Consolidated Statements of Operations for each of the three years in the period ended October 2, 2005	*	Consolidated Statements of Operations
Consolidated Statements of Stockholders' Equity for each of the three years in the period ended October 2, 2005	*	Consolidated Statements of Stockholders' Equity
Consolidated Statements of Cash Flows for each of the three years in the period ended October 2, 2005	*	Consolidated Statements of Cash Flows
Notes to Consolidated Financial Statements	*	Notes to Consolidated Financial Statements
Reports of Independent Registered Public Accounting Firms on Financial Statement Schedule	35-36	
Schedule II—Valuation and Qualifying Accounts and Reserves	37	

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
ON FINANCIAL STATEMENT SCHEDULE**

To the Stockholders of Tetra Tech, Inc.:

Our audits of the consolidated financial statements, of management's assessment of the effectiveness of internal control over financial reporting and of the effectiveness of internal control over financial reporting referred to in our report dated December 15, 2005 appearing in the 2005 Annual Report to Stockholders of Tetra Tech, Inc. (which report, consolidated financial statements and assessment are incorporated by reference in this Annual Report on Form 10-K) also included an audit of the financial statement schedule as of and for the years ended October 2, 2005 and October 3, 2004, respectively, listed in Item 15(a)(2) of this Form 10-K. In our opinion, this financial statement schedule presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

/s/ PRICEWATERHOUSECOOPERS LLP

Los Angeles, California
December 15, 2005

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders of Tetra Tech, Inc.:

We have audited the consolidated financial statements of Tetra Tech, Inc. and its subsidiaries for the year ended September 28, 2003, and have issued our report thereon dated December 12, 2003 (December 30, 2004 as to the effects of the restatement discussed in Note 17 and December 15, 2005 as to the reclassification of discontinued operations discussed in Note 2) which expresses an unqualified opinion and includes explanatory paragraphs relating to the restatement described in Note 17 and the change in the Company's method of accounting for goodwill and other intangible assets effective September 30, 2002; such financial statements and report are included in the 2004 Annual Report to Stockholders and are incorporated herein by reference. Our audit also included the financial statement schedule of Tetra Tech, Inc. and its subsidiaries, listed in Item 15(a)(2). This financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion based on our audit. In our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/s/ DELOITTE & TOUCHE LLP

Los Angeles, California

December 12, 2003 (December 30, 2004 as to the effects of the restatement discussed in Note 17 and December 15, 2005 as to the reclassification of discontinued operations discussed in Note 2)

TETRA TECH, INC.
SCHEDULE II—VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

For the Fiscal Years Ended
September 28, 2003, October 3, 2004 and October 2, 2005
(in thousands)

	<u>Balance at Beginning of Period</u>	<u>Additions through Acquisitions</u>	<u>Charges to Costs and Earnings</u>	<u>Deductions, Net of Recoveries</u>	<u>Balance at End of Period</u>
Fiscal year ended September 28, 2003:					
Allowance for uncollectible accounts receivable	\$ 14,781	\$ 2,628	\$ 8,130	\$ (8,912)	\$ 16,627
Fiscal year ended October 3, 2004:					
Allowance for uncollectible accounts receivable	\$ 16,627	\$ 1,105	\$ 14,036	\$ (7,849)	\$ 23,919
Fiscal year ended October 2, 2005:					
Allowance for uncollectible accounts receivable(1)	\$ 23,919	\$ —	\$ 32,461	\$ (10,973)	\$ 45,407

(1) The charges to costs and earnings increased \$18.4 million in fiscal 2005, compared to fiscal 2004. The increase was primarily related to an operating unit in our resource management segment that incurred contract losses.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this Report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: December 16, 2005

TETRA TECH, INC.
By: /s/ DAN L. BATRACK
Dan L. Batrack,
Chief Executive Officer

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Dan L. Batrack and David W. King, jointly and severally, his attorney-in-fact, each with the full power of substitution, for such person, in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K, and to file the same, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorney-in-fact and agent full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as he might do or could do in person, hereby ratifying and confirming all that each of said attorneys-in-fact and agents, or his substitute, may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report on Form 10-K has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ DAN L. BATRACK</u> Dan L. Batrack	Chief Executive Officer (Principal Executive Officer)	December 16, 2005
<u>/s/ DAVID W. KING</u> David W. King	Executive Vice President, Chief Financial Officer and Treasurer (Principal Financial and Accounting Officer)	December 16, 2005
<u>/s/ LI-SAN HWANG</u> Li-San Hwang	Chairman of the Board	December 16, 2005
<u>/s/ ALBERT E. SMITH</u> Albert E. Smith	Vice Chairman of the Board	December 16, 2005
<u>/s/ J. CHRISTOPHER LEWIS</u> J. Christopher Lewis	Director	December 16, 2005
<u>/s/ PATRICK C. HADEN</u> Patrick C. Haden	Director	December 16, 2005
<u>/s/ DANIEL A. WHALEN</u> Daniel A. Whalen	Director	December 16, 2005

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ HUGH M. GRANT</u>	Director	December 16, 2005
<u>Hugh M. Grant /s/ RICHARD H. TRULY</u>	Director	December 16, 2005
<u>Richard H. Truly /s/ LEE A. MCINTIRE</u>	Director	December 16, 2005
<u>Lee A. McIntire</u>		

INDEX TO EXHIBITS

- 3.1 Restated Certificate of Incorporation of the Company (incorporated herein by reference to Exhibit 3.1 to the Company's Annual Report on Form 10-K for the fiscal year ended October 1, 1995).
- 3.2 Certificate of Amendment of Certificate of Incorporation of the Company (incorporated herein by reference to Exhibit 3.4 to the Company's Quarterly Report on Form 10-Q as amended for the fiscal quarter ended April 1, 2001).
- 3.3 Amended and Restated Bylaws of the Company (as of November 17, 2003) (incorporated herein by reference to Exhibit 3.4 to the Company's Annual Report on Form 10-K for the fiscal year ended September 28, 2003).
- 10.1 Amended and Restated Credit Agreement dated as of July 21, 2004 among the Company and the financial institutions named therein (incorporated herein by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended June 27, 2004).
- 10.2 First Amendment as of December 14, 2004 to the Amended and Restated Credit Agreement dated as of July 21, 2004 among the Company and the financial institutions named therein (incorporated by reference to Exhibit 10.2 to the Company's Annual Report on Form 10-K for the fiscal year ended October 3, 2004).
- 10.3 Second Amendment dated as of May 12, 2005 to the Amended and Restated Credit Agreement dated as of July 21, 2004 among the Company and the financial institutions named therein (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended April 3, 2005).
- 10.4 Note Purchase Agreement dated as of May 15, 2001 among the Company and the purchasers named therein (incorporated herein by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended July 1, 2001).
- 10.5 First Amendment dated as of September 30, 2001 to the Note Purchase Agreement dated as of May 15, 2001 among the Company and the purchasers named therein (incorporated herein by reference to Exhibit 10.5 to the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2001).
- 10.6 Second Amendment dated as of April 22, 2003 to the Note Purchase Agreement dated as of May 15, 2001 among the Company and the purchasers named therein (incorporated herein by reference to Exhibit 10.9 to the Company's Annual Report on Form 10-K for the fiscal year ended September 28, 2003).
- 10.7 Third Amendment dated as of December 14, 2004 to the Note Purchase Agreement dated as of May 15, 2001 among the Company and the purchasers named therein (incorporated by reference to Exhibit 10.6 to the Company's Annual Report on Form 10-K for the fiscal year ended October 3, 2004).
- 10.8 Fourth Amendment dated as of May 12, 2005 to the Note Purchase Agreement dated as of May 15, 2001 among the Company and the purchasers named therein (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended April 3, 2005).
- 10.9 1989 Stock Option Plan dated as of February 1, 1989 (incorporated herein by reference to Exhibit 10.13 to the Company's Registration Statement on Form S-1, No. 33-43723).*
- 10.10 Form of Incentive Stock Option Agreement executed by the Company and certain individuals in connection with the Company's 1989 Stock Option Plan (incorporated herein by reference to Exhibit 10.14 to the Company's Registration Statement on Form S-1, No. 33-43723).*
- 10.11 Executive Medical Reimbursement Plan (incorporated herein by reference to Exhibit 10.16 to the Company's Registration Statement on Form S-1, No. 33-43723).*
- 10.12 1992 Incentive Stock Plan (incorporated herein by reference to Exhibit 10.18 to the Company's Annual Report on Form 10-K for the fiscal year ended October 3, 1993).*
- 10.13 Form of Incentive Stock Option Agreement used by the Company in connection with the Company's 1992 Incentive Stock Plan (incorporated herein by reference to Exhibit 10.19 to the Company's Annual Report on Form 10-K for the fiscal year ended October 3, 1993).*
- 10.14 1992 Stock Option Plan for Nonemployee Directors (incorporated herein by reference to Exhibit 10.20 to the Company's Annual Report on Form 10-K for the fiscal year ended October 3, 1993).*
- 10.15 Form of Nonqualified Stock Option Agreement used by the Company in connection with the Company's 1992 Stock Option Plan for Nonemployee Directors (incorporated herein by reference to Exhibit 10.21 to the Company's Annual Report on Form 10-K for the fiscal year ended October 3, 1993).*
- 10.16

- Employee Stock Purchase Plan (as amended through November 17, 2003)
(incorporated herein by reference to Exhibit 10.17 to the Company's Annual Report on Form 10-K for the fiscal year ended September 28, 2003).
- 10.17 Form of Stock Purchase Agreement used by the Company in connection with the Company's Employee Stock Purchase Plan (incorporated herein by reference to Exhibit 10.23 to the Company's Annual Report on Form 10-K for the fiscal year ended October 2, 1994).
- 10.18 2005 Equity Incentive Plan.*+
- 10.19 Form of Stock Option Agreement to be used by the Company in connection with the 2005 Equity Incentive Plan.*+
- 10.20 Form of Restricted Stock Agreement to be used by the Company in connection with the 2005 Equity Incentive Plan.*+
- 10.21 Form of Stock Appreciation Rights Agreement to be used by the Company in connection with the 2005 Equity Incentive Plan.*+
- 10.22 Form of Restricted Stock Unit Agreement to be used by the Company in connection with the 2005 Equity Incentive Plan.*+
- 10.23 2003 Outside Director Stock Option Plan (incorporated herein by reference to Exhibit 10.20 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended March 30, 2003).*
- 10.24 Form of Option Agreement used by the Company in connection with the 2003 Outside Director Stock Option Plan (incorporated herein by reference to Exhibit 10.21 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended March 30, 2003).*
- 10.25 Form of Indemnity Agreement entered into between the Company and each of its directors and executive officers. (incorporated by reference to Exhibit 10.20 to the Company's Annual Report on Form 10-K for the fiscal year ended October 3, 2004).*
- 10.26 Executive Compensation Policy (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated November 14, 2005).*
- 10.27 Separation Agreement and Release between the Company and James M. Jaska dated October 7, 2004 (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on 8-K dated October 6, 2004).*

- 10.28 Letter agreement dated August 5, 2005 between the Company and Albert E. Smith (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated August 5, 2005).*
- 10.29 Letter agreement dated November 14, 2005 between the Company and Li-San Hwang.*+
- 10.30 Letter agreement dated November 14, 2005 between the Company and Sam W. Box.*+
- 13. Annual Report to Stockholders for the fiscal year ended October 2, 2005, portions of which are incorporated by reference in this report as set forth in Part I and Part II hereof. With the exception of these portions, such Annual Report is not deemed filed as part of this report.+
- 21. Subsidiaries of the Company.+
- 23.1 Consent of Independent Registered Public Accounting Firm (PricewaterhouseCoopers LLP).+
- 23.2 Consent of Independent Registered Public Accounting Firm (Deloitte & Touche LLP).+
- 24. Power of Attorney (included on page 38 of this Annual Report on Form 10-K).
- 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.+
- 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.+
- 32.1 Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.+
- 32.2 Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.+

* Indicates a management contract or compensatory arrangement.

+ Filed herewith.

TETRA TECH, INC.
2005 EQUITY INCENTIVE PLAN

ARTICLE I.
PURPOSE

1.1 Purpose. The purpose of the Tetra Tech, Inc. 2005 Equity Incentive Plan (the “Plan”) is to promote the interests of Tetra Tech, Inc. (the “Company”) and its stockholders by enabling the Company to offer Participants an opportunity to acquire an equity interest in the Company so as to better attract, retain, and reward its Service Providers and other persons providing services to the Company and, accordingly, to strengthen the mutuality of interests between Participants and the Company’s stockholders by providing Participants with a proprietary interest in pursuing the Company’s long-term growth and financial success. This Plan hereby amends, restates and renames as set forth herein, effective November 14, 2005, subject to the approval of the Company’s stockholders, the Tetra Tech, Inc. 2002 Stock Option Plan (the “2002 Plan”).

ARTICLE II.
SHARE LIMITS

2.1 Shares Subject to the Plan.

(a) *Share Reserve*. Subject to adjustment under Section 2.3 of the Plan, the sum of Three Million (3,000,000) Shares plus the number of remaining Shares under the 2002 Plan (not subject to outstanding Awards and not delivered out of Shares reserved thereunder) as of the date of stockholder approval of the Plan shall be initially reserved for issuance pursuant to Awards made under the Plan. At all times the Company will reserve and keep available a sufficient number of Shares to satisfy the requirements of all outstanding Awards made under the Plan and all other outstanding but unvested Awards made under the Plan that are to be settled in Shares.

(b) *Shares Counted Against Limitation*. Except for cancelled or forfeited Shares and Shares settled in cash, the Plan is intended to restrict the “recycling” of Shares back into the Plan. This means that Shares exchanged or withheld to pay the purchase or exercise price of an Award (including Shares withheld to satisfy the exercise price of a Stock Appreciation Right settled in stock) or to satisfy tax withholding obligations count against the numerical limits of the Plan.

(c) *Lapsed Awards*. If an Award: (i) expires; (ii) is terminated, surrendered, or canceled without having been exercised in full; or (iii) is otherwise forfeited in whole or in part, then the unissued Shares that were subject to such Award and/or such surrendered, canceled, or forfeited Shares (as the case may be) shall become available for future grant or sale under the Plan (unless the Plan has terminated), subject however, in the case of Incentive Stock Options, to any limitations under the Code.

(d) *Limitation on Full-Value Awards*. Not more than Seven Hundred Fifty Thousand (750,000) of the total number of Shares reserved for issuance under the Plan (as adjusted under Section 2.3) may be granted or sold as Awards of Restricted Stock, Restricted

Stock Units, unrestricted grants of Shares and other Awards (“Full-Value Awards”) whose intrinsic value is not solely dependent on appreciation in the price of Shares after the date of grant. Options and Stock Appreciation Rights shall not be subject to, and shall not count against, the limit described in the preceding sentence. If a Full-Value Award expires, is forfeited or otherwise lapses as described in Section 2.1(c), the Shares that were subject to the Award shall be restored to the total number of Shares available for grant or sale as Full-Value Awards.

(e) *Substitute Awards.* The Committee may grant Awards under the Plan in substitution for stock and stock based awards held by employees, directors, consultants or advisors of another company (an “Acquired Company”) in connection with a merger or consolidation of such Acquired Company with the Company or the acquisition by the Company of property or stock of the Acquired Company. The Committee may direct that the substitute Awards be granted on such terms and conditions as the Committee considers appropriate in the circumstances. Any substitute Awards granted under the Plan shall not count against the share limitations set forth in Sections 2.1(a) and 2.2.

2.2 Individual Share Limit. In any Tax Year, no Service Provider shall be granted Awards with respect to more than One Million (1,000,000) Shares. The limit described in this Section 2.2 shall be construed and applied consistently with Section 162(m) of the Code, except that the limit shall apply to all Service Providers.

(a) *Awards not Settled in Shares.* If an Award is to be settled in cash or any medium other than Shares, the number of Shares on which the Award is based shall count toward the individual share limit set forth in this Section 2.2.

(b) *Canceled Awards.* Any Awards granted to a Participant that are canceled shall continue to count toward the individual share limit applicable to that Participant set forth in this Section 2.2.

2.3 Adjustments.

(a) In the event that there is any dividend or distribution payable in Shares, or any stock split, reverse stock split, combination or reclassification of Shares, or any other similar change in the number of outstanding Shares, then the maximum aggregate number of Shares available for Awards under Section 2.1 of the Plan, the maximum number of Shares issuable to a Service Provider under Section 2.2 of the Plan, and any other limitation under this Plan on the maximum number of Shares issuable to an individual or in the aggregate shall be proportionately adjusted (and rounded down to a whole number) by the Committee as it deems equitable in its discretion to prevent dilution or enlargement of the rights of the Participants. The Committee’s determination with respect to any such adjustments shall be conclusive.

(b) In the event that there is any extraordinary dividend or other distribution in respect of the Shares, recapitalization, reclassification, merger, reorganization, consolidation, combination, sale of assets, split-up, exchange, spin-off or other extraordinary event, then the Committee shall make provision for a cash payment, for the substitution or exchange of any or all outstanding Awards or a combination of the foregoing, based upon the distribution or consideration payable to holders of the Shares in respect of such event or on such other terms as the Committee otherwise deems appropriate.

**ARTICLE III.
ADMINISTRATION OF THE PLAN**

3.1 Administration. The Plan shall be administered and interpreted by a compensation committee (the “Committee”). The Committee shall consist of two or more members of the Board who are “outside directors” as defined under Section 162(m) of the Code and “non–employee directors” as defined under Rule 16b–3 under the Exchange Act.

3.2 Authority of Committee. The Committee has the sole authority, subject to the provisions of the Plan, to (i) select the employees and other individuals to receive Awards under the Plan, (ii) determine the type, size and terms of the Awards to be made to each individual selected, (iii) determine the Fair Market Value, (iv) determine the time when the Awards will be granted and the duration of any applicable exercise and vesting period, including the criteria for exercisability and vesting and the acceleration of exercisability and vesting with respect to each individual selected, (v) make such adjustments or modifications to Awards to Participants who are foreign nationals or employed outside of the United States in order to recognize differences in local law, tax policies or customs and (vi) deal with any other matter arising under the Plan. The Committee is authorized to interpret the Plan and the Awards granted under the Plan, to establish, amend and rescind any rules and regulations relating to the Plan, and to make any other determination that it deems necessary or desirable for the administration of the Plan. The Committee may correct any defect or supply any omission or reconcile any inconsistency in the Plan or in any Award in the manner and to the extent the Committee deems necessary or desirable. Any decision of the Committee in the interpretation and administration of the Plan shall lie within its sole and absolute discretion and shall be final, conclusive and binding on all parties concerned. All powers of the Committee shall be executed in its sole discretion and need not be uniform as to similarly situated individuals.

3.3 Committee Manner of Action. Unless otherwise provided in the bylaws of the Company or the charter of the Committee: (i) a majority of the members of a Committee shall constitute a quorum, and (ii) the vote of a majority of the members present who are qualified to act on a question assuming the presence of a quorum or the unanimous written consent of the members of the Committee shall constitute action by the Committee. The Committee may delegate the performance of ministerial functions in connection with the Plan to such person or persons as the Committee may select.

3.4 Responsibility of Committee. No member of the Board, no member of the Committee and no employee of the Company shall be liable for any act or failure to act hereunder, except in circumstances involving his or her bad faith, gross negligence or willful misconduct, or for any act or failure to act hereunder by any other member of the Committee or employee of the Company. The Company shall indemnify members of the Committee and any employee of the Company against any and all liabilities or expenses to which they may be subjected by reason of any act or failure to act with respect to their duties under the Plan, except in circumstances involving his or her bad faith, gross negligence or willful misconduct.

**ARTICLE IV.
PARTICIPATION**

4.1 Participants. All Service Providers of the Company or any Subsidiary are eligible to participate in the Plan; provided, however, that no Reporting Person may receive an Award unless such person is employed by or serves as a consultant to the Company. Incentive Stock Options may be granted only to Employees. Consistent with the purposes of the Plan, the Committee shall have exclusive power to select the Service Providers who may participate in the Plan ("Participants"). Eligible individuals may be selected individually or by groups or categories, as determined by the Committee in its discretion, and designation as a person to receive Awards in any year shall not require the Committee to designate such a person as eligible to receive Awards in any other year.

**ARTICLE V.
VESTING AND PERFORMANCE OBJECTIVES**

5.1 General. The vesting schedule or Period of Restriction for any Award shall be specified in the Award Agreement. The criteria for vesting and for removing restrictions on any Award may include (i) performance of substantial services for the Company for a specified period; (ii) achievement of one or more Performance Objectives; or (iii) a combination of clauses (i) and (ii), as determined by the Committee.

5.2 Period of Absence from Providing Substantial Services. To the extent that vesting or removal of restrictions is contingent on performance of substantial services for a specified period, a leave of absence (whether paid or unpaid) shall not count toward the required period of service unless the Award Agreement provides otherwise.

5.3 Performance Objectives.

(a) *Possible Performance Objectives*. Any Performance Objective shall relate to the Participant's performance for the Company or the Company's business activities or organizational goals, and shall be sufficiently specific that a third party having knowledge of the relevant facts could determine whether the Performance Objective is achieved. The Performance Objectives with respect to any Award may be one or more of the following objectives, as established by the Committee in its sole discretion:

- Achieving a target level of revenue and/or revenue, net of subcontractor costs;
- Achieving a target level of income from operations;
- Achieving a target level of net income;
- Achieving a target return on the Company's capital, assets or stockholders' equity;
- Maintaining or achieving a target level of appreciation in the price of the Shares;

- Achieving or maintaining a Share price that meets or exceeds the performance of specified stock market indices or other benchmarks over a specified period;
- Achieving a level of Share price, earnings or income performance that meets or exceeds performance in comparable areas of peer companies over a specified period;
- Achieving specified reductions in costs;
- Achieving specified improvements in collection of outstanding accounts receivable or specified reductions in write-offs;
- Achieving a target days sales in receivables (DSR) level; and
- Achieving a target level of cash flow from operations.

(b) *Stockholder Approval of Performance Objectives.* The list of possible Performance Objectives set forth in Section 5.3(a), above, and the other material terms of Awards of Restricted Stock or Restricted Stock Units that are intended to qualify as “performance-based compensation” under Section 162(m) of the Code, shall be subject to reapproval by the Company’s stockholders at the first stockholder meeting that occurs in 2011. No Award of Restricted Stock or Restricted Stock Units that is intended to qualify as “performance-based compensation” under Section 162(m) of the Code shall be made after that meeting unless stockholders have reapproved the list of Performance Objectives and other material terms of such Awards, or unless the vesting of the Award is made contingent on stockholder approval of the Performance Objectives and other material terms of such Awards.

(c) *Documentation of Performance Objectives.* With respect to any Award, the Performance Objectives shall be set forth in writing no later than 90 days after commencement of the period to which the Performance Objective(s) relate(s) (or, in the case of performance periods of less than one year, in no event after 25% of such period has elapsed) and at a time when achievement of the Performance Objectives is substantially uncertain. Such writing shall also include the period for measuring achievement of the Performance Objectives, which shall be no less than three consecutive months or greater than five consecutive years, as established by the Committee. Once established by the Committee, the Performance Objective(s) may not be changed to accelerate the settlement of an Award or to accelerate the lapse or removal of restrictions on Restricted Stock that otherwise would be due upon the attainment of the Performance Objective(s).

(d) *Committee Certification.* Prior to settlement of any Award that is contingent on achievement of one or more Performance Objectives, the Committee shall certify in writing that the applicable Performance Objective(s) and any other material terms of the Award were in fact satisfied. For purposes of this Section 5.3(d), approved minutes of the Committee shall be adequate written certification.

(e) *Negative Discretion.* The Committee may reduce, but may not increase, the number of Shares deliverable or the amount payable under any Award after the applicable Performance Objectives are satisfied.

ARTICLE VI. STOCK OPTIONS

6.1 Terms of Option. Subject to the provisions of the Plan, the type of Option, term, exercise price, vesting schedule and other conditions and limitations applicable to each Option shall be as determined by the Committee and shall be stated in the Award Agreement.

6.2 Type of Option.

(a) Each Option shall be designated in the Award Agreement as either an Incentive Stock Option or a Nonqualified Stock Option.

(b) Neither the Company nor the Committee shall have liability to a Participant or any other party if an Option (or any part thereof) which is intended to be an Incentive Stock Option does not qualify as an Incentive Stock Option. In addition, the Committee may make an adjustment or substitution described in Section 2.3 that causes the Option to cease to qualify as an Incentive Stock Option without the consent of the affected Participant or any other party.

6.3 Limitations.

(a) *Maximum Term.* No Option shall have a term in excess of eight (8) years measured from the date the Option is granted. In the case of any Incentive Stock Option granted to a 10% Stockholder (as defined in Section 6.3(e)), the term of such Incentive Stock Option shall not exceed five years measured from the date the Option is granted.

(b) *Minimum Exercise Price.* Subject to Section 2.3(b), the exercise price per share of an Option shall not be less than 100% of the Fair Market Value per Share on the date the Option is granted. In the case of any Incentive Stock Option granted to a 10% Stockholder (as defined in Section 6.3(e)), subject to Section 2.3(b), the exercise price per share of such Incentive Stock Option shall not be less than 110% of the Fair Market Value per Share on the date the Option is granted.

(c) *Repricing Prohibited.* Except as provided in Section 2.3, the Committee shall not amend any outstanding Option to reduce its exercise price. Further, the Committee shall not, without the approval of the stockholders, cancel any Option and grant a new Option with a lower exercise price such that the effect would be the same as reducing the exercise price.

(d) *\$100,000 Limit for Incentive Stock Options.* Notwithstanding an Option's designation, to the extent that Incentive Stock Options are exercisable for the first time by the Participant during any calendar year with respect to Shares whose aggregate Fair Market Value exceeds \$100,000 (regardless of whether such Incentive Stock Options were granted under this Plan, the 2002 Plan, or any other plan of the Company), such Options shall be treated as Nonqualified Stock Options. For purposes of this Section 6.3(d), Fair Market Value shall be measured as of the date the Option was granted and Incentive Stock Options shall be taken into account in the order in which they were granted.

(e) *10% Stockholder.* For purposes of this Section 6.3, a "10% Stockholder" is an individual who, immediately before the date an Award is granted, owns (or is treated as owning) stock possessing more than 10% of the total combined voting power of all classes of stock of the Company, determined under Section 424(d) of the Code.

6.4 Form of Consideration. The Committee shall determine the acceptable form of consideration for exercising an Option, including the method of payment. In the case of an Incentive Stock Option, the Committee shall determine the acceptable form of consideration at the time of grant. To the extent approved by the Committee, the consideration for exercise of an Option may be paid in any one, or any combination, of the forms of consideration set forth in subsections (a), (b) and (c) below.

(a) *Cash Equivalent.* Consideration may be paid by cash, check or other cash equivalent approved by the Committee.

(b) *Tender or Attestation of Shares.* Consideration may be paid by the tendering of other Shares to the Company or the attestation to the ownership of the Shares that otherwise would be tendered to the Company in exchange for the Company's reducing the number of Shares issuable upon the exercise of the Option. Shares tendered or attested to in exchange for Shares issued under the Plan must be held by the Participant for at least six months prior to their tender or their attestation to the Company and may not be shares of Restricted Stock at the time they are tendered or attested to. The Committee shall determine acceptable methods for tendering or attesting to Shares to exercise an Option under the Plan and may impose such limitations and prohibitions on the use of Shares to exercise Options as it deems appropriate. For purposes of determining the amount of the Option price satisfied by tendering or attesting to Shares, such Shares shall be valued at their Fair Market Value on the date of tender or attestation, as applicable.

(c) *Other Methods.* Consideration may be paid using such other methods of payment as the Committee, at its discretion, deems appropriate from time to time.

6.5 Exercise of Option.

(a) *Procedure for Exercise.* Any Option granted hereunder shall be exercisable according to the terms of the Plan and at such times and under such conditions as set forth in the Award Agreement. Each Option shall become exercisable in four equal annual installments commencing on the first anniversary of the date of grant, or in such other installments and at such other intervals as the Committee may in any specific case otherwise determine. An Option shall be deemed exercised when the Committee receives: (i) written or electronic notice of exercise (in accordance with the Award Agreement) from the person entitled to exercise the Option and (ii) full payment for the Shares (in a form permitted under Section 6.4) with respect to which the Option is exercised.

(b) *Termination of Relationship as a Service Provider.* Following a Participant's Termination of Service, the Participant (or the Participant's Beneficiary, in the case of Termination of Service due to death) may exercise his or her Option within such period of time as is specified in the Award Agreement, subject to the following conditions:

(i) An Option may be exercised after the Participant's Termination of Service only to the extent that the Option was vested as of the Termination of Service;

(ii) An Option may not be exercised after the expiration of the term of such Option as set forth in the Award Agreement;

(iii) Unless a Participant's Termination of Service is the result of the Participant's Disability, the Participant may not exercise an Incentive Stock Option more than three months after such Termination of Service;

(iv) If a Participant's Termination of Service is the result of the Participant's Disability, the Participant may exercise an Incentive Stock Option up to 12 months after Termination of Service; and

(v) After the Participant's death, his Beneficiary may exercise an Incentive Stock Option only to the extent that that the deceased Participant was entitled to exercise such Incentive Stock Option as of the date of his death.

In the absence of a specified time in the Award Agreement, the Option shall remain exercisable for three months after the Participant's Termination of Service for any reason other than Disability or death, and for 12 months after the Participant's Termination of Service on account of Disability or death.

(c) *Rights as a Stockholder.* Shares subject to an Option shall be deemed issued, and the Participant shall be deemed the record holder of such Shares, on the Option exercise date. Until such Option exercise date, no right to vote or receive dividends or any other rights as a stockholder shall exist with respect to the Shares subject to the Option. In the event that the Company effects a split of the Shares by means of a stock dividend and the exercise price of, and number of shares subject to, an Option are adjusted as of the date of distribution of the dividend (rather than as of the record date for such dividend), then a Participant who exercises such Option between the record date and the distribution date for such stock dividend shall be entitled to receive, on the distribution date, the stock dividend with respect to the Shares subject to the Option. No other adjustment shall be made for a dividend or other right for which the record date is prior to the date the Shares are issued.

6.6 Repurchase Rights. The Committee shall have the discretion to grant Options which are exercisable for unvested Shares. If the Participant ceases to be a Service Provider while holding such unvested Shares, the Company shall have the right to repurchase any or all of those unvested Shares at a price per share equal to the lower of (i) the exercise price paid per Share, or (ii) the Fair Market Value per Share at the time of repurchase. The terms upon which such repurchase right shall be exercisable by the Committee (including the period and procedure for exercise and the appropriate vesting schedule for the purchased Shares) shall be established by the Committee and set forth in the document evidencing such repurchase right.

ARTICLE VII. STOCK APPRECIATION RIGHTS

7.1 Terms of Stock Appreciation Right. The term, base amount, vesting schedule, and other conditions and limitations applicable to each Stock Appreciation Right, except the medium of settlement, shall be as determined by the Committee and shall be stated in the Award Agreement. No Stock Appreciation Right shall have a term in excess of eight (8) years measured from the date the Stock Appreciation Right is granted. Subject to Section 2.3(b), the base price of a Stock Appreciation Right shall not be less than 100% of the Fair Market Value per Share on the date the Award is granted. All Awards of Stock Appreciation Rights shall be settled in Shares issuable upon the exercise of the Stock Appreciation Right.

7.2 Exercise of Stock Appreciation Right.

(a) *Procedure for Exercise.* Any Stock Appreciation Right granted hereunder shall be exercisable according to the terms of the Plan and at such times and under such conditions as set forth in the Award Agreement. Each Stock Appreciation Right shall become exercisable in four equal annual installments commencing on the first anniversary of the date of grant, or in such other installments and at such other intervals as the Committee may in any specific case otherwise determine. A Stock Appreciation Right shall be deemed exercised when the Committee receives written or electronic notice of exercise (in accordance with the Award Agreement) from the person entitled to exercise the Stock Appreciation Right.

(b) *Termination of Relationship as a Service Provider.* Following a Participant's Termination of Service, the Participant (or the Participant's Beneficiary, in the case of Termination of Service due to death) may exercise his or her Stock Appreciation Right within such period of time as is specified in the Award Agreement to the extent that the Stock Appreciation right is vested as of the Termination of Service. In the absence of a specified time in the Award Agreement, the Stock Appreciation Right shall remain exercisable for three months following the Participant's Termination of Service for any reason other than Disability or death, and for 12 months after the Participant's Termination of Service on account of Disability or death.

(c) *Rights as a Stockholder.* Shares subject to a Stock Appreciation Right shall be deemed issued, and the Participant shall be deemed the record holder of such Shares, on the date the Stock Appreciation Right is exercised. Until such date, no right to vote or receive dividends or any other rights as a stockholder shall exist with respect to the Shares subject to the Stock Appreciation Right. If the Company effects a split of the Shares by means of a stock dividend and the exercise price of, and number of shares subject to, a Stock Appreciation Right are adjusted as of the date of distribution of the dividend (rather than as of the record date for such dividend), then a Participant who exercises such Stock Appreciation Right between the record date and the distribution date for such stock dividend shall be entitled to receive, on the distribution date, the stock dividend with respect to the Shares subject to the Stock Appreciation Right. No other adjustment shall be made for a dividend or other right for which the record date is prior to the date the Shares are issued.

**ARTICLE VIII.
RESTRICTED STOCK**

8.1 Terms of Restricted Stock. Subject to the provisions of the Plan, the Period of Restriction, the number of Shares granted, and other conditions and limitations applicable to each Award of Restricted Stock shall be as determined by the Committee and shall be stated in the Award Agreement; provided, however, that the Period of Restriction, (i) if time-based, shall be not less than three (3) years and (ii) if based on Performance Objectives, shall be not less than one (1) year. Unless the Committee determines otherwise, Shares of Restricted Stock shall be held by the Company as escrow agent until the restrictions on such Shares have lapsed.

8.2 Transferability. Except as provided in this Article VIII, Shares of Restricted Stock may not be sold, transferred, pledged, assigned or otherwise alienated or hypothecated until the end of the applicable Period of Restriction.

8.3 Other Restrictions. The Committee, in its sole discretion, may impose such other restrictions on Shares of Restricted Stock as it may deem advisable or appropriate.

8.4 Removal of Restrictions. Except as otherwise provided in this Article VIII, and subject to Section 10.6, Shares of Restricted Stock covered by an Award of Restricted Stock made under the Plan shall be released from escrow, and shall become fully transferable, as soon as practicable after the Period of Restriction ends, and in any event no later than 2½ months after the end of the Tax Year in which the Period of Restriction ends.

8.5 Voting Rights. During the Period of Restriction, Participants holding Shares of Restricted Stock granted hereunder may exercise full voting rights with respect to those Shares, unless otherwise provided in the Award Agreement.

8.6 Dividends and Other Distributions. During the Period of Restriction, Participants holding Shares of Restricted Stock shall be entitled to receive all dividends and other distributions paid with respect to such Shares unless otherwise provided in the Award Agreement.

(a) If any such dividends or distributions are paid in Shares, the Shares shall be subject to the same restrictions (and shall therefore be forfeitable to the same extent) as the Shares of Restricted Stock with respect to which they were paid.

(b) If any such dividends or distributions are paid in cash, the Award Agreement may specify that the cash payments shall be subject to the same restrictions as the related Restricted Stock, in which case they shall be accumulated during the Period of Restriction and paid or forfeited when the related Shares of Restricted Stock vest or are forfeited. Alternatively, the Award Agreement may specify that the dividend equivalents or other payments shall be unrestricted, in which case they shall be paid as soon as practicable after the dividend or distribution date. In no event shall any cash dividend or distribution be paid later than 2½ months after the Tax Year in which the dividend or distribution becomes nonforfeitable.

8.7 Right of Repurchase of Restricted Stock. If, with respect to any Award, (i) a Participant's Termination of Service occurs before the end of the Period of Restriction or (ii) any Performance Objectives are not achieved by the end of the period for measuring such Performance Objectives, then the Company shall have the right to repurchase forfeitable Shares of Restricted Stock from the Participant at their original issuance price or other stated or formula price (or to require forfeiture of such Shares if issued at no cost).

ARTICLE IX. RESTRICTED STOCK UNITS

9.1 Terms of Restricted Stock Units. Subject to the provisions of the Plan, the Period of Restriction, number of underlying Shares, and other conditions and limitations applicable to each Award of Restricted Stock Units shall be as determined by the Committee and shall be stated in the Award Agreement; provided, however, that the Period of Restriction, (i) if time-based, shall be not less than three (3) years and (ii) if based on Performance Objectives, shall be not less than one (1) year.

9.2 Settlement of Restricted Stock Units. Subject to Section 10.5, the number of Shares specified in the Award Agreement, or cash equal to the Fair Market Value of the underlying Shares specified in the Award Agreement, shall be delivered to the Participant as

soon as practicable after the end of the applicable Period of Restriction, and in any event no later than 2½ months after the end of the Tax Year in which the Period of Restriction ends.

9.3 Dividend and Other Distribution Equivalents. The Committee is authorized to grant to holders of Restricted Stock Units the right to receive payments equivalent to dividends or other distributions with respect to Shares underlying Awards of Restricted Stock Units. The Award Agreement may specify that the dividend equivalents or other distributions shall be subject to the same restrictions as the related Restricted Stock Units, in which case they shall be accumulated during the Period of Restriction and paid or forfeited when the related Restricted Stock Units are paid or forfeited. Alternatively, the Award Agreement may specify that the dividend equivalents or other distributions shall be unrestricted, in which case they shall be paid on the dividend or distribution payment date for the underlying Shares, or as soon as practicable thereafter. In no event shall any unrestricted dividend equivalent or other distribution be paid later than 2½ months after the Tax Year in which the record date for the dividend or distribution occurs.

9.4 Forfeiture. If, with respect to any Award, (i) a Participant's Termination of Service occurs before the end of the Period of Restriction, or (ii) any Performance Objectives are not achieved by the end of the period for measuring such Performance Objectives, then the Restricted Stock Units granted pursuant to such Award shall be forfeited and the Company shall have no further obligation thereunder.

ARTICLE X. ADDITIONAL TERMS OF AWARDS

10.1 Change in Control.

(a) *Effect.* Upon the occurrence of a Change in Control (as defined below), each outstanding Award shall immediately become exercisable or payable in full (if applicable, and whether or not then exercisable), and any forfeiture and vesting restrictions thereon shall lapse. Notwithstanding the foregoing, prior to a Change in Control, the Committee may determine that, upon the occurrence of a Change in Control, there shall be no acceleration of benefits under Awards or determine that only certain or limited benefits under Awards shall be accelerated and the extent to which they shall be accelerated, and/or establish a different time in respect of such event for such acceleration. In that event, the Committee will make provision in connection with such transaction for the continuance of the Plan and the assumption of Options and Awards theretofore granted, or the substitution for such Options and Awards with new options and awards covering the stock of a successor employer corporation, or a parent or subsidiary thereof, with appropriate adjustments as to the number and kind of shares and prices. In addition, the Committee may override the limitations on acceleration in this Section 10.1(a) by express provision in the Award Agreement and may accord any Participant the right to refuse any acceleration, whether pursuant to the Award Agreement or otherwise, in such circumstances as the Committee may approve. Any acceleration of Awards shall comply with applicable regulatory requirements, including without limitation Section 422 of the Code.

(b) *Defined.* For purposes of this Plan, a "Change in Control" shall be deemed to have occurred if:

(i) any Person is or becomes the Beneficial Owner, directly or indirectly, of securities of the Company (not including the securities beneficially owned

by such Person or any securities acquired directly from the Company or its Affiliates) representing 30% or more of the combined voting power of the Company's then outstanding securities;

(ii) the date when Continuing Directors cease to be a majority of the members of the Board then in office;

(iii) the stockholders of the Company approve a merger or consolidation of the Company with any other corporation, which merger or consolidation is consummated, other than (i) a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity), in combination with newly acquired ownership acquired in such transaction by any trustee or other fiduciary holding securities under an employee benefit plan of the Company or an Affiliate, at least 50% of the combined voting power of the voting securities of the Company or such surviving entity outstanding immediately after such merger or consolidation, or (ii) a merger or consolidation effected to implement a recapitalization of the Company (or similar transaction) in which no Person acquires more than 50% of the combined voting power of the Company's then outstanding securities; or

(iv) the stockholders of the Company approve a complete liquidation of the Company or an agreement for the sale or disposition by the Company of all or substantially all of the Company's assets, which liquidation, sale or disposition is consummated.

(c) *Other Terms.* For purposes of Section 10.1(b), the following terms shall have the following meanings:

(i) "Affiliate" shall mean any entity that directly or indirectly through one or more intermediaries, controls, is controlled by or is under common control with the Company as determined by the Board in its discretion.

(ii) "Beneficial Owner" shall have the meaning given to such term in Rule 13d-3 under the Exchange Act.

(iii) "Continuing Directors" shall mean the persons who constitute the Board on the date hereof together with their successors whose nominations were approved by a majority of Continuing Directors.

(iv) "Exchange Act" shall mean the Securities Exchange Act of 1934, as amended.

(v) "Person" shall have the meaning as set forth in Sections 13(d) and 14(d) of the Exchange Act; provided, however, that Person shall exclude (i) the Company or any of its Affiliates, (ii) any trustee or other fiduciary holding securities under an employee benefit plan of the Company or any of its Affiliates, (iii) an underwriter temporarily holding securities pursuant to an offering of such securities, and (iv) any corporation owned, directly or indirectly, by the shareholders of the Company in substantially the same proportion as their ownership of stock of the Company.

10.2 Transferability of Awards. Except as provided below, a Participant's rights under an Award may not be transferred or encumbered, except by will or by the laws of descent and distribution or, in the case of Awards other than Incentive Stock Options, pursuant to a qualified domestic relations order (as defined under Section 414(p) the Code). The Committee may provide, in an Agreement for a Nonqualified Stock Option or Restricted Stock Award, for its transferability as a gift to family members, one or more trusts for the benefit of family members, or one or more partnerships of which family members are the only partners, according to such terms as the Committee may determine; provided that the Participant receives no consideration for the transfer and the transferred Nonqualified Stock Option or Restricted Stock Award shall continue to be subject to the same terms and conditions as were applicable to the Nonqualified Stock Option or Restricted Stock Award immediately before the transfer.

10.3 Effect of Termination of Employment. The Committee shall establish in respect of each Award Granted to an Employee the effect of a termination of employment on the rights and benefits thereunder and in so doing may make distinctions based upon the cause of termination, e.g. retirement, early retirement, termination for cause, disability or death. Notwithstanding any terms to the contrary in an Award Agreement or this Plan, the Committee may decide in its complete discretion to extend the exercise period of an Award (although not beyond the period described in Section 6.3(a)) and the number of Shares covered by the Award with respect to which the Award is exercisable or vested.

10.4 No Fractional Shares. No fractional shares of Common Stock shall be issued or delivered pursuant to the Plan or any Award. The Committee shall determine whether cash shall be paid in lieu of fractional shares or whether such fractional shares or any rights thereto shall be forfeited or otherwise eliminated.

10.5 No Effect on Employment or Service. Neither the Plan nor any Award shall confer upon a Participant any right with respect to continuing the Participant's relationship as a Service Provider with the Company; nor shall they interfere in any way with the Participant's right or the Company's right to terminate such relationship at any time, with or without cause, to the extent permitted by Applicable Laws and any enforceable agreement between the Service Provider and the Company.

10.6 Conditions On Delivery of Shares and Lapsing of Restrictions. The Company shall not be obligated to deliver any Shares pursuant to the Plan or to remove restrictions from Shares previously delivered under the Plan until (i) all conditions of the Award have been met or removed to the satisfaction of the Committee, (ii) subject to approval of the Company's counsel, all other legal matters (including any Applicable Laws) in connection with the issuance and delivery of such Shares have been satisfied, and (iii) the Participant has executed and delivered to the Company such representations or agreements as the Committee may consider appropriate to satisfy the requirements of Applicable Laws.

10.7 Inability to Obtain Authority. The inability of the Company to obtain authority from any regulatory body having jurisdiction, which authority is deemed by the Company's counsel to be necessary to the lawful issuance and sale of any Shares hereunder, shall relieve the Company of any liability in respect of the failure to issue or sell such Shares as to which such requisite authority shall not have been obtained.

10.8 Withholding. All distributions or payments made with respect to an Award shall be net of any amounts required to be withheld pursuant to applicable federal, state

and local tax withholding requirements. The Company may require a Participant to remit to it or to the subsidiary that employs a Participant an amount sufficient to satisfy such tax withholding requirements prior to the delivery of any certificates for Common Stock. In lieu thereof, the Company or the employing corporation shall have the right to withhold the amount of such taxes from any other sums due or to become due to the Participant as the Company shall prescribe. The Committee may, in its discretion and subject to such rules as it may adopt, permit a Participant to pay all or a portion of the federal, state and local withholding taxes arising in connection with any Award by electing to have the Company withhold shares of Common Stock deliverable thereunder having a Fair Market Value that is not in excess of the amount of tax to be withheld.

10.9 Other Provisions. In addition to the provisions described in the Plan, any Award Agreement may include such other provisions (whether or not applicable to the Award of any other Participant) as the Committee determines appropriate, including restrictions on resale or other disposition and provisions to comply with Applicable Laws.

10.10 Section 16 of the Exchange Act. It is the intent of the Company that Awards and transactions permitted by Awards be interpreted in a manner that, in the case of Participants who are or may be subject to Section 16 of the Exchange Act, qualify, to the maximum extent compatible with the express terms of the Awards, for exemption from matching liability under Rule 16b-3 promulgated under the Exchange Act. The Company shall have no liability to any Participant or other person for Section 16 consequences of Awards or events in connection with Awards if an Award or related event does not so qualify.

10.11 Not Benefit Plan Compensation. Payments and other benefits received by a Participant under an Award made pursuant to the Plan shall not be deemed a part of a Participant's compensation for purposes of determining the Participant's benefits under any other employee benefit plans or arrangements provided by the Company, except where the Committee expressly provides otherwise in writing.

ARTICLE XI. TERM, AMENDMENT AND TERMINATION OF PLAN

11.1 Term of Plan. The Plan shall become effective on the Effective Date.

11.2 Termination of the Plan. The Plan shall terminate upon the earliest to occur of (i) the date that is 10 years after the Plan is approved by the Company's stockholders; (ii) the date on which all Shares available for issuance under the Plan have been issued as fully vested Shares; or (iii) the date determined by the Board pursuant to its authority under Section 11.3.

11.3 Amendment of the Plan. The Board or the Committee may at any time amend, alter, suspend or terminate the Plan, without the consent of the Participants or Beneficiaries. The Company shall obtain stockholder approval of any Plan amendment to the extent necessary to comply with Applicable Laws.

11.4 Effect of Amendment or Termination. Except as provided in Section 11.5 of the Plan, no amendment, alteration, suspension or termination of the Plan shall impair the rights of any Participant or Beneficiary under an outstanding Award, unless required to comply with an Applicable Law or mutually agreed otherwise between the Participant and the

Committee; any such agreement must be in writing and signed by the Participant and the Company. Termination of the Plan shall not affect the Committee's ability to exercise the powers granted to it hereunder with respect to Awards granted under the Plan prior to the date of such termination.

11.5 Adjustments of Awards Upon the Occurrence of Unusual or Nonrecurring Events. The Committee may, in its sole discretion (but subject to the limitations and conditions expressly stated in the Plan, such as the limitations on adjustment of Performance Objectives), adjust the terms and conditions of Awards during the pendency or in recognition of (i) unusual or nonrecurring events affecting the Company (such as a capital adjustment, reorganization or merger) or the financial statements of the Company, or (ii) any changes in Applicable Laws or accounting principles. By way of example, the power to adjust Awards shall include the power to suspend the exercise of any Option or Stock Appreciation Right.

ARTICLE XII. MISCELLANEOUS

12.1 Governing Law. This Plan, Awards granted hereunder and actions taken in connection with the Plan shall be governed by the laws of the State of Delaware regardless of the law that might otherwise apply under applicable principles of conflicts of laws.

12.2 Authorization of Sub-Plans. The Committee may from time to time establish one or more sub-plans under the Plan for purposes of satisfying applicable blue sky, securities and/or tax laws of various jurisdictions. The Committee shall establish such sub-plans by adopting supplements to this Plan containing (i) such limitations as the Committee deems necessary or desirable, and (ii) such additional terms and conditions not otherwise inconsistent with the Plan as the Committee shall deem necessary or desirable. All sub-plans adopted by the Committee shall be deemed to be part of the Plan, but each sub-plan shall apply only to Participants within the affected jurisdiction and the Company shall not be required to provide copies of any sub-plans to Participants in any jurisdiction which is not the subject of such sub-plan.

12.3 Expenses. The costs of administering the Plan shall be paid by the Company.

12.4 Severability. If any provision of the Plan or any Award Agreement is determined by a court of competent jurisdiction to be invalid, illegal or unenforceable in any jurisdiction, or as to any person or Award, such provision shall be construed or deemed to be amended to resolve the applicable infirmity, unless the Committee determines that it cannot be so construed or deemed amended without materially altering the Plan or the Award, in which case such provision shall be stricken as to such jurisdiction, person, or Award, and the remainder of the Plan and any such Award shall remain in full force and effect.

12.5 Construction. Unless the contrary is clearly indicated by the context, (i) the use of the masculine gender shall also include within its meaning the feminine and vice versa; (ii) the use of the singular shall also include within its meaning the plural and vice versa; and (iii) the word "include" shall mean to include, but not to be limited to.

12.6 No Trust or Fund Created. Neither the Plan nor any Award Agreement shall create or be construed to create a trust or separate fund of any kind or a fiduciary relationship between the Company and a Participant or any other person. To the extent that any

person acquires a right to receive payments from the Company pursuant to an Award, such right shall be no more secure than the right of any unsecured general creditor of the Company.

12.7 Headings. Headings are given to the sections and subsections of the Plan solely as a convenience to facilitate reference. Such headings shall not be deemed in any way material or relevant to the construction or interpretation of the Plan or any provision thereof.

12.8 Complete Statement of Plan. This document is a complete statement of the Plan.

APPENDIX

As used in the Plan, the following terms shall have the following meanings:

“*10% Stockholder*” has the meaning set forth in Section 6.3(e).

“*2002 Plan*” has the meaning set forth in Section 1.1.

“*Acquired Company*” has the meaning set forth in Section 2.1(e).

“*Applicable Laws*” means the requirements relating to, connected with, or otherwise implicated by the administration of long-term incentive plans under applicable state corporation laws, United States federal and state securities laws, the Code, any stock exchange or quotation system on which the Shares are listed or quoted, and the applicable laws of any foreign country or jurisdiction where Awards are, or will be, granted under the Plan.

“*Award*” means, individually or collectively, a grant under the Plan of Options, Stock Appreciation Rights, Restricted Stock, Restricted Stock Units, or other equity-based awards.

“*Award Agreement*” means a written agreement setting forth the terms and provisions applicable to an Award granted under the Plan. Each Award Agreement shall be subject to the terms and conditions of the Plan.

“*Beneficiary*” means the personal representative of the Participant’s estate or the person(s) to whom an Award is transferred pursuant to the Participant’s will or in accordance with the laws of descent or distribution.

“*Board*” means the board of directors of the Company.

“*Code*” means the Internal Revenue Code of 1986, as amended. Any reference to a section of the Code herein shall be a reference to any regulations or other guidance of general applicability promulgated under such section, and shall further be a reference to any successor or amended section of such section of the Code that is so referred to and any regulations thereunder.

“*Committee*” means the Compensation Committee of the Board, which has been constituted by the Board to comply with the requirements of Rule 16b-3 promulgated under the Exchange Act, Section 162(m) of the Code, and/or other Applicable Laws.

“*Company*” means Tetra Tech, Inc., a Delaware corporation, or any successor thereto.

“*Consultant*” means any natural person, including an advisor, engaged by the Company to render services to the Company.

“*Director*” means a member of the Board.

“*Disability*” means total and permanent disability as defined in Section 22(e)(3) of the Code.

“*Effective Date*” means November 14, 2005; provided that the Plan and any Awards granted hereunder shall be null and void if the Plan is not approved by the Company’s stockholders before any compensation under the Plan is paid.

“*Employee*” means any person who is an employee, as defined in Section 3401(c) of the Code, of the Company or any other entity the employees of which are permitted to receive Incentive Stock Options under the Code. Neither service as a Director nor payment of a director’s fee by the Company shall be sufficient to constitute “employment” by the Company.

“*Exchange Act*” means the Securities Exchange Act of 1934, as amended.

“*Executive Officer*” means an individual who is an “executive officer” of the Company (as defined by Rule 3b–7 under the Exchange Act) or a “covered employee” under Section 162(m) of the Code.

“*Fair Market Value*” means, with respect to Shares as of any date the closing sale price per share of such Shares (or the closing bid, if no sales were reported) as reported in *The Wall Street Journal* (Northeast edition) or, if not reported therein, such other source as the Committee deems reliable.

“*Full-Value Awards*” has the meaning set forth in Section 2.1(d).

“*Incentive Stock Option*” means an Option intended to qualify as an incentive stock option within the meaning of Section 422 of the Code.

“*Nonqualified Stock Option*” means an Option not intended to qualify as an Incentive Stock Option.

“*Option*” means an option to purchase Shares that is granted pursuant to Article VI of the Plan. An Option may be an Incentive Stock Option or a Nonqualified Stock Option.

“*Participant*” has the meaning set forth in Section 4.1.

“*Performance Objective*” means a performance objective or goal that must be achieved before an Award, or a feature of an Award, becomes nonforfeitable, as described in Section 5.3 of the Plan.

“*Period of Restriction*” means the period during which Restricted Stock, the remuneration underlying Restricted Stock Units or any other feature of an Award is subject to a substantial risk of forfeiture. A Period of Restriction shall be deemed to end when the applicable Award ceases to be subject to a substantial risk of forfeiture.

“*Plan*” has the meaning set forth in Section 1.1.

“*Reporting Person*” means an officer or director of the Company or greater than ten percent stockholder of the Company within the meaning of Rule 16a–2 under the Exchange Act, who is required to file reports pursuant to Rule 16a–3 under the Exchange Act.

“*Restricted Stock*” means Shares that, during a Period of Restriction, are subject to restrictions as described in Article VIII of the Plan.

“*Restricted Stock Unit*” means an Award that entitles the recipient to receive Shares or cash after a Period of Restriction, as described in Article IX of the Plan.

“*Service Provider*” means an Employee, Director or Consultant.

“*Share*” means a share of the Company’s common stock.

“*Stock Appreciation Right*” means an Award that entitles the recipient to receive, upon exercise, the excess of (i) the Fair Market Value of a Share on the date the Award is

exercised, over (ii) a base amount specified by the Committee which shall not be less than the Fair Market Value of a Share on the date the Award is granted, as described in Article VII of the Plan.

“*Subsidiary*” means any corporation or entity in which the Company directly or indirectly controls fifty percent (50%) or more of the total voting power of all classes of its stock having voting power, as determined in accordance with the rules of Section 424(f) of the Code.

“*Tax Year*” means the Company’s taxable year.

“*Termination of Service*” means the date an individual ceases to be a Service Provider. Unless the Committee or a Company policy provides otherwise, a leave of absence authorized by the Company or the Committee (including sick leave or military leave) from which return to service is not guaranteed by statute or contract shall be characterized as a Termination of Service if the individual does not return to service within three months; such Termination of Service shall be effective as of the first day that is more than three months after the beginning of the period of leave. If the ability to return to service upon the expiration of such leave is guaranteed by statute or contract, but the individual does not return, the leave shall be characterized as a Termination of Service as of a date established by the Committee or Company policy.

TETRA TECH, INC.

NOTICE OF GRANT OF STOCK OPTION

Tetra Tech, Inc. (the "Company") grants to the Participant an option to purchase the number of shares of the Company's common stock, par value \$0.01 ("Shares"), set forth below (the "Option") under its 2005 Equity Incentive Plan (the "Plan"). The Option is subject to all of the terms and conditions set forth in this Notice and in the Stock Option Agreement attached as Exhibit A (the "Stock Option Agreement") and in the Plan, which are incorporated herein by reference. Unless otherwise defined herein, the terms defined in the Plan shall have the same defined meanings in this Grant Notice and the Stock Option Agreement.

Participant:

Grant Date:

**Total Number of Shares
Subject to the Option:**

Exercise Price per Share: \$

Expiration Date:

Type of Option: Nonqualified Stock Option

Vesting Schedule: 25% on each anniversary of the Grant Date

By signing below, Participant agrees to be bound by the terms and conditions of the Plan, the Stock Option Agreement and this Grant Notice. Participant has reviewed the Stock Option Agreement, the Plan and this Grant Notice in their entirety, has had an opportunity to obtain the advice of counsel prior to executing this Grant Notice and fully understands all provisions of this Grant Notice, the Stock Option Agreement and the Plan.

TETRA TECH, INC.

By: _____

Participant

EXHIBIT A

Stock Option Agreement

The Company has granted to Participant an option under the Company's 2005 Equity Incentive Plan (the "Plan") to purchase the number of Shares indicated in the attached Stock Option Grant Notice (the "Grant Notice").

ARTICLE 1

General

1.1 Defined Terms. Capitalized terms not specifically defined herein shall have the meanings specified in the Plan and the Grant Notice.

1.2 Incorporation of Terms of Plan. The Option is subject to the terms and conditions of the Plan which are incorporated herein by reference.

ARTICLE 2

Grant of Option

2.1 Grant of Option. In consideration of Participant's past and/or continued employment with or service to the Company or a Subsidiary and for other good and valuable consideration, effective as of the Grant Date set forth in the Grant Notice (the "Grant Date"), the Company irrevocably grants to Participant the Option to purchase any part or all of an aggregate of the number of Shares set forth in the Grant Notice, upon the terms and conditions set forth in the Plan and this Agreement.

2.2 Exercise Price. The exercise price of the Shares subject to the Option shall be as set forth in the Grant Notice, without commission or other charge.

2.3 Consideration to the Company. In consideration of the grant of the Option by the Company, Participant agrees to render faithful and efficient services to the Company and its Subsidiaries. Nothing in the Plan or this Agreement shall confer upon Participant any right to continue in the employ or service of the Company or any Subsidiary or shall interfere with or restrict in any way the rights of the Company and its Subsidiaries, which rights are hereby expressly reserved, to discharge or terminate the services of Participant at any time for any reason whatsoever, with or without cause, except to the extent expressly provided otherwise in a written agreement between the Company or its Subsidiaries and a Participant.

ARTICLE 3

Period of Exercisability

3.1 Commencement of Exercisability.

(a) Subject to Section 3.3, the Option shall become vested and exercisable in such amounts and at such times as are set forth in the Grant Notice.

(b) No portion of the Option that has not become vested and exercisable at the date of Participant's Termination of Service shall thereafter become vested and exercisable, except as may be otherwise provided by the Committee or as set forth in a written agreement between the Company and Participant.

3.2 Duration of Exercisability. The installments provided for in the vesting schedule set forth in the Grant Notice are cumulative. Each such installment that becomes vested and exercisable pursuant to the vesting schedule set forth in the Grant Notice shall remain vested and exercisable until it becomes unexercisable under Section 3.3.

3.3 Expiration of Option. The Option may not be exercised to any extent by anyone after the first to occur of the following events:

(a) The expiration of eight (8) years from the Grant Date;

(b) The expiration of three months from the date of Participant's Termination of Service, unless such termination occurs by reason of Participant's death or Disability; or

(c) The expiration of one year from the date of Participant's Termination of Service by reason of Participant's death or Disability.

ARTICLE 4

Exercise of Option

4.1 Person Eligible to Exercise. Except as provided in Sections 5.2(b) and 5.2(c), during the lifetime of Participant, only Participant may exercise the Option or any portion thereof. After the death of Participant, any exercisable portion of the Option may, prior to the time when the Option becomes unexercisable under Section 3.3, be exercised by Participant's personal representative or by any person empowered to do so under the deceased Participant's will or under the then applicable laws of descent and distribution.

4.2 Partial Exercise. Any exercisable portion of the Option or the entire Option, if then wholly exercisable, may be exercised in whole or in part at any time prior to the time when the Option or portion thereof becomes unexercisable under Section 3.3.

4.3 Manner of Exercise. The Option, or any exercisable portion thereof, may be exercised solely by delivery to the Company of all of the following prior to the time when the Option or such portion thereof becomes unexercisable under Section 3.3:

(a) An Exercise Notice electronically or in writing signed by Participant or any other person then entitled to exercise the Option or portion

thereof, stating that the Option or portion thereof is thereby exercised, such notice complying with all applicable rules established by the Committee. Such notice shall be substantially in the form attached as Exhibit B to the Grant Notice (or such other form as is prescribed by the Committee);

(b) The receipt by the Company of full payment for the Shares with respect to which the Option or portion thereof is exercised, including payment of any applicable withholding tax, which may be in one or more of the forms of consideration permitted under Section 4.4; and

(c) In the event the Option or portion thereof shall be exercised under Section 4.1 by any person or persons other than Participant, appropriate proof of the right of such person or persons to exercise the Option.

4.4 Method of Payment. Payment of the exercise price shall be by any of the following, or a combination thereof, at the election of the Participant:

(a) by cash, check or other cash equivalent approved by the Committee;

(b) by the tendering of other Shares to the Company or the attestation to the ownership of the Shares that otherwise would be tendered to the Company in exchange for the Company's reducing the number of Shares issuable upon the exercise of the Option. Shares tendered or attested to in exchange for Shares issued under the plan must be held by the Service Provider for at least six months prior to their tender or their attestation to the Company and may not be shares of Restricted Stock at the time they are tendered or attested to. The Committee shall determine acceptable methods for tendering or attesting to Shares to exercise an Option under the Plan and may impose such limitations and prohibitions on the use of Shares to exercise Options as it deems appropriate. For purposes of determining the amount of the Option price satisfied by tendering or attesting to Shares, such Shares shall be valued at their Fair Market Value on the date of tender or attestation, as applicable;

(c) by a special sale and remittance procedure pursuant to which the Participant (or any other person exercising the Option) shall concurrently provide irrevocable written instructions (i) to a brokerage firm to effect the immediate sale of the purchased Shares and remit to the Company, out of the sale proceeds available on the settlement date, sufficient funds to cover the aggregate exercise price payable for the purchased Shares plus all applicable taxes required to be withheld by the Company and (ii) to the Company to deliver the certificates for the purchased Shares directly to such brokerage firm in order to complete the sale transaction; or

(d) by using such other methods of payment that the Committee, at its discretion, deems appropriate from time to time.

4.5 Conditions to Issuance of Stock Certificates. The Company shall not be required to issue or deliver any Shares purchased upon the exercise of the Option or portion thereof prior to fulfillment of all of the following conditions:

(a) The completion of any registration or other qualification of such Shares under any state or federal law or under rulings or regulations of the Securities and Exchange Commission or of any other governmental regulatory body, which the Committee shall, in its absolute discretion, deem necessary or advisable;

(b) The receipt by the Company of full payment for such Shares, including payment of any applicable withholding tax, which may be in one or more of the forms of consideration permitted under Section 4.4; and

(c) The lapse of such reasonable period of time following the exercise of the Option as the Committee may from time to time establish for reasons of administrative convenience.

4.6 Rights as Stockholder. The holder of the Option shall not be, nor have any of the rights or privileges of, a stockholder of the Company in respect of any Shares purchasable upon the exercise of any part of the Option unless and until such Shares shall have been issued by the Company to such holder (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company). No adjustment will be made for a dividend or other right for which the record date is prior to the date the Shares are issued, except as provided in Section 2.3 of the Plan.

ARTICLE 5

Other Provisions

5.1 Administration. The Committee shall have the power to interpret the Plan and this Agreement and to adopt such rules for the administration, interpretation and application of the Plan as are consistent therewith and to interpret, amend or revoke any such rules.

5.2 Option Not Transferable.

(a) Subject to Section 5.2(b), the Option may not be sold, pledged, assigned or transferred in any manner other than by will or the laws of descent and distribution, unless and until the Shares underlying the Option have been issued, and all restrictions applicable to such Shares have lapsed.

(b) Notwithstanding any other provision in this Agreement, with the consent of the Committee, the Option may be transferred to one or more members of the Participant's immediate family, to trusts for the benefit of such family members, or to partnerships in which such family members are the only partners, or to limited liability companies in which such family members are the only members (each a "Permitted Transferee"), provided that the Permitted Transferee agrees in writing with the Company to be bound by all of the terms and conditions of the Plan and this Option Agreement.

(c) Unless transferred to a Permitted Transferee in accordance with Section 5.2(b), during the lifetime of Participant, only the Participant may exercise the Option or any portion thereof. Subject to such conditions and procedures as the Committee may require, a Permitted Transferee may exercise the Option or any portion thereof during Participant's lifetime. After the death of Participant, any exercisable portion of the Option may, prior to the time when the Option becomes unexercisable under Section 3.3, be exercised by Participant's personal representative or by any person empowered to do so under the deceased Participant's will or under the then applicable laws of descent and distribution.

5.3 Notices. Any notice to be given under the terms of this Agreement to the Company shall be addressed to the Company in care of the Secretary of the Company at 3475 E. Foothill Boulevard, Pasadena, California 91107; and any notice to be given to Participant shall be addressed to Participant at the address set forth in the Company's records. By a notice given pursuant to this Section 5.3, either party may hereafter designate a different address for notices to be given to that party.

5.4 Governing Law; Severability. This Agreement shall be administered, interpreted and enforced under the laws of the State of Delaware, without regard to the conflicts of law principles thereof. Should any provision of this Agreement be determined by a court of law to be illegal or unenforceable, the other provisions shall nevertheless remain effective and shall remain enforceable.

5.5 Amendments. This Agreement may not be modified, amended or terminated except by an instrument in writing, signed by Participant or such other person as may be permitted to exercise the Option pursuant to Section 4.1 and by a duly authorized representative of the Company.

5.6 Successors and Assigns. The Company may assign any of its rights under this Agreement to single or multiple assignees, and this Agreement shall inure to the benefit of the successors and assigns of the Company. Subject to the restrictions on transfer herein set forth in Section 5.2, this Agreement shall be binding upon Participant and Participant's heirs, executors, successors and assigns.

5.7 Limitations Applicable to Section 16 Persons. Notwithstanding any other provision of the Plan or this Agreement, if Participant is subject to Section 16 of the Exchange Act, the Plan, the Option and this Agreement shall be subject to any additional limitations set forth in any applicable exemptive rule under Section 16 of the Exchange Act (including any amendment to Rule 16b-3 of the Exchange Act) that are requirements for the application of such exemptive rule. To the extent permitted by applicable law, this Agreement shall be deemed amended to the extent necessary to conform to such applicable exemptive rule.

5.8 Entire Agreement. The Plan and this Agreement (including all Exhibits hereto) constitute the entire agreement of the parties and supersede in their entirety all prior undertakings and agreements of the Company and Participant with respect to the subject matter hereof.

EXHIBIT B

Form of Exercise Notice

Effective as of today, _____, 200____, the undersigned (“Participant”) hereby elects to exercise Participant’s option to purchase the number of shares of common stock specified below (the “Shares”) of Tetra Tech, Inc., a Delaware corporation (the “Company”), under the 2005 Equity Incentive Plan (the “Plan”) and the related Stock Option Grant Notice and Stock Option Agreement (the “Option Agreement”). Capitalized terms used herein without definition shall have the meanings given in the Plan and, if not defined in the Plan, the Option Agreement.

Grant Date:

Number of Shares as to which Option is Exercised:

Exercise Price per Share:

Total Exercise Price:

Certificate to be issued in name of:

Payment delivered: _____ \$
(representing the full exercise price for
the Shares and any applicable withholding tax)

Form of Payment: _____
(Please Specify)

Participant acknowledges that Participant has received, read and understood the Plan and the Option Agreement. Participant agrees to abide by and be bound by their terms and conditions. Participant understands that Participant may suffer adverse tax consequences as a result of Participant’s purchase or disposition of the Shares. Participant represents that Participant has consulted with any tax consultants Participant deems advisable in connection with the purchase or disposition of the Shares and that Participant is not relying on the Company for any tax advice.

Participant _____ Tetra Tech, Inc.

_____ Accepted: _____

TETRA TECH, INC.**RESTRICTED STOCK AGREEMENT****Participant:****Grant Date:****Number of Shares:****Vested Shares****(from continuous employment):** % of Shares on each anniversary of Grant Date**(if performance based):**

This Restricted Stock Agreement is between Tetra Tech, Inc., a Delaware corporation (the "Company"), and you, the Participant named above, as an employee of the Company or one of its Subsidiaries.

The Company wishes to award to you shares of the Company's Common Stock, \$.01 par value (the "Common Stock"), subject to certain restrictions as provided in this Agreement, in order to carry out the purpose of the Tetra Tech, Inc. 2005 Equity Incentive Plan (the "Plan").

Accordingly, for good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the Company and you hereby agree as follows:

1. Award of Restricted Stock.

The Company hereby grants to you, effective as of the Grant Date indicated above, an Award of Restricted Stock for that number of shares of Common Stock indicated above (the "Shares"), on the terms and conditions set forth in this Agreement and in accordance with the terms of the Plan.

2. Rights with Respect to the Shares.

With respect to the Shares, you shall be entitled effective as of the Grant Date to exercise the rights of a stockholder of Common Stock of the Company, including the right to vote the Shares and the right, subject to Section 8(b) below, to receive dividends on the Shares, unless and until the Shares are forfeited under Section 5 below. Notwithstanding the foregoing, you shall be subject to the transfer restrictions in Section 6 below. Your rights with respect to the Shares shall remain forfeitable at all times prior to the date or dates on which such rights become vested under this Agreement.

3. Vesting.

Subject to the terms and conditions of this Agreement, Shares shall become vested in the amount or amounts set forth herein if you remain continuously employed by the Company or a Subsidiary until the respective date or dates described in this Agreement. Vesting or becoming vested entitles you to transfer your Shares, and to retain your Shares after termination of employment with the Company or a Subsidiary, subject to Section 10 below. Shares that vest under this Agreement are referred to as “Vested Shares.”

4. Change in Control.

In the event of a Change in Control while you are employed hereunder, all of your Shares, to the extent then unvested, shall immediately prior to such Change in Control become Vested Shares. For purposes of this Agreement, “Change in Control” shall have the meaning set forth in Section 10.1 of the Plan.

5. Forfeiture.

Your rights to Shares that become Vested Shares shall not be subject to forfeiture. Your rights to Shares that are not Vested Shares shall be immediately and irrevocably forfeited upon your termination of employment, including the right to vote such Shares and the right to receive cash dividends on such Shares as provided in Section 8(b) of this Agreement; provided, however, that if your employment terminates due to death or Disability, your Shares, to the extent not then vested, will immediately become Vested Shares. No transfer by will or the applicable laws of descent and distribution of any Shares which vest by reason of your death or Disability shall be effective to bind the Company unless the Committee administering the Plan shall have been furnished with written notice of such transfer and a copy of the will or such other evidence as the Committee may deem necessary to establish the validity of the transfer.

“Employment” covered under this Agreement shall mean the performance of services for the Company or a Subsidiary as an employee for federal income tax purposes. You shall be deemed to have terminated employment either upon an actual termination of service with the Company or a Subsidiary, or at the time that the Subsidiary with which you are employed ceases to be a Subsidiary under the terms of the Plan, provided that you are not employed immediately thereafter by the Company. Your employment with the Company or a Subsidiary shall not be deemed to have terminated if you take any military leave, sick leave or other bona fide leave of absence approved by the Company or the Subsidiary, as applicable, regardless of whether pay is suspended during such leave.

6. Transfer Restrictions.

Notwithstanding anything to the contrary in Section 2 and 3 of this Agreement, the Shares may not be sold, assigned, transferred, pledged or otherwise encumbered by you (collectively, the “Transfer Restrictions”) during the period commencing on the Grant Date and terminating at the end of the Restricted Period. The Committee shall have the authority, in its discretion, to accelerate the time at which any or all of the Transfer Restrictions shall lapse with respect to any Shares, or to remove any or all such restrictions, whenever the Committee may determine that such action is appropriate by reason of any changes in circumstances occurring after the commencement of the Restricted Period.

7. Issuance and Custody of Certificates.

(a) The Company shall cause the Shares to be issued in your name, either by book–entry registration or issuance of a stock certificate or certificates, which certificate or certificates shall be held by the Company. The Shares shall be restricted from transfer during the Restricted Period and shall be subject to an appropriate stop–transfer order. If any certificate is issued, the certificate shall bear an appropriate legend referring to the restrictions applicable to the Shares.

(b) If any certificate is issued, you shall be required to execute and deliver to the Company a stock power or stock powers relating to the Shares.

(c) Upon vesting, the Company shall promptly cause your Vested Shares (less any Shares that may have been withheld to pay taxes) to be delivered to you, free of the restrictions and/or legend described in Section 7(a) hereof, either by book–entry registration or in the form of a certificate or certificates, registered in your name or in the names of your legal representatives, beneficiaries or heirs, as applicable.

8. Distributions and Adjustments.

(a) If any Shares vest subsequent to any change in the number or character of the Common Stock without additional consideration paid to the Company (through any stock dividend or other distribution, recapitalization, stock split, reverse stock split, reorganization, merger, consolidation, split–up, spin–off, combination, repurchase or exchange of shares or otherwise), you shall then receive upon such vesting the number and type of securities or other consideration which you would have received if such Shares had vested prior to the event changing the number or character of the outstanding Common Stock.

(b) Unless the Committee determines otherwise, payment of any cash dividend, additional shares of Common Stock, any other securities of the Company and any other property distributed with respect to the Shares shall be deferred until such shares become Vested Shares (and shall be subject to forfeiture upon forfeiture under Section 5 above of any unvested Shares to which such deferred dividends relate). Any deferred payments under this Section 8(b) shall be held by the Company on your behalf and, to the extent practicable, shall be reinvested in Common Stock. The dividends allocable to the Shares shall be paid to you (without interest) upon the vesting date for such shares.

9. Taxes.

(a) You acknowledge that you will consult with your personal tax advisor regarding the federal, state and local tax consequences of the grant of the Shares, payment of dividends on the Shares, the vesting of the Shares and any other matters related to this Agreement. You are relying solely on your advisors and not on any statements or representations of the Company or any of its agents. You understand that you are responsible for your own tax liability that may arise as a result of this grant of the Shares or any other matters related to this Agreement. You understand that Section 83 of the Code treats as taxable ordinary income the fair market value of the Shares as of the date the Shares vest hereunder. Alternatively, you understand that you may elect to be taxed at the time the Shares are granted rather than when the Shares vest hereunder by filing an election

under Section 83(b) of the Code with the Internal Revenue Service within 30 days from the Grant Date.

(b) In order to comply with all applicable federal, state or local income tax laws or regulations, the Company may take such action as it deems appropriate to ensure that all income and payroll taxes, which are your sole and absolute responsibility, are withheld or collected from you at the minimum required withholding rate.

(c) In accordance with the terms of the Plan, and such rules as may be adopted by the Committee administering the Plan, you may elect to satisfy any applicable tax withholding obligations arising from the receipt of, or the lapse of restrictions relating to, the Shares (including property attributable to the Shares described in Section 8(b) above) by:

(i) delivering cash (including check, draft, money order or wire transfer made payable to the order of the Company),

(ii) having the Company withhold a portion of the Vested Shares having a Fair Market Value equal to the amount of such taxes, or

(iii) delivering to the Company shares of Common Stock having a Fair Market Value equal to the amount of such taxes. The Company will not deliver any fractional Share but will pay, in lieu thereof, the Fair Market Value of such fractional Share. Your election must be made on or before the date that the amount of tax to be withheld is determined.

10. General Provisions.

(a) Interpretations. This Agreement is subject in all respects to the terms of the Plan. A copy of the Plan is available upon your request. Terms used herein which are defined in the Plan shall have the respective meanings given to such terms in the Plan, unless otherwise defined herein. In the event that any provision of this Agreement is inconsistent with the terms of the Plan, the terms of the Plan shall govern. Any question of administration or interpretation arising under this Agreement shall be determined by the Committee administering the Plan, and such determination shall be final, conclusive and binding upon all parties in interest.

(b) Integrated Agreement. This Agreement and the Plan constitute the entire understanding and agreement between you and the Company with respect to the subject matter contained herein and supersedes any prior agreements, understandings, restrictions, representations, or warranties between you and the Company with respect to such subject matter other than those as set forth or provided for herein.

(c) No Right to Employment. Nothing in this Agreement or the Plan shall be construed as giving you the right to be retained as an employee of the Company or a Subsidiary. In addition, the Company or a Subsidiary may at any time dismiss you from employment free from any liability or any claim under this Agreement, unless otherwise expressly provided in this Agreement.

(d) Securities Matters. The Company shall not be required to deliver any Shares until the requirements of any federal or state securities or other laws, rules or regulations (including the

rules of any securities exchange) as may be determined by the Company to be applicable are satisfied.

(e) Headings. Headings are given to the sections and subsections of this Agreement solely as a convenience to facilitate reference. Such headings shall not be deemed in any way material or relevant to the construction or interpretation of this Agreement or any provision hereof.

(f) Saving Clause. If any provision(s) of this Agreement shall be determined to be illegal or unenforceable, such determination shall in no manner affect the legality or enforceability of any other provision hereof.

(g) Governing Law. The internal law, and not the law of conflicts, of the State of Delaware will govern all questions concerning the validity, construction and effect of this Agreement.

(h) Benefit and Binding Effect. This Agreement shall be binding upon and shall inure to the benefit of the parties hereto, their respective successors, permitted assigns, and legal representatives. The Company has the right to assign this Agreement, and such assignee shall become entitled to all the rights of the Company hereunder to the extent of such assignment.

IN WITNESS WHEREOF, the Company has executed this Agreement in duplicate as of the day and year first above written.

TETRA TECH, INC.

By: _____

Please indicate your acceptance of the terms and conditions of this Agreement by signing in the space provided below and returning a signed copy of this Agreement to the Company. IF A FULLY EXECUTED COPY OF THIS AGREEMENT HAS NOT BEEN RECEIVED BY THE STOCK PLAN ADMINISTRATOR OF THE COMPANY, THE COMPANY SHALL REVOKE ALL SHARES ISSUED TO YOU, AND AVOID ALL OBLIGATIONS, UNDER THIS AGREEMENT.

The undersigned hereby accepts, and agrees to, all terms and provisions of this Agreement.

Employee Signature

Printed Name: _____

Date: _____

TETRA TECH, INC.**STOCK APPRECIATION RIGHTS AGREEMENT**

This Agreement made is made between Tetra Tech, Inc. (the “*Company*”) and (referred to as “*you*” or “*your*” throughout this Agreement).

In recognition of your valuable services to the Company, the Company wishes to provide you with stock appreciation rights (“*SARs*”) relating to and associated with the Company’s common stock, par value \$.01 per share (“*Common Stock*”), on the terms set forth in this Agreement:

1. Grant, Subject to Terms of Plan.

Effective (the “*Grant Date*”), the Company grants you SARs with a grant price of \$ per SAR (the “*Exercise Price*”).

The Company has granted these SARs subject to all of the terms and conditions of the Company’s 2005 Equity Incentive Plan (the “*Plan*”). This Agreement incorporates the Plan’s provisions as if set forth in their entirety in this document.

A copy of the Plan is on file in the office of the Secretary of the Company.

2. Vesting in SARs. Except as described in any special attachment to this Agreement, initially you have no vested interest in the SARs granted to you pursuant to this Agreement. However, if you continue to be employed by the Company, you will be vested in 25% of the SARs granted hereunder on each anniversary of the grant date.

Also, you will become fully vested in the SARs covered by this Agreement regardless of your years of service upon any of the following events:

- (a) Your “*Disability*” (as defined in the Plan);
- (b) Your death; or
- (c) A “*Change of Control*” of the Company (as defined in the Plan).

The Committee retains the discretion to accelerate vesting in any situation it deems appropriate.

Any SARs that have not become vested as of the date you terminate employment with the Company for reasons other than your death or Disability shall be forfeited, and you shall not be entitled to any payments in respect of such forfeited SARs.

3. Exercise of Vested SARs; Expiration Date. You may elect to exercise any SAR once it has vested. Upon exercise you will receive the amount described in Section 4. You may not elect to exercise fewer than vested SARs at a time unless it is for the balance of your vested SARs.

Each vested SAR expires upon the first to occur of the following:

- (a) The 8th anniversary of the Grant Date;
- (b) Ninety days after you involuntarily leave the employ of the Company (but not earlier than the last day for which you receive a severance payment); provided, however, that each SAR shall expire immediately upon any involuntary termination for Wrongful Conduct (as defined below).
- (c) Immediately after you voluntarily leave the employ of the Company; provided, however, that:
 - (i) If you retire from the Company, each SAR shall expire on the earlier to occur of the anniversary of the Grant Date specified above in 3(a) or one year from the date of your retirement; and
 - (ii) If you die or become disabled while employed with the Company, each SAR shall expire five years from the date of your death or termination due to Disability.
- (d) Immediately upon the date you first engage in Wrongful Conduct. For purposes of this Agreement, “Wrongful Conduct” means any activity inimical, contrary or harmful to the interests of the Company, as determined in good faith by the Company. “Wrongful Conduct” shall include, but shall not be limited to, the following:
 - (i) competing, directly or indirectly (as an owner, employee or agent), with any business of the Company,
 - (ii) violating the Company’s Code of Conduct or any other formal policy of the Company;
 - (iii) soliciting any present or future employees of the Company to terminate or forego employment with the Company;
 - (iv) soliciting any present or future customers of the Company to terminate or forego a business relationship with the Company; or
 - (v) disclosing or misusing any confidential or proprietary information regarding, or trade secrets of, the Company.

4. **Determination of Amount Payable to You.** Upon exercise or settlement of your SARs (referred to as a “*Settlement Date*”), you will receive a payment in Common Stock from the Company in an amount determined by multiplying:

- (a) the excess of the Fair Market Value of one share of Common Stock on the Settlement Date over the Exercise Price,
by
- (b) the number of SARs exercised or settled.

The dollar amount so derived shall be divided by the Fair Market Value of one share of Common Stock on the Settlement Date; and the resulting number shall be the number of shares of Common Stock paid to you. Payment with respect to fractional shares shall be made in cash.

5. **Timing of Payment.** The amount determined pursuant to Section 4 shall be paid to you (or in the event of your death, to your beneficiary or beneficiaries — which you may designate by completing and returning the attached Exhibit A) in a lump sum within 30 days from the Settlement Date.
6. **Restrictions on Transfer.** The SARs granted hereunder are not transferable, except by designation of a death beneficiary or beneficiaries on Exhibit A to this Agreement, by will (in the event a beneficiary designation is not made or is for any reason ineffective), the laws of descent and distribution, or pursuant to a domestic relations order.
7. **No Guarantee of Employment.** In consideration for the SARs granted to you hereunder, you agree to perform faithfully and diligently the responsibilities and duties assigned to you by the Company throughout the course of your employment. However, nothing contained herein confers upon you any rights as a stockholder or confers on you any right to continued employment with the Company or its Subsidiaries, or interferes with the right of the Company or its Subsidiaries to terminate your employment at any time.
8. **Governing Law.** This Agreement shall be governed and construed in accordance with the laws of the State of Delaware (regardless of the law that might otherwise govern under applicable principles of conflict of laws).
9. **Severability.** Whenever feasible, each provision of this Agreement will be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement is held to be prohibited by or invalid under applicable law, such provision will be ineffective only to the extent of such prohibition or invalidity, without invalidating the remainder of this Agreement.
10. **Successors and Assigns.** Except as otherwise provided herein, this Agreement will bind and inure to the benefit of the respective successors and permitted assigns of the parties hereto whether so expressed or not.

11. **Amendment and Termination.** This Agreement shall remain in full force and effect until payment has been made for all unpaid vested SARs granted hereunder to you or either this Agreement or the Plan is terminated, whichever first occurs. The Company may unilaterally amend or terminate the Plan and/or this Agreement at anytime, except that any such amendment or termination shall not affect your rights to payment for any previously unpaid then vested SARs, as shown on the records with respect to your SAR account as of the effective date of such amendment or termination.

IN WITNESS WHEREOF, the Company has executed this Agreement as of the day and year first above written.

TETRA TECH, INC.

By: _____

Please indicate your acceptance of the terms and conditions of this Agreement by signing in the space provided below and returning a signed copy of this Agreement to the Company. IF A FULLY EXECUTED COPY OF THIS AGREEMENT HAS NOT BEEN RECEIVED BY THE STOCK PLAN ADMINISTRATOR OF THE COMPANY, THE COMPANY SHALL REVOKE ALL SARs GRANTED TO YOU, AND AVOID ALL OBLIGATIONS, UNDER THIS AGREEMENT.

The undersigned hereby accepts, and agrees to, all terms and provisions of this Agreement.

Signature

Printed Name: _____

Date: _____

EXHIBIT A

BENEFICIARY DESIGNATION

Name of Plan:

Your Name

Date this form is signed:

The following payees are designated to receive death payments from the Plan:

Personal Payee as Direct Beneficiary

First Name — Middle Initial — Last Name Relationship to You Date of Birth

Personal Payee as Contingent Beneficiary

First Name — Middle Initial — Last Name Relationship to You Date of Birth

Trustee as Direct Beneficiary

Trustee as Contingent Beneficiary

Certification Statement:

By signing this Beneficiary Designation form I hereby certify that I have read and understand the terms of the Company's 2005 Equity Incentive Plan and this Stock Appreciation Rights Agreement.

Signature of Beneficiary

TETRA TECH, INC.**RESTRICTED STOCK UNIT AWARD****Name of Participant:**

This Restricted Stock Unit (“RSU”) Award made this _____ (“Grant Date”), by Tetra Tech, Inc. (the “Company”) to Participant is evidence of an Award made under the Company’s 2005 Equity Incentive Plan (the “Plan”). The Plan is incorporated into this Award by reference.

1. Number of RSUs

Subject to the restrictions, limitations, terms and conditions specified in the Plan and this Award, the Company hereby awards to the Participant as of the Grant Date _____ RSUs.

All fractional RSUs resulting from the adjustment provisions contained in the Plan shall be rounded down to the nearest whole unit.

2. Vesting Schedule

If the Participant remains employed with the Company or a Subsidiary through each Vesting Date, _____ % of the RSUs shall vest on each anniversary of the Grant Date.

RSUs will remain restricted until each Vesting Date noted above. RSUs are not transferable by the Participant by means of sale, assignment, exchange, pledge or otherwise prior to vesting.

If the Participant’s employment with the Company or a Subsidiary is terminated for any reason, whether voluntarily or involuntarily, no additional RSUs under this Award shall become vested RSUs under any circumstances except as provided below for death or Disability.

“Employment” covered under this Agreement shall mean the performance of services for the Company or a Subsidiary as an employee for federal income tax purposes. The Participant shall be deemed to have terminated employment either upon an actual termination of service with the Company or a Subsidiary, or at the time that the Subsidiary with which the Participant is employed ceases to be a Subsidiary under the terms of the Plan, provided that the Participant is not employed immediately thereafter by the Company. The Participant’s employment with the Company or a Subsidiary shall not be deemed to have terminated if the Participant takes any military leave, sick leave or other bona fide leave of absence approved by the Company or the Subsidiary, as applicable, regardless of whether pay is suspended during such leave.

3. Distribution of Common Stock

The Company shall issue to the Participant as soon as practicable following the applicable Vesting Date the number of shares of the Company's common stock equal to the number of RSUs vesting on such date. If the Vesting Date of any portion of the RSUs shall occur during either a regularly scheduled or special "blackout period" of the Company wherein the Participant is precluded from selling shares of the Company's common stock, the receipt of such shares issuable with respect to such Vesting Date under this Award shall be deferred until after the expiration of such blackout period, but in no event later than two and one half months after the end of the end of the calendar year which includes the Vesting Date.

In lieu of receiving shares of the Company's common stock in connection with vesting as described above, the Participant may elect to defer the distribution of shares of the Company's common stock on some or all of the RSUs in accordance with administrative rules as may be established by the Committee from time to time. An election must be received in writing by the Company no later than 30 days after the Grant Date. The Participant will have no right to accelerate or further defer a deferred distribution.

4. Dividend Equivalents.

Subject to the restrictions, limitations and conditions as described in the Plan, dividend equivalents payable on the RSUs will be accrued on behalf of the Participant at the time that dividends are otherwise paid to owners of the Company's common stock. Dividends shall earn interest at % and shall be paid (along with such interest) on the Vesting Date for the RSUs with respect to which such amounts were accrued under the Plan.

5. Taxes.

Notwithstanding any other provision in this Award to the contrary, any distribution of shares of the Company's common stock or dividend equivalents shall be subject to tax withholding. Taxes will be settled by withholding cash and/or a number of shares with a Fair Market Value not less than the amount of the minimum required tax withholding. The Participant is personally responsible for the proper reporting and payment of all taxes related to shares distributed with respect to RSUs and dividend equivalents.

6. Death or Disability.

If you terminate employment with the Company because of your death or Disability, this Award will vest immediately. Accelerated vesting will not impact the time for distributing shares of the Company's common stock to you if you previously elected to defer distribution.

7. Change of Control

The RSUs granted under this Award that have not vested as of immediately prior to a Change of Control shall vest as of the date the Change of Control is finalized, provided

that the Participant is then actively employed by the Company. The amount of shares of the Company's common stock corresponding to such vested RSUs shall be issued to the Participant immediately notwithstanding any prior deferral election.

8. Forfeiture.

Any RSUs that are not vested as of the Participant's termination of employment with the Company shall be immediately forfeited.

9. Conformity with the Plan.

This Award is intended to conform in all respects with, and is subject to, all applicable provisions of the Plan. Any inconsistencies between this Award and the Plan shall be resolved in accordance with the terms of the Plan. By acceptance of this Award, the Participant agrees to be bound by all of the terms of this Award and the Plan.

10. Interpretations.

Any dispute, disagreement or question which arises under, or as a result of, or in any way relates to the interpretation, construction or application of the Plan and this Award will be determined and resolved by the Committee. Such determination or resolution by the Committee will be final, binding and conclusive for all purposes.

11. Employment Rights.

Nothing in the Plan or this Award confers on any Participant any right to continue in the employ of the Company or in any way affects the Company's right to terminate the Participant's employment without prior notice at any time or for any reason.

12. Rights as Stockholder.

The Recipient shall have no rights as a stockholder of the Company with respect to any RSUs covered by this Agreement until the issuance of the shares of Common Stock.

13. Section 409A of the Internal Revenue Code.

The RSUs granted hereunder are intended to avoid the potential adverse tax consequences to the Participant of Section 409A of the Code, and the Board may make such modifications to this Agreement as it deems necessary or advisable to avoid such adverse tax consequences.

14. Entire Agreement

This Award constitutes the entire agreement between the parties relative to the subject matter hereof, and supersedes all proposals, written or oral, and all other communications between the parties relating to the subject matter of this Award.

15. **Amendment**

This Award may be modified, amended or rescinded only by a written agreement executed by both parties signatories to this Award. In the event of a conflict between the terms of this Award and the Plan, the terms of the Plan shall control.

IN WITNESS WHEREOF, the Company has executed this Agreement in duplicate as of the day and year first above written.

TETRA TECH, INC.

By: _____

Please indicate your acceptance of the terms and conditions of this Agreement by signing in the space provided below and returning a signed copy of this Agreement to the Company. IF A FULLY EXECUTED COPY OF THIS AGREEMENT HAS NOT BEEN RECEIVED BY THE STOCK PLAN ADMINISTRATOR OF THE COMPANY, THE COMPANY SHALL REVOKE ALL SHARES ISSUED TO YOU, AND AVOID ALL OBLIGATIONS, UNDER THIS AGREEMENT.

The undersigned hereby accepts, and agrees to, all terms and provisions of this Agreement.

Employee Signature

Printed Name: _____

Date: _____



TETRA TECH, INC.

Albert E. Smith
Vice Chairman

November 14, 2005

Li-San Hwang
Chairman
Tetra Tech, Inc.
3475 E. Foothill Boulevard
Pasadena, California 91107

Dear Li-San:

On behalf of the Board of Directors, I want to thank you for your invaluable service to Tetra Tech as its Chairman and Chief Executive Officer since the formation of the Company. We are pleased that you have agreed to serve as Chairman until the 2006 Annual Meeting of Stockholders and that you will remain an employee and provide services to the Company on an as-needed basis. The following sets forth the terms of your arrangement with the Company, as approved by the Board of Directors today:

- Title. You have been granted the honorary title of Chairman Emeritus of Tetra Tech, Inc. for life.
- Retainer. As a retainer for your services, the Company will make a one-time payment to you in the amount of your base salary of \$500,000. One-half of the payment will be made following your retirement as Chairman at the 2006 Annual Meeting of Stockholders, scheduled for March 6, 2006, and the balance will be paid on the first anniversary of the initial payment.
- Stock Options. As an employee, your stock options will continue to vest in accordance with their terms.
- Medical Coverage. The Company will provide post-retirement medical coverage for you and your wife.

3475 East Foothill Boulevard, Pasadena, CA 91107
Tel 626.470.2470 Fax 626.470.2670

- Auto Lease. The Company will continue to make payments on the lease for your automobile until the expiration of the lease term in November 2008.

Please indicate your agreement with and acceptance of the terms of this letter by signing a copy in the space provided below and returning it to me at your earliest convenience. We look forward to your continuing contributions to Tetra Tech's growth and success.

Sincerely,

/s/ Albert E. Smith
Albert E. Smith
Vice Chairman

ACCEPTED AND AGREED:

/s/ Li-San Hwang
Li-San Hwang

Dec. 6, 2005
Date



TETRA TECH, INC.

Albert E. Smith
Vice Chairman

November 14, 2005

Sam W. Box
President
Tetra Tech, Inc.
3475 E. Foothill Boulevard
Pasadena, California 91107

Dear Sam:

In recognition of your on-going contribution to Tetra Tech and your invaluable management expertise in the leadership of the Company, the Board and executive management believe it is critical that your services to the Company continue for the foreseeable future. Accordingly, the Company is providing you with the following benefits:

- Compensation. Your base compensation will increase from \$400,000 to \$425,000 annually, effective immediately. Your next base salary compensation review is scheduled for December 2006.
- Equity Award. You will receive an equity award not to exceed 20,000 shares of restricted stock to retain your service for a minimum two-year period. As you know, awards of restricted stock will be made under the Company's 2005 Equity Incentive Plan, as approved by the Board of Directors today. However, such Plan is subject to stockholder approval at the Annual Meeting of Stockholders scheduled for March 6, 2005 and no awards under the Plan will be made until such approval is obtained. This award does not preclude granting of options as part of the '06 option grant program.

Please indicate your agreement with and acceptance of the terms of this letter by signing a copy in the space provided below and returning it to me at your earliest convenience.

3475 East Foothill Boulevard, Pasadena, CA 91107
Tel 626.470.2470 Fax 626.470.2670

Thank you again for your continuing contribution to Tetra Tech's growth and success.

Sincerely,

/s/ Albert E. Smith
Albert E. Smith
Vice Chairman

ACCEPTED AND AGREED:

/s/ Sam W. Box
Sam W. Box

12/6/05
Date

SELECTED CONSOLIDATED FINANCIAL DATA
(in thousands except per share data)

	Fiscal Year Ended				
	October 2, 2005	October 3, 2004(1)	September 28, 2003(2)	September 29, 2002(3)	September 30, 2001(4)
Statements of Operations Data					
Revenue	\$ 1,286,031	\$ 1,376,159	\$ 1,086,986	\$ 905,464	\$ 928,464
Subcontractor costs	386,852	400,950	262,404	204,081	234,224
Revenue, net of subcontractor costs	899,179	975,209	824,582	701,383	694,240
Other contract costs	784,588	823,950	652,558	551,694	534,528
Gross profit	114,591	151,259	172,024	149,689	159,712
Selling, general and administrative expenses	122,646	101,612	84,752	98,886	118,222
Impairment of goodwill and other intangible assets	105,612	—	—	—	—
Income (loss) from operations	(113,667)	49,647	87,272	50,803	41,490
Interest expense—net	11,163	9,675	9,274	5,415	8,575
Income (loss) from continuing operations before income tax expense (benefit)	(124,830)	39,972	77,998	45,388	32,915
Income tax expense (benefit)	(26,152)	16,503	31,388	19,251	6,848
Income (loss) from continuing operations	(98,678)	23,469	46,610	26,137	26,067
Income (loss) from discontinued operations, net of tax (5)	(791)	273	2,749	3,155	3,780
Income (loss) before cumulative effect of accounting change	(99,469)	23,742	49,359	29,292	29,847
Cumulative effect of accounting change	—	—	(114,669)	—	—
Net income (loss)	<u>\$ (99,469)</u>	<u>\$ 23,742</u>	<u>\$ (65,310)</u>	<u>\$ 29,292</u>	<u>\$ 29,847</u>
Basic earnings (loss) per share:					
Income (loss) from continuing operations	\$ (1.74)	\$ 0.42	\$ 0.85	\$ 0.48	\$ 0.50
Income (loss) from discontinued operations, net of tax	(0.01)	—	0.05	0.06	0.07
Cumulative effect of accounting change	—	—	(2.09)	—	—
Net income (loss)	<u>\$ (1.75)</u>	<u>\$ 0.42</u>	<u>\$ (1.19)</u>	<u>\$ 0.54</u>	<u>\$ 0.57</u>
Diluted earnings (loss) per share:					
Income (loss) from continuing operations	\$ (1.74)	\$ 0.41	\$ 0.83	\$ 0.47	\$ 0.48
Income (loss) from discontinued operations, net of tax	(0.01)	—	0.05	0.06	0.07
Cumulative effect of accounting change	—	—	(2.05)	—	—
Net income (loss)	<u>\$ (1.75)</u>	<u>\$ 0.41</u>	<u>\$ (1.17)</u>	<u>\$ 0.53</u>	<u>\$ 0.55</u>
Weighted average common shares outstanding:					
Basic	<u>56,736</u>	<u>55,969</u>	<u>54,766</u>	<u>53,995</u>	<u>52,195</u>
Diluted	<u>56,736</u>	<u>57,288</u>	<u>55,782</u>	<u>55,086</u>	<u>54,166</u>

	October 2, 2005	October 3, 2004(1)	September 28, 2003(2)	September 29, 2002(3)	September 30, 2001(4)
Balance Sheet Data(6)					
Working capital	\$ 121,613	\$ 144,829	\$ 160,780	\$ 200,460	\$ 195,502
Total assets	648,043	808,507	703,232	669,018	609,732
Long-term obligations, excluding current portion	74,185	92,346	107,463	110,000	111,779
Stockholders' equity	304,616	397,500	358,205	412,707	371,168

- (1) We have included the results of operations and financial position of Advanced Management Technology, Inc. (acquired March 5, 2004) from its acquisition date.
- (2) We have included the results of operations and financial positions of Foster Wheeler Environmental Corporation and Hartman Consulting Corporation (collectively acquired March 7, 2003) and Engineering Management Concepts, Inc. (acquired July 31, 2003) from their respective acquisition dates.
- (3) 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.
- (4) 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.
- (5) Amounts are net of tax benefit of \$1.0 million for fiscal 2005 and tax expense of \$0.2 million, \$1.9 million, \$2.1 million and \$2.4 million for fiscal 2004, 2003, 2002 and 2001, respectively.
- (6) Amounts include both continuing and discontinued operations.

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

FORWARD-LOOKING STATEMENTS

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 subject to the safe harbor provisions created under the Securities Act of 1933 (the "Securities Act") and the Securities Exchange Act of 1934 (the "Exchange Act"). These statements are based on current expectations, estimates, forecasts and projections about the industries in which we operate and the beliefs and assumptions of our management. Words such as "expects," "anticipates," "targets," "goals," "projects," "intends," "plans," "believes," "seeks," "estimates," "continues," "may," variations of such words, and similar expressions are intended to identify such forward-looking statements. In addition, any statement that refers to projections of our future financial performance, our anticipated growth and trends in our businesses, and other characterizations of future events or circumstances are forward-looking statements. Readers are cautioned that these forward-looking statements are only predictions and are subject to risks, uncertainties and assumptions that are difficult to predict, including those identified below, as well as under the heading "Risk Factors" and elsewhere in our Annual Report on Form 10-K. Therefore, actual results may differ materially and adversely from those expressed in any forward-looking statements. We undertake no obligation to revise or update any forward-looking statements for any reason.

OVERVIEW

We are a leading provider of consulting, engineering and technical services in the areas of resource management and infrastructure. We also provide communications services. As a consultant, we assist our clients in defining problems and developing innovative and cost-effective solutions. These services span the lifecycle of a project and include research and development, applied science and technology, engineering design, program management, construction management, and operations and maintenance.

Since our initial public offering in December 1991, we have increased the size and scope of our business, expanded our service offerings and diversified our client base and the markets we serve through strategic acquisitions and internal growth. We expect to focus on internal growth, and to continue to pursue complementary acquisitions that expand our geographic reach and increase the breadth and depth of our service offerings to address existing and emerging markets. As of October 2, 2005, we had approximately 7,200 full-time equivalent employees worldwide, located primarily in North America in approximately 270 locations.

In the fourth quarter of fiscal 2005, we divested one operating unit in the communications segment, and made arrangements to sell two other operating units in the communications and resource management segments (as discussed below under "Acquisitions and Divestitures"). The results from these operating units have been reported as discontinued operations for fiscal 2005, 2004 and 2003. Accordingly, the following discussions generally reflect summary results from our continuing operations unless otherwise noted. However, the net income (loss) and net income (loss) per share discussions include the impact of discontinued operations.

We derive our revenue from fees for professional and technical services. As a service company, we are labor-intensive rather than capital-intensive. Our revenue is driven by our ability to attract and retain qualified and productive employees, identify business opportunities, secure new and renew existing client contracts, provide outstanding services to our clients and execute projects successfully. Our income (loss) from continuing operations is derived from our ability to generate revenue and collect cash under our contracts in excess of our subcontractor costs, other contract costs, and selling, general and administrative (SG&A) expenses.

We provide services to a diverse base of federal and state and local government agencies, as well as commercial and international clients. The following table presents the approximate percentage of our revenue, net of subcontractor costs, by client sector:

<u>Client Sector</u>	<u>Fiscal Year</u>		
	<u>2005</u>	<u>2004</u>	<u>2003</u>
Federal government	47.5%	45.5%	34.8%
State and local government	16.5	16.5	20.9
Commercial	35.7	37.1	44.0
International	0.3	0.9	0.3
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

We managed our business in three reportable segments in fiscal 2005: resource management, infrastructure and communications. Management established these segments based upon the services provided, the different marketing strategies associated with these services and the specialized needs of their respective clients. Our resource management segment provides engineering and consulting services related primarily to water quality and availability, environmental restoration, productive reuse of defense facilities, and strategic environmental resource planning to both public and private organizations. Our infrastructure segment provides engineering, program management and construction management services for the additional development, upgrade and replacement of existing civil and security infrastructure to both public and private organizations. Our communications segment provides network planning, engineering, site acquisition and construction management services to telecommunications companies and cable operators.

Because of our decision to exit the wireless business and the nature of the communications infrastructure services we currently provide, we began implementing a plan to consolidate our remaining communications business into our infrastructure segment in late fiscal 2005. That process has continued in the first quarter of fiscal 2006 and we are analyzing the impact on our reportable segment disclosures.

The following table presents the approximate percentage of revenue, net of subcontractor costs, by reportable segment:

<u>Reportable Segment</u>	<u>Fiscal Year</u>		
	<u>2005</u>	<u>2004</u>	<u>2003</u>
Resource management	63.9%	60.1%	59.0%
Infrastructure	33.5	32.3	32.7
Communications	2.6	7.6	8.3
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

Our services are billed under three principal contract types: fixed-price, time-and-materials, and cost-plus. The following table presents the approximate percentage of revenue, net of subcontractor costs, by contract type:

<u>Contract Type</u>	<u>Fiscal Year</u>		
	<u>2005</u>	<u>2004</u>	<u>2003</u>
Fixed-price	33.0%	32.4%	37.1%
Time-and-materials	48.3	42.7	41.2
Cost-plus	18.7	24.9	21.7
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

Contract revenue and contract costs are recorded primarily using the percentage-of-completion (cost-to-cost) method. Under this method, revenue on long-term contracts is recognized in the ratio that

contract costs incurred bear to total estimated costs. Revenue and profit on these 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.

In the course of providing our services, we routinely subcontract services. Generally, these subcontractor costs are passed through to our clients and, in accordance with industry practice and generally accepted accounting principles (GAAP) in the United States, are included in revenue. Because subcontractor services can change significantly from project to project, changes in revenue may not be indicative of business trends. Accordingly, we also report revenue, net of subcontractor costs, which is revenue less the cost of subcontractor services, and our discussion and analysis of financial condition and results of operations uses revenue, net of subcontractor costs, as a point of reference.

For analytical purposes only, we categorize our revenue into two types: acquisitive and organic. Acquisitive revenue consists of revenue derived from newly acquired companies during the first twelve months following their respective acquisition dates. Organic revenue consists of our total revenue less any acquisitive revenue.

Our other contract costs include professional compensation and related benefits, together with certain direct and indirect overhead costs such as rents, utilities and travel. Professional compensation represents the majority of these costs. Our SG&A expenses are comprised primarily of marketing and bid and proposal costs, and our corporate headquarters' costs related to the executive offices, corporate finance, accounting, administration and information technology. These costs are generally unrelated to specific client projects and can vary as expenses are incurred to support corporate activities and initiatives.

Our revenue, expenses and operating results may fluctuate significantly from year to year as a result of numerous factors, including:

- Unanticipated changes in contract performance that may effect profitability, particularly with contracts that are fixed-price or have funding limits;
- The seasonality of the spending cycle of our public sector clients, notably the federal government, and the spending patterns of our commercial sector clients;
- Budget constraints experienced by our federal, state and local government clients;
- Acquisitions or the integration of acquired companies;
- Divestiture or discontinuance of operating units;
- Employee hiring, utilization and turnover rates;
- The number and significance of client contracts commenced and completed during the period;
- Creditworthiness and solvency of clients;
- The ability of our clients to terminate contracts without penalties;
- Delays incurred in connection with a contract;
- The size, scope and payment terms of contracts;
- Contract negotiations on change orders and collections of related accounts receivable;
- The timing of expenses incurred for corporate initiatives;
- Reductions in the prices of services offered by our competitors;
- Threatened or pending litigation;

- Changes in accounting rules; and
- General economic or political conditions.

We experience seasonal trends in our business. Our revenue is typically lower in the first quarter of our fiscal year, primarily due to Thanksgiving, Christmas and, in certain years, New Year's holidays that fall within the first quarter. Many of our clients' employees, as well as our own employees, take vacations during these holidays. This results in fewer billable hours worked on projects and, correspondingly, less revenue recognized. Our revenue is typically higher in the second half of the fiscal year, due to weather conditions during spring and summer that result in higher billable hours. In addition, our revenue is typically higher in the fourth quarter of the fiscal year due to the federal government's fiscal year-end spending.

TREND ANALYSIS

General. Our operating results for fiscal 2005 reflect the execution of the business plan we initiated in fiscal 2004 to improve our profitability. In particular, we have been engaged in consolidation and strategic realignment efforts that focused on exiting from unprofitable commercial contracts. As part of this process, we identified and recorded contract losses, bad debt expenses and long-lived asset impairment charges in our civil infrastructure and communications businesses, as well as in certain resource management operating units. These activities resulted in operating losses in fiscal 2005.

In the first quarter of fiscal 2006, management's efforts will continue to focus on the exit from the wireless communications business and unprofitable construction contracts in certain resource management operating units, as well as the consolidation of our civil infrastructure and wired communications businesses. We anticipate that these wind-down and consolidation efforts will continue through the first half of fiscal 2006. These efforts have improved our profit margins in the second half of fiscal 2005, and we expect this trend will continue into fiscal 2006. The increased profitability will allow us to invest in growing our business through organic and acquisitive means.

Federal Government. In fiscal 2005, our federal government business declined slightly, compared to fiscal 2004. This was due primarily to a fiscal 2004 spike in U.S. Department of Defense (DoD) spending under our contracts in Iraq that we did not experience in fiscal 2005. Overall, we believe that our federal government business will remain steady in the first half of fiscal 2006 due partially to increased Base Realignment and Closure (BRAC) spending, despite the budget constraints caused by military spending in Iraq and Afghanistan.

State and Local Government. In general, state and local governments are beginning to recover from the budget constraints and economic conditions that persisted during fiscal 2004 and early fiscal 2005. During the first half of fiscal 2005, our workload for state and local government clients declined due to increased local competition on bids and less authorized work under our indefinite quantity contracts. In the second half of fiscal 2005, our workload for these clients declined due to our decision to exit from unprofitable construction contracts. Budget surpluses are now forecasted by most states in fiscal 2006. Accordingly, we believe that our revenue from continuing operations for these clients will grow in fiscal 2006, although we will focus on profitable contracts in our areas of expertise.

Commercial. Excluding the effect of our exit from the civil construction and wireless communications businesses, our business improved with our commercial clients, particularly in the resource management segment, due to an upturn in the U.S. economy. Capital spending and discretionary environmental project funding increased in the second half of fiscal 2005, and we believe this improvement will continue through the first half of fiscal 2006. In the longer term, we believe our commercial business will continue to follow the general trends of the U.S. economy.

ACQUISITIONS AND DIVESTITURES

Acquisitions. We acquired Tetra Tech EC, Inc. (ECI), formerly known as Tetra Tech FW, Inc., a unit in our resource management segment, on March 7, 2003. We also acquired Engineering Management Concepts, Inc. (EMC) and Advanced Management Technology, Inc. (AMT), two units in our infrastructure segment, on July 31, 2003 and March 5, 2004, respectively. In fiscal 2005, we made no acquisitions.

Divestitures. In the fourth quarter of fiscal 2005, we completed the sale of eXpert Wireless Solutions, Inc. (EWS), a unit in our communications segment. EWS generated \$6.9 million, \$8.9 million and \$7.5 million of revenue in fiscal 2005, 2004 and 2003, respectively, and has been reported as a discontinued operation for those fiscal years.

We are currently in the process of selling two additional operating units, Tetra Tech Canada Ltd. (TTC) and Vertex Engineering Services, Inc. (VES). TTC and VES are in our communications and resource management segments, respectively. These two operating units generated a total of \$61.1 million, \$52.5 million and \$36.1 million of revenue in fiscal 2005, 2004 and 2003, respectively, and have been reported as discontinued operations for those fiscal years.

RESULTS OF OPERATIONS

Overall, our fiscal 2005 operating results were significantly impacted by charges and poor operating performance. These charges included amounts related to the goodwill and intangible impairment charges, the exit from our wireless communications business, and our exit from fixed-price construction work outside our normal scope of services for commercial clients. To a lesser extent, we also incurred costs associated with uncollectible accounts receivable, compliance efforts for the requirements of the Sarbanes-Oxley Act of 2002 (SOX), implementation of the enterprise resource planning (ERP) system, lease exit costs and long-lived asset impairment charges from certain operating units that were undergoing restructuring and office consolidation in fiscal 2005. The effect of these charges was partially offset by lower discretionary bonus payments and discretionary employee benefit plan contributions. In addition, we realized employee benefit plan forfeitures which favorably impacted earnings by \$2.5 million in the fourth quarter of fiscal 2005. These forfeitures resulted from employee terminations, which were primarily related to the execution of our business plan to exit the wireless communications business and eliminate civil construction work.

Specifically, in the second quarter of fiscal 2005, due to significantly lower than expected operating results, a substantial loss in the infrastructure segment and a downward adjustment in forecasted future operating income and cash flows, we conducted an assessment of the infrastructure segment for goodwill impairment and recorded a non-cash impairment charge of \$105.0 million.

We recorded substantial charges in connection with our decision to exit the wireless communications business. During the second quarter of fiscal 2005, we returned approximately one-half of the remaining work covered by our contract with Nextel Operations, Inc. (Nextel), which significantly reduced the total expected revenue under this contract. In addition, we increased the total estimated costs on the remaining Nextel work due to cost increases that were expected to continue for the remainder of the contract. We recalculated the percentage stage of completion for the contract and recorded a reduction of revenue of approximately \$24 million and a charge to contract costs of approximately \$11 million as a provision for future losses on the remainder of the contract. In the second half of fiscal 2005, we returned additional uncompleted work to Nextel. We believe that we have reserved for all anticipated contract losses as we complete the exit from this contract in the first half of fiscal 2006.

In fiscal 2005, based upon our operating results and future business opportunities in the civil infrastructure and wired communications businesses, we continued the consolidation of certain operations

within these two business segments. In addition, we experienced negative operating results in one operating unit within our resource management segment. Based on this analysis and our continuing review of the operations, we identified and recorded contract losses, bad debt expenses, lease exit costs and long-lived asset impairment charges in fiscal 2005. As we continue to implement our consolidation plan, we expect to take similar but smaller charges to earnings in the first half of fiscal 2006.

Fiscal 2005 Compared to Fiscal 2004

Consolidated Results

	Fiscal Year Ended		Change	
	October 2, 2005	October 3, 2004	\$	%
	(\$ in thousands)			
Revenue	\$ 1,286,031	\$ 1,376,159	\$ (90,128)	(6.5)%
Subcontractor costs	386,852	400,950	(14,098)	(3.5)
Revenue, net of subcontractor costs	899,179	975,209	(76,030)	(7.8)
Other contract costs	784,588	823,950	(39,362)	(4.8)
Gross profit	114,591	151,259	(36,668)	(24.2)
Selling, general and administrative expenses	122,646	101,612	21,034	20.7
Impairment of goodwill and other intangible assets	105,612	—	105,612	100.0
Income (loss) from operations	(113,667)	49,647	(163,314)	(329.0)
Interest expense—net	11,163	9,675	1,488	15.4
Income (loss) from continuing operations before income tax expense (benefit)	(124,830)	39,972	(164,802)	(412.3)
Income tax expense (benefit)	(26,152)	16,503	(42,655)	(258.5)
Income (loss) from continuing operations	(98,678)	23,469	(122,147)	(520.5)
Income (loss) from discontinued operations, net of tax	(791)	273	(1,064)	(389.7)
Net income (loss)	\$ (99,469)	\$ 23,742	\$(123,211)	(519.0)%

Revenue decreased \$90.1 million, or 6.5%, in fiscal 2005, compared to fiscal 2004. The decrease was primarily due to our decision to exit the wireless communications business and return work to Nextel in fiscal 2005. As we executed our business plan to improve profitability by eliminating civil construction work, revenue decreased further in civil infrastructure, the wired communications business and one operating unit in the resource management segment. To a lesser extent, we experienced a reduction in our federal work from the DoD due to the slowdown of our unexploded ordnance (UXO) project in Iraq and a decline in our federal work with the U.S. Department of Energy (DOE). The decline was partially offset by growth in commercial environmental management and water resources programs in our resource management segment, as well as the acquisitive revenue contributed by AMT from federal government clients in the first half of fiscal 2005.

Revenue, net of subcontractor costs, decreased \$76.0 million, or 7.8%, in fiscal 2005, compared to fiscal 2005, primarily due to the reasons described above. In addition, the decrease was partially caused by slightly higher subcontracting requirements in fiscal 2004, which can vary significantly by project and by phases within a project.

The following table presents the percentage relationship of certain items to revenue, net of subcontractor costs:

	<u>Fiscal Year Ended</u>	
	<u>October 2, 2005</u>	<u>October 3, 2004</u>
Revenue, net of subcontractor costs	100.0%	100.0%
Other contract costs	<u>87.3</u>	<u>84.5</u>
Gross profit	12.7	15.5
Selling, general and administrative expenses	13.6	10.4
Impairment of goodwill and other intangible assets	<u>11.7</u>	<u>—</u>
Income (loss) from operations	(12.6)	5.1
Interest expense—net	<u>1.2</u>	<u>1.0</u>
Income (loss) from continuing operations before income tax expense (benefit)	(13.8)	4.1
Income tax expense (benefit)	<u>(2.9)</u>	<u>1.7</u>
Income (loss) from continuing operations	(10.9)	2.4
Income (loss) from discontinued operations, net of tax	<u>(0.1)</u>	<u>—</u>
Net income (loss)	<u>(11.0)%</u>	<u>2.4%</u>

Other contract costs decreased \$39.4 million, or 4.8%, in fiscal 2005, compared to fiscal 2004. In connection with the execution of our business plan to improve profitability by eliminating civil construction work, other contract costs declined in the wired communications and infrastructure segments in fiscal 2005 due to workload reduction compared to fiscal 2004. In addition, we experienced a decrease in other contract costs related to our exit from the wireless communications business and the return of certain uncompleted work to Nextel. These were partially offset by increases in the resource management segment, which were primarily due to project claims and contract losses incurred by one operating unit that performed fixed-price construction work outside our normal scope of services. In addition, we had a full year of other contract costs associated with AMT in fiscal 2005, compared to a half year in fiscal 2004.

As a percentage of revenue, net of subcontractor costs, other contract costs were 87.3% and 84.5% in fiscal 2005 and 2004, respectively. The increase was due to the decrease of revenue under the Nextel contract, and the increase in total estimated costs on our remaining Nextel work in the second half of fiscal 2005. Further, the project claims and contract losses described above contributed to the percentage increase in fiscal 2005.

Gross profit decreased \$36.7 million, or 24.2%, in fiscal 2005, compared to fiscal 2004. We experienced decreases related to work under the Nextel contract in the wireless communications business, fixed-price construction work in the resource management segment and civil construction work in the infrastructure segment. The decreases were partially offset by increased gross profit related to AMT and the wired communication business, which incurred significant charges in fiscal 2004. As a percentage of revenue, net of subcontractor costs, gross profit was 12.7% and 15.5% in fiscal 2005 and 2004, respectively, for the reasons described above.

SG&A expenses increased \$21.0 million, or 20.7%, in fiscal 2005, compared to fiscal 2004. The increase was primarily due to uncollectible accounts receivable, compliance efforts for the requirements of SOX, implementation of our ERP system, lease exit costs and long-lived asset impairment charges from certain operating units that were undergoing restructuring and office consolidations in fiscal 2005. The increase was partially offset by lower discretionary bonus payments and discretionary employee benefit

work with the DoD declined due to the slowdown of our UXO project in Iraq, as well as budget constraints resulting from the costs of U.S. military action in Iraq and Afghanistan. The decrease was partially offset by revenue growth in commercial environmental management work for our Fortune 500 clients in connection with their power utility and water resources programs.

Other contract costs were flat in fiscal 2005 compared to fiscal 2004. As a percentage of revenue, net of subcontractor costs, other contract costs were 82.1% and 80.5% for fiscal 2005 and 2004, respectively. The percentage increase was partially due to the change in our mix of business, which resulted in more contracts with lower profit margins.

Gross profit decreased \$11.7 million, or 10.3%, in fiscal 2005, compared to fiscal 2004, for the reasons described above. As a percentage of revenue, net of subcontractor costs, gross profit was 17.9% and 19.5% in fiscal 2005 and 2004, respectively.

Infrastructure

	Fiscal Year Ended		Change	
	October 2, 2005	October 3, 2004	\$	%
	(\$ in thousands)			
Revenue, net of subcontractor costs	\$ 301,628	\$ 315,301	\$(13,673)	(4.3)%
Other contract costs	255,274	264,002	(8,728)	(3.3)
Gross profit	<u>\$ 46,354</u>	<u>\$ 51,299</u>	<u>\$ (4,945)</u>	<u>(9.6)%</u>

The following table presents the percentage relationship of certain items to revenue, net of subcontractor costs:

	Fiscal Year Ended	
	October 2, 2005	October 3, 2004
Revenue, net of subcontractor costs	100.0%	100.0%
Other contract costs	84.6	83.7
Gross profit	<u>15.4%</u>	<u>16.3%</u>

Infrastructure revenue, net of subcontractor costs, decreased \$13.7 million, or 4.3%, in fiscal 2005, compared to fiscal 2004. The decrease resulted from the execution of our business plan to improve profitability by closing and consolidating unprofitable civil infrastructure operations. As part of this plan, we reduced our workforce in this business by approximately 210 full-time equivalents, or 11.6%, which adversely impacted our revenue, net of subcontractor costs, in fiscal 2005. The decline also resulted from increased local competition on bids for state and local government projects and less authorized work under our indefinite quantity contracts. The decline was partially offset by acquisitive revenue, net of subcontractor costs, contributed by AMT from federal government clients during the first half of fiscal 2005.

Other contract costs decreased \$8.7 million, or 3.3%, in fiscal 2005, compared to fiscal 2004. As a result of our efforts to close and consolidate offices and reduce headcount in the civil infrastructure operations, other contract costs decreased in fiscal 2005. The decrease was in line with the revenue reduction, particularly in the second half of fiscal 2005. This was partially offset by an increase from AMT, which had a full year of operations in fiscal 2005, compared to a half year in fiscal 2004. As a percentage of revenue, net of subcontractor costs, other contract costs were 84.6% and 83.7% for fiscal 2005 and 2004, respectively. The slight percentage increase was caused by poor contract execution and overhead inefficiencies in the civil infrastructure business during the first half of fiscal 2005.

Gross profit decreased \$4.9 million, or 9.6%, in fiscal 2005, compared to fiscal 2004, for the reasons described above. As a percentage of revenue, net of subcontractor costs, gross profit was 15.4% and 16.3% in fiscal 2005 and 2004, respectively.

Communications

	Fiscal Year Ended		Change	
	October 2, 2005	October 3, 2004	\$	%
	(\$ in thousands)			
Revenue, net of subcontractor costs	\$ 23,276	\$ 74,101	\$(50,825)	(68.6)%
Other contract costs	57,574	88,405	(30,831)	(34.9)
Gross loss	<u>\$ (34,298)</u>	<u>\$ (14,304)</u>	<u>\$(19,994)</u>	<u>(139.8)%</u>

The following table presents the percentage relationship of certain items to revenue, net of subcontractor costs:

	Fiscal Year Ended	
	October 2, 2005	October 3, 2004
Revenue, net of subcontractor costs	100.0%	100.0%
Other contract costs	247.4	119.3
Gross loss	<u>(147.4)%</u>	<u>(19.3)%</u>

Communications revenue, net of subcontractor costs, decreased \$50.8 million, or 68.6%, in fiscal 2005, compared to fiscal 2004. The decrease resulted from our decision to exit the wireless communications business and return work to Nextel, which resulted in \$36.5 million of revenue decline. In addition, our wired communications business experienced \$15.1 million of revenue reduction, which resulted from decreased headcount and from closing and consolidating offices that performed civil construction work.

Other contract costs decreased \$30.8 million, or 34.9%, in fiscal 2005, compared to fiscal 2004, primarily due to the decrease in revenue. However, these costs decreased at a lower rate than revenue due to higher costs in the second quarter of fiscal 2005 caused by contract concessions, cost overruns, workforce overcapacity and substantial charges in connection with our exit from the wireless communications business and the civil construction operations in the wired communications business.

Gross loss increased to \$34.3 million in fiscal 2005, compared to the gross loss of \$14.3 million in fiscal 2004. The increase was primarily due to negative revenue adjustments and contract losses related to the Nextel contract.

Revenue, Net of Subcontractor Costs

The following table presents revenue, net of subcontractor costs, by reportable segment:

	<u>Fiscal Year Ended</u>		<u>Change</u>	
	<u>October 3, 2004</u>	<u>September 28, 2003</u>	<u>\$</u>	<u>%</u>
	(\$ in thousands)			
Resource management	\$ 585,807	\$ 486,729	\$ 99,078	20.4%
Infrastructure	315,301	269,499	45,802	17.0
Communications	<u>74,101</u>	<u>68,354</u>	<u>5,747</u>	8.4
Total revenue, net of subcontractor costs	<u>\$ 975,209</u>	<u>\$ 824,582</u>	<u>\$ 150,627</u>	18.3%

Revenue, net of subcontractor costs, in fiscal 2004 increased \$150.6 million, or 18.3%, compared to fiscal 2003, due to acquisitive revenue, net of subcontractor costs, from ECI, EMC and AMT.

Resource Management. Revenue, net of subcontractor costs, increased \$99.1 million, or 20.4%, in fiscal 2004, compared to fiscal 2003. This growth was attributable primarily to our acquisition of ECI in March 2003. ECI contributed \$84.8 million of acquisitive revenue, net of subcontractor costs, in fiscal 2004. We also experienced an increase from federal government clients, particularly the DoD and DOE, partially offset by a decline from commercial and state and local government clients.

Infrastructure. Revenue, net of subcontractor costs, increased \$45.8 million, or 17.0%, in fiscal 2004, compared to fiscal 2003. This increase was attributable to our EMC and AMT acquisitions, which contributed \$64.6 million in acquisitive growth, substantially all of which was from federal government clients. This increase was offset by an \$18.8 million decrease in our civil infrastructure business area, principally caused by reduced spending by state and local government clients.

Communications. Revenue, net of subcontractor costs, increased \$5.7 million, or 8.4%, in fiscal 2004, compared to fiscal 2003. This increase was primarily attributable to growth in our wired communications business.

The following table presents the percentage relationship of certain items to revenue, net of subcontractor costs:

	<u>Fiscal Year Ended</u>	
	<u>October 3, 2004</u>	<u>September 28, 2003</u>
Revenue, net of subcontractor costs	100.0%	100.0%
Other contract costs	<u>84.5</u>	<u>79.1</u>
Gross profit	15.5	20.9
Selling, general and administrative expenses	<u>10.4</u>	<u>10.3</u>
Income from operations	5.1	10.6
Interest expense—net	<u>1.0</u>	<u>1.1</u>
Income before income tax expense	4.1	9.5
Income tax expense	<u>1.7</u>	<u>3.8</u>
Income from continuing operations	2.4	5.7
Income from discontinued operations, net of tax	<u>—</u>	<u>0.3</u>
Income before cumulative effect of accounting change	2.4	6.0
Cumulative effect of accounting change	<u>—</u>	<u>(13.9)</u>
Net income (loss)	<u>2.4%</u>	<u>(7.9)%</u>

Income Tax Expense

Income tax expense in fiscal 2004 decreased \$14.9 million, or 47.4%, compared to fiscal 2003, primarily due to lower income before tax expense. However, our effective tax rate increased from 40.2% in fiscal 2003 to 41.3% in fiscal 2004, primarily caused by the impact of non-deductible expenses relative to the lower pre-tax income in fiscal 2004 compared to fiscal 2003.

Cumulative Effect of Accounting Change

We adopted Statement of Financial Accounting Standards (SFAS) No. 142, *Goodwill and Other Intangible Assets*, effective September 30, 2002. The adoption of this standard required us to discontinue the amortization of goodwill and to test the net book value of goodwill for impairment. The cumulative effect of adopting this standard resulted in the recognition of an impairment of \$114.7 million in net goodwill attributable to acquisitions in our communications segment.

Net Income

Net income in fiscal 2004 was \$23.7 million, compared to a net loss of \$65.3 million in fiscal 2003, as a result of the cumulative effect of accounting change in fiscal 2003. Our income before the cumulative effect of accounting change in fiscal 2004 decreased \$25.6 million, or 51.9%, compared to fiscal 2003. Net income in fiscal 2004 was lower as a result of significantly lower income from operations, slightly higher net interest expense, and a slightly higher effective tax rate, offset by the cumulative effect of accounting change in fiscal 2003.

LIQUIDITY AND CAPITAL RESOURCES

The following discussion generally reflects the impact of both continuing and discontinued operations unless otherwise noted.

Working Capital. As of October 2, 2005, our working capital was \$121.6 million, a decrease of \$23.2 million from \$144.8 million as of October 3, 2004. Cash and cash equivalents totaled \$26.9 million as of October 2, 2005, compared to \$48.0 million as of October 3, 2004.

Operating and Investing Activities. In fiscal 2005, net cash of \$48.5 million was provided by operating activities and \$16.7 million was used in investing activities, of which \$8.4 million was related to earn-outs and other purchase price adjustments for prior year business acquisitions. In fiscal 2004, net cash of \$16.2 million was provided by operating activities and \$44.7 million was used in investing activities, of which \$28.9 million was related to business acquisitions.

Our net accounts receivable from continuing operations decreased \$41.8 million, or 11.7%, to \$315.4 million as of October 2, 2005 from \$357.2 million as of October 3, 2004. As of October 2, 2005, our billing in excess of costs on uncompleted contracts increased \$19.7 million, compared to October 3, 2004. These changes resulted from our focus on contract billing and collection efforts, the impact of the work reduction under the Nextel contract and provisions on receivables.

Capital Expenditures. Our capital expenditures for fiscal 2005 and 2004 were \$9.8 million and \$17.9 million, respectively. This reduction resulted from the significant decrease in equipment purchases in the communications business, which was historically capital-intensive, and lower capitalized costs associated with our ERP system, which is now in the implementation phase. We estimate that the capitalized costs associated with the development of the ERP system, including hardware, software licenses, consultants and internal staffing costs, will be approximately \$2.6 million in fiscal 2006. Installation of the ERP software in our operating units began in fiscal 2005. To date, the system has been installed at corporate headquarters and in seven of our operating units. Implementation of the system in our remaining business operations will be phased in over the next three years.

Debt Financing. We have a credit agreement with several financial institutions, which was amended in July 2004, December 2004 and May 2005 (Credit Agreement). The May 2005 amendment decreased the commitment under our revolving credit facility (Facility) from \$235.0 million to \$150.0 million. However, the maximum availability under the Facility is limited to \$125.0 million unless we seek and receive additional approvals from our lenders. As part of the Facility, we may request standby letters of credit up to the aggregate sum of \$100.0 million. The Facility matures on July 21, 2009, or earlier at our discretion, upon payment in full of loans and other obligations. The May 2005 amendment also increased the pricing for borrowings under the Facility and revised our financial covenants.

As of October 2, 2005, we had no borrowings under the Facility. Standby letters of credit under the Facility totaled \$12.0 million as of that date.

In May 2001, we issued two series of senior secured notes in the aggregate amount of \$110.0 million (Senior Notes) under a note purchase agreement that was amended in September 2001, April 2003, December 2004 and May 2005 (Note Purchase Agreement). The Series A Notes, in the original amount of \$92.0 million, are payable semi-annually and mature on May 30, 2011. The Series B Notes, in the original amount of \$18.0 million, are payable semi-annually and mature on May 30, 2008. The May 2005 amendment increased the interest rates on the Series A Notes from 7.28% to 8.28% and on the Series B Notes from 7.08% to 8.08%. However, these interest rates will return to their pre-amendment rates if we meet certain covenant compliance criteria for three consecutive fiscal quarters. The May 2005 amendment also revised our financial covenants.

As of October 2, 2005, the outstanding principal balance on the Senior Notes was \$89.7 million. Scheduled principal payments of \$16.7 million are due on May 30, 2006 and, accordingly, were included in current portion of long-term obligations. The remaining \$73.0 million was included in long-term obligations as of October 2, 2005.

In addition to the revised financial covenants, the amendments to the Credit Agreement and Note Purchase Agreement increased the restrictions on our ability to incur other debt, repurchase stock, engage in acquisitions or dispose of assets. Further, these agreements contain other restrictions, including but not limited to, the creation of liens and the payment of dividends on our capital stock (other than stock dividends). Borrowings under the Credit Agreement and Note Purchase Agreement are secured by our accounts receivable, the stock of certain of our subsidiaries and our cash, deposit accounts, investment property and financial assets. Although we were not in compliance with certain financial covenants during fiscal 2005 before the May 2005 amendments, we met all compliance requirements as of October 2, 2005. We expect to be in compliance over the next twelve months.

Capital Requirements. We expect that internally generated funds, our existing cash balances and borrowing capacity under the Credit Agreement will be sufficient to meet our capital requirements for the next twelve months.

Acquisitions. In conjunction with our investment strategy, we continuously evaluate the marketplace for strategic acquisition opportunities. Historically, due to our reputation, size, geographic presence and range of services, we have been presented with numerous opportunities to acquire both privately-held companies and subsidiaries or divisions of publicly-held companies. Once an opportunity is identified, we examine the effect an acquisition may have on our long-range business strategy, as well as on our results of business operations. Generally, we proceed with an acquisition if we believe that the acquisition will have a positive effect on future operations and could strategically expand our service offerings. As successful integration and implementation are essential to achieve favorable results, no assurance can be given that all acquisitions will provide accretive results. Our strategy is to position ourselves to address existing and emerging markets. We may acquire other businesses that we believe are synergistic and will ultimately increase our revenue and net income. These businesses also perform work that is consistent with our short-term and long-term strategic goals, provide critical mass with existing clients, and further expand our lines

of service. These factors contribute to a purchase price that results in a recognition of goodwill. As indicated above, acquisitions in excess of a certain size will require the approval of our lenders and noteholders.

Inflation. We believe our operations have not been, and, in the foreseeable future, are not expected to be, materially adversely affected by inflation or changing prices due to the average duration of our projects and our ability to negotiate prices as contracts end and new contracts begin. However, general economic conditions may impact our client base, and, as such, may impact our clients' creditworthiness and our ability to collect cash to meet our operating needs.

Contractual Obligations. The following sets forth our contractual obligations, excluding interest, as of October 2, 2005:

	Principal Payments Due by Period				
	Total	Year 1	Year 2 – 3	Year 4 – 5	Beyond
			(in thousands)		
Long-term debt	\$ 89,657	\$16,743	\$33,486	\$26,286	\$13,142
Capital lease	2,281	1,057	515	211	498
Operating lease	<u>110,940</u>	<u>26,658</u>	<u>37,238</u>	<u>23,592</u>	<u>23,452</u>
Total	<u>\$202,878</u>	<u>\$44,458</u>	<u>\$71,239</u>	<u>\$50,089</u>	<u>\$37,092</u>

CRITICAL ACCOUNTING POLICIES

Our discussion and analysis of our financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with GAAP. 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.

The accounting policies that we believe are the most critical to an investor's understanding of our financial results and condition and require complex management judgment are discussed below. Information regarding our other accounting policies is included in Note 1 of the Notes to Consolidated Financial Statements included in this Annual Report.

Revenue Recognition

We earn our revenue from fixed-price, time-and-materials and cost-plus contracts. As of October 2, 2005, we had over 10,000 active projects, none of which represented more than 10% of our revenue, net of subcontractor costs, for fiscal 2005.

We account for most of our contracts on the percentage-of-completion method, under which revenue is recognized as costs are incurred. Under this method for revenue recognition, we estimate the progress towards completion to determine the amount of revenue and profit to recognize on all significant contracts. We generally utilize a cost-to-cost approach in applying the percentage-of-completion method, under which revenue is earned in proportion to total costs incurred, divided by total costs expected to be incurred.

Under the percentage-of-completion method, recognition of profit is dependent upon the accuracy of a variety of estimates, including engineering progress, materials quantities, achievement of milestones and other incentives, penalty provisions, labor productivity and cost estimates. Such estimates are based on various judgments we make with respect to those factors and are difficult to accurately determine until the

project is significantly underway. Due to uncertainties inherent in the estimation progress, it is possible that actual completion costs may vary from estimates. If estimated total costs on any contract indicate a loss, we charge the entire estimated loss to operations in the period the loss first becomes known.

We enter into three major types of contracts: “fixed-price,” “time-and-materials” and “cost-plus” as described below.

Fixed-Price Contracts.

Firm Fixed-Price (FFP). Our FFP contracts have historically accounted for most of our fixed-price contracts. Under FFP contracts, our clients pay us an agreed amount negotiated in advance for a specified scope of work. We recognize revenue on FFP contracts using the percentage-of-completion method described above. Prior to completion, our recognized profit margins on any FFP contract depend on the accuracy of our estimates and will increase to the extent that our actual costs are below the contracted amounts. Conversely, if our costs exceed these estimates, our profit margins will decrease and we may realize a loss on a project. If our actual costs exceed the original estimate, we must obtain a change order or contract modification, or successfully prevail in a claim, in order to receive payment for the additional costs.

Fixed-Price Per Unit (FPPU). Under our FPPU contracts, clients pay us a set fee for each service or unit of production. We are generally guaranteed a minimum number of service or production units at a fixed price. We recognize revenue under FPPU contracts as we complete the related service transaction for our clients. If our costs per service transaction exceed our original estimates, our profit margins will decrease and we may realize a loss on the project unless we can obtain a change order or contract modification, or successfully prevail in a claim, in order to receive payment for the additional costs. Certain of our FPPU contracts may be subject to maximum contract values and, accordingly, revenue related to these contracts is recognized as if the contracts were fixed-price contracts.

Time-and-Materials Contracts.

Under our time-and-materials contracts, we negotiate hourly billing rates and charge our clients based on the actual time that we expend on a project. In addition, clients reimburse us for our actual out-of-pocket costs of materials and other direct incidental expenditures that we incur in connection with our performance under the contract. Our profit margins on time-and-materials contracts fluctuate based on actual labor and overhead costs that we directly charge or allocate to contracts compared to negotiated billing rates. Many of our time-and-materials contracts are subject to maximum contract values and, accordingly, revenue related to these contracts is recognized as if these contracts were fixed-price contracts. Revenue on contracts that is not subject to maximum contract values is recognized based on the actual number of hours we spend on the projects plus any actual out-of-pocket costs of materials and other direct incidental expenditures that we incur on the projects. Our time-and-materials contracts also generally include annual billing rate adjustment provisions.

Cost-Plus Contracts.

Cost-Plus Fixed Fee. Under cost-plus fixed fee contracts, we charge our clients for our costs, including both direct and indirect costs, plus a fixed negotiated fee. In negotiating a cost-plus fixed fee contract, we estimate all recoverable direct and indirect costs and then add a fixed profit component. The total estimated cost plus the negotiated fee represents the total contract value. We recognize revenue based on the actual labor costs, plus non-labor costs we incur, plus the portion of the fixed fee we have earned to date. We invoice for our services as revenue is recognized or in accordance with agreed-upon billing schedules. If the actual costs are lower than the total costs we have estimated, our revenue related to cost recoveries from the project will be lower than originally estimated. If the actual costs exceed the original estimate, we must obtain a change order or contract modification, or successfully prevail in a claim, in order to receive additional fee related to the additional costs. Certain

of our cost-plus contracts may be subject to maximum contract values and, accordingly, revenue relating to these contracts is recognized as if these contracts were fixed-price contracts.

Cost-Plus Fixed Rate. Under our cost-plus fixed rate contracts, we charge clients for our costs plus negotiated rates based on our indirect costs. In negotiating a cost-plus fixed rate contract, we estimate all recoverable direct and indirect costs and then add a profit component, which is a percentage of total recoverable costs, to arrive at a total dollar estimate for the project. We recognize revenue based on the actual total costs we have expended plus the applicable fixed fee. If the actual total costs are lower than the total costs we have estimated, our revenue from that project will be lower than originally estimated. Certain of our cost-plus contracts may be subject to maximum contract values and, accordingly, revenue related to these contracts is recognized as if these contracts were fixed-price contracts.

Cost-Plus Award Fee. Certain cost-plus contracts provide for award fees or a penalty based on performance criteria in lieu of a fixed fee or fixed rate. Other contracts include a base fee component plus a performance-based award fee. In addition, we may share award fees with subcontractors. We record accruals for fee-sharing on a monthly basis as fees are earned. We generally recognize revenue to the extent of costs actually incurred plus a proportionate amount of the fee expected to be earned. We take the award fee or penalty on contracts into consideration when estimating revenue and profit rates, and we record revenue related to the award fees when there is sufficient information to assess anticipated contract performance. On contracts that represent higher than normal risk or technical difficulty, we may defer all award fees until an award fee letter is received. Once an award letter is received, the estimated or accrued fees are adjusted to the actual award amount.

Cost-Plus Incentive Fee. Certain cost-plus contracts provide for incentive fees based on performance against contractual milestones. The amount of the incentive fees varies, depending on whether we achieve above, at, or below target results. We originally recognize revenue on these contracts based upon expected results. These estimates are revised when necessary based upon additional information that becomes available as the contract progresses.

Labor costs and subcontractor services are the principal components of our direct costs on cost-plus contracts, although some include materials and other direct costs. Some of these contracts include a provision that the total actual costs plus the fee will not exceed a guaranteed price negotiated with the client. Others include rate ceilings that limit reimbursability for general and administrative costs, overhead costs, and materials handling costs. Revenue recognition for these contracts is determined by taking into consideration such guaranteed price or rate ceilings. Revenue in excess of cost limitation or rate ceilings is recognized in accordance with the information concerning change orders and claims that is provided below.

Other Contract Matters

Federal Acquisition Regulations (FAR), which are applicable to our federal government contracts and are partially incorporated in many local and state agency contracts, limit the recovery of certain specified indirect costs on contracts. Cost-plus contracts covered by FAR and certain state and local agencies also require an audit of actual costs and provide for upward or downward adjustments if actual recoverable costs differ from billed recoverable costs. Most of our federal government contracts are subject to termination at the discretion of the client. Contracts typically provide for reimbursement of costs incurred and payment of fees earned through the date of such termination.

These contracts are subject to audit by the government, primarily the Defense Contract Audit Agency (DCAA), which reviews our overhead rates, operating systems and cost proposals. During the course of its audits, the DCAA may disallow costs if it determines that we improperly accounted for such costs in a manner inconsistent with Cost Accounting Standards. The reserve for potential disallowed costs was \$1.7

million and \$3.1 million as of October 2, 2005 and October 3, 2004, respectively. Historically, we have not had any material cost disallowances by the DCAA as a result of audit. However, there can be no assurance that DCAA audits will not result in material cost disallowances in the future.

Change orders are modifications of an original contract that effectively change the provisions of the contract. Change orders typically result from changes in specifications or design, manner of performance, facilities, equipment, materials, sites, or period of completion of the work. Change orders occur when changes are experienced once contract performance is underway. Change orders are sometimes documented and the terms of such change orders agreed upon with the client before the work is performed. Sometimes circumstances require that work progress without client agreement before the work is performed. Costs related to change orders are recognized when they are incurred. Change orders are included in total estimated contract revenue when it is probable that the change order will result in a bona fide addition to contract value, can be reasonably estimated and realization is assured beyond a reasonable doubt.

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

Allowance for Uncollectible Accounts Receivable

We reduce our accounts receivable by an allowance for amounts that are considered uncollectible. We determine an estimated allowance for uncollectible amounts based on management's evaluation of the contracts involved and the financial condition of our clients. We regularly evaluate the adequacy of the allowance for doubtful accounts by taking into consideration factors such as:

- Type of client—government agency or commercial sector;
- Trends in actual and forecasted credit quality of the client, including delinquency and payment history;
- General economic and particular industry conditions that may affect a client's ability to pay; and
- Contract performance and our change order/claim analysis.

We increased our allowance by approximately \$21.5 million as of October 2, 2005, compared to October 3, 2004, due to contract concessions, client bankruptcy filings and our inability to collect on certain contract change orders for which work was performed and billed.

Insurance Matters, Litigation and Contingencies

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

In accordance with SFAS No. 5, *Accounting for Contingencies*, we record in our consolidated balance sheets amounts representing our estimated liability for claims, guarantees, costs and litigation. We utilize qualified actuaries and insurance professionals to assist in determining the level of reserves to establish for both claims that are known and have been asserted against us, as well as for claims that are believed to have been incurred based on actuarial analysis, but have not yet been reported to our claims administrators as of the balance sheet date. We include any adjustments to such insurance reserves in our consolidated results of operations.

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 litigations or other contingencies becomes available, management will assess whether such information warrants the recording of additional expenses relating to those contingencies. Such additional expenses could potentially have a material impact on our results of operations and financial position.

We continue to be involved in the contract dispute with Horsehead Industries, Inc., doing business as Zinc Corporation of America (ZCA). In April 2002, a Washington County Court in Bartlesville, Oklahoma dismissed with prejudice our counter-claims relating to receivables due from ZCA and other costs. In December 2002, the Court rendered a judgment for \$4.1 million and unquantified legal fees against us in this dispute. In February 2004, the Court quantified the previous award and ordered us to pay approximately \$2.6 million in ZCA's attorneys' and consultants' fees and expenses, together with post-judgment interest.

We have posted bonds and filed appeals with respect to the earlier judgments. On December 27, 2004, the Court of Civil Appeals of the State of Oklahoma rendered a decision relating to certain aspects of our appeals. In its decision, the Court vacated the \$4.1 million verdict against us. In addition, the Court upheld the dismissal of our counter-claims. The Court has not yet ruled on the status of ZCA's attorneys' and consultants' fees and expenses. Several legal alternatives remain available to both parties including appeals to the Oklahoma Supreme Court. On January 18, 2005, both we and ZCA filed petitions for rehearing with the Oklahoma Court of Civil Appeals. Although our legal counsel in these matters continues to believe that a favorable outcome is reasonably possible, final outcome of these matters cannot yet be accurately predicted. As a result, we continue to maintain the amounts recorded in our restated fiscal 2002 financial statements, consisting of \$4.1 million in accrued liabilities relating to the original judgment, and a \$2.6 million accrual for ZCA's attorneys' and consultants' fees and expenses. Once the legal proceedings relating to ZCA are finally resolved, accruals will be adjusted appropriately.

Goodwill

On September 30, 2002, the beginning of fiscal 2003, we adopted SFAS No. 142, *Goodwill and Other Intangible Assets* (SFAS No. 142), and no longer amortize goodwill. SFAS No. 142 requires an annual test of goodwill for impairment at each of our reporting units. Reporting units for purposes of this test are identical to our operating segments and consist of resource management, infrastructure and communications. The annual impairment test is a two-step process. As the first step, we estimate the fair value of the reporting unit and compares that amount to the sum of the carrying value of the reporting unit's goodwill and other net assets. If the fair value of the reporting unit is determined to be less than the carrying value, a second step is performed to compare the current implied fair value of the goodwill to the current carrying value of the goodwill, and any resulting decrease is recorded as an impairment. We are required under SFAS No. 142 to assess, at least on an annual basis, potential goodwill impairment. As a result of this change in accounting, we recognized an impairment charge of \$114.7 million in fiscal 2003.

Several events occurred during the quarter ended April 3, 2005 that led management to conclude that the goodwill in our infrastructure reporting unit was likely impaired. These events included significantly

lower than expected operating results, a substantial loss in the infrastructure segment and a downward adjustment in forecasted future operating income and cash flows. As required by SFAS No. 142, we performed a two-step interim impairment test to confirm and quantify the impairment. During step one, we determined that the goodwill recorded in our infrastructure reporting unit was impaired because the fair value of the reporting unit was less than the carrying value of the reporting unit's net assets. The fair value of the reporting unit was estimated using the discounted cash flow method, guideline company method, and similar transactions method weighted at 70%, 15%, and 15%, respectively. In order to quantify the impairment, we performed step two by allocating the fair value of the infrastructure reporting unit to the reporting units' individual assets and liabilities utilizing the purchase price allocation guidance of SFAS No. 141. The resulting implied value of the infrastructure reporting unit's goodwill was \$105.0 million less than the current carrying value of the goodwill. This difference was recorded as a non-cash impairment charge to reduce the goodwill in the infrastructure reporting unit to \$69.6 million as of April 3, 2005. We have completed our required annual assessment of the recoverability of goodwill for fiscal 2005 as of July 1, 2005, which indicated no further impairment of goodwill.

Income Taxes

We account for certain income and expense items differently for financial reporting and income tax purposes. Deferred tax assets and liabilities are determined based on the difference between the financial statement and tax basis of assets and liabilities, applying enacted statutory tax rates in effect for the year in which the differences are expected to reverse.

Stock-Based Compensation

Our employee stock compensation plans are accounted for utilizing the intrinsic value method in accordance with Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations. Under this method, no compensation expense is recognized as long as the exercise price equals or exceeds the market price of the underlying stock on the date of the grant.

RECENTLY ISSUED FINANCIAL ACCOUNTING STANDARDS

In December 2004, the Financial Accounting Standards Board (FASB) issued a revision to SFAS No. 123 (revised 2004), *Share-Based Payment* (FAS 123R), that requires us to expense the value of employee stock options and similar awards. Under FAS 123R, share-based payment (SBP) awards result in a cost that will be measured at fair value on the awards' grant date, based on the estimated number of awards that are expected to vest. Compensation cost for awards that vest would not be reversed if the awards expire without being exercised.

We are allowed to select from two alternative transition methods, each of which has different reporting implications. Under the first method, the Modified Prospective Application, FAS 123R applies to new awards and modified awards after the effective date, and to any unvested awards as service is rendered on or after the effective date. Under the second method, the Modified Retrospective Application, FAS 123R can be applied to either all prior years for which SFAS No. 123 was effective or only to prior interim periods in the year of adoption. We plan to adopt FAS 123R using the Modified Prospective Application. For us, the effective date for FAS 123R is the first quarter of fiscal 2006, and FAS 123R will apply to all outstanding and unvested SBP awards at our adoption date. We have completed a preliminary evaluation of the effect of adoption of FAS 123R. Due to the fact that we use stock options as a form of compensation, the adoption of FAS 123R will have an impact of approximately \$8 million to \$11 million on our results of operations in fiscal 2006 based upon options outstanding as of October 2, 2005.

FINANCIAL MARKET RISKS

We currently utilize no material derivative financial instruments that expose us to significant market risk. We are exposed to interest rate risk under our Credit Agreement. Effective as of April 3, 2005, we may borrow on our Facility, at our option, at either (a) a base rate (the greater of the federal funds rate plus 0.50% per annum or the bank's reference rate) plus a margin which ranges from 0.65% to 1.225% per annum, or (b) a eurodollar rate plus a margin which ranges from 1.65% to 2.25% per annum. In addition, we pay a facility fee on the total commitment.

Borrowings at the base rate have no designated term and may be repaid without penalty anytime 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 July 21, 2009, or earlier at our discretion, upon payment in full of loans and other obligations.

Our outstanding Senior Notes bear interest at a fixed rate. As of May 12, 2005, the Series A Notes bear interest at 8.28% per annum and are payable at \$13.1 million per year through May 2011. As of May 12, 2005, the Series B Notes bear interest at 8.08% per annum and are payable at \$3.6 million per year through May 2008. If interest rates increased by 1.0% per annum, the fair value of the Senior Notes could decrease by \$2.4 million. If interest rates decreased by 1.0% per annum, the fair value of the Senior Notes could increase by \$2.5 million. The interest rates on the Senior Notes will return to the pre-amendment rates of 7.28% per annum for the Series A Notes and 7.08% per annum for the Series B Notes if we meet certain covenant compliance criteria for three consecutive fiscal quarters.

We are scheduled to repay \$17.8 million of our outstanding indebtedness in the next twelve months, of which \$16.7 million is for scheduled principal payments on the Senior Notes and \$1.1 million is related to other debt. Assuming we do repay the remaining \$1.1 million ratably during the next twelve months, our annual interest expense could increase or decrease by a negligible amount when our average interest rate increases or decreases by 1.0% per annum. However, there can be no assurance that we will, or will be able to, repay our debt in the prescribed manner. In addition, we could incur additional debt under the Facility to meet our operating needs or to finance future acquisitions.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. As defined in Exchange Act Rule 13a-15(f), internal control over financial reporting is a process designed by, or under the supervision of, our principal executive and principal financial officer and effected by our Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that (i) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of our assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements.

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we carried out an evaluation of the effectiveness of our internal control over financial reporting as of October 2, 2005 based on the criteria in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based upon this evaluation, our management concluded that our internal control over financial reporting was effective as of October 2, 2005.

PricewaterhouseCoopers LLP, the independent registered public accounting firm that audited our financial statements included in this Annual Report on Form 10-K, has also audited our management's assessment of the effectiveness of our internal control over financial reporting and the effectiveness of our internal control over financial reporting as of October 2, 2005 as stated in their report included in our 2005 Annual Report to Stockholders, which is incorporated herein by reference.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders of Tetra Tech, Inc.:

We have completed an integrated audit of Tetra Tech, Inc.'s 2005 consolidated financial statements and of its internal control over financial reporting as of October 2, 2005 and an audit of its 2004 consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

Consolidated financial statements

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, stockholders' equity and cash flows, present fairly, in all material respects, the financial position of Tetra Tech, Inc. and its subsidiaries at October 2, 2005 and October 3, 2004, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. 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 of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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 of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Internal control over financial reporting

Also, in our opinion, management's assessment, included in the accompanying Management's Report on Internal Control over Financial Reporting, that the Company maintained effective internal control over financial reporting as of October 2, 2005 based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of October 2, 2005, based on criteria established in *Internal Control—Integrated Framework* issued by the COSO. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to

permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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

/s/ PRICEWATERHOUSECOOPERS LLP

Los Angeles, California
December 15, 2005

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders of Tetra Tech, Inc.:

We have audited the accompanying consolidated statement of operations, stockholders' equity, and cash flows of Tetra Tech, Inc. and subsidiaries (the "Company") for the year ended September 28, 2003. 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 audit.

We have conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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 audit provides a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the results of operations and cash flows of the Company for the year ended September 28, 2003 in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 3 to the Consolidated Financial Statements, the Company changed its method of accounting for goodwill and other intangible assets effective September 30, 2002 to conform to Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets.

As discussed in Note 17 to the Consolidated Financial Statements, the accompanying 2003 financial statements have been restated.

/s/ DELOITTE & TOUCHE LLP

Los Angeles, California

December 12, 2003 (December 30, 2004 as to the effects of the restatement discussed in Note 17 and December 15, 2005 as to the reclassification of discontinued operations discussed in Note 2)

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

	<u>October 2, 2005</u>	<u>October 3, 2004</u>
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 26,861	\$ 48,032
Accounts receivable—net	315,364	357,181
Prepaid expenses and other current assets	21,139	22,133
Income tax receivable	14,141	6,774
Current assets of discontinued operations	<u>13,350</u>	<u>18,547</u>
Total current assets	<u>390,855</u>	<u>452,667</u>
PROPERTY AND EQUIPMENT:		
Equipment, furniture and fixtures	73,260	79,900
Leasehold improvements	<u>9,021</u>	<u>9,266</u>
Total	82,281	89,166
Accumulated depreciation and amortization	<u>(50,498)</u>	<u>(51,374)</u>
PROPERTY AND EQUIPMENT—NET	<u>31,783</u>	<u>37,792</u>
DEFERRED INCOME TAXES	8,888	—
INCOME TAXES RECEIVABLE	33,800	33,800
GOODWILL	159,175	254,553
INTANGIBLE AND OTHER ASSETS—NET	18,832	25,400
NON-CURRENT ASSETS OF DISCONTINUED OPERATIONS	<u>4,710</u>	<u>4,295</u>
TOTAL ASSETS	<u>\$ 648,043</u>	<u>\$ 808,507</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 91,750	\$ 103,510
Accrued compensation	51,306	54,812
Billings in excess of costs on uncompleted contracts	48,610	28,941
Deferred income taxes	5,125	4,892
Current portion of long-term obligations	17,800	58,868
Other current liabilities	47,391	47,434
Current liabilities of discontinued operations	<u>7,260</u>	<u>9,381</u>
Total current liabilities	<u>269,242</u>	<u>307,838</u>
DEFERRED INCOME TAXES	—	10,823
LONG-TERM OBLIGATIONS	74,138	92,062
NON-CURRENT LIABILITIES OF DISCONTINUED OPERATIONS	<u>47</u>	<u>284</u>
COMMITMENTS AND CONTINGENCIES (Notes 11 and 14)		
STOCKHOLDERS' EQUITY:		
Preferred stock—authorized, 2,000 shares of \$0.01 par value; no shares issued and outstanding as of October 2, 2005 and October 3, 2004	—	—
Exchangeable stock of subsidiary—authorized, 920 shares of \$0.01 par value; 0 and 85 shares issued and outstanding as of October 2, 2005 and October 3, 2004, respectively	—	1,426
Common stock—authorized 85,000 shares of \$0.01 par value; issued and outstanding, 57,048 and 56,305 shares as of October 2, 2005 and October 3, 2004, respectively	570	563
Additional paid-in capital	251,112	243,490
Accumulated other comprehensive income	757	375
Retained earnings	<u>52,177</u>	<u>151,646</u>
TOTAL STOCKHOLDERS' EQUITY	<u>304,616</u>	<u>397,500</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 648,043</u>	<u>\$ 808,507</u>

See accompanying Notes to Consolidated Financial Statements.

TETRA TECH, INC.
Consolidated Statements of Operations
(in thousands, except per share data)

	Fiscal Year Ended		
	October 2, 2005	October 3, 2004	September 28, 2003
Revenue	\$1,286,031	\$1,376,159	\$1,086,986
Subcontractor costs	386,852	400,950	262,404
Revenue, net of subcontractor costs	899,179	975,209	824,582
Other contract costs	784,588	823,950	652,558
Gross profit	114,591	151,259	172,024
Selling, general and administrative expenses	122,646	101,612	84,752
Impairment of goodwill and other intangible assets	105,612	—	—
Income (loss) from operations	(113,667)	49,647	87,272
Interest income	735	344	888
Interest expense	11,898	10,019	10,162
Income (loss) from continuing operations before income tax expense (benefit)	(124,830)	39,972	77,998
Income tax expense (benefit)	(26,152)	16,503	31,388
Income (loss) from continuing operations	(98,678)	23,469	46,610
Income (loss) from discontinued operations, net of tax	(791)	273	2,749
Income (loss) before cumulative effect of accounting change	(99,469)	23,742	49,359
Cumulative effect of accounting change	—	—	(114,669)
Net income (loss)	<u>\$ (99,469)</u>	<u>\$ 23,742</u>	<u>\$ (65,310)</u>
Basic earnings (loss) per share:			
Income (loss) from continuing operations	\$ (1.74)	\$ 0.42	\$ 0.85
Income (loss) from discontinued operations, net of tax	(0.01)	—	0.05
Cumulative effect of accounting change	—	—	(2.09)
Net income (loss)	<u>\$ (1.75)</u>	<u>\$ 0.42</u>	<u>\$ (1.19)</u>
Diluted earnings (loss) per share:			
Income (loss) from continuing operations	\$ (1.74)	\$ 0.41	\$ 0.83
Income (loss) from discontinued operations, net of tax	(0.01)	—	0.05
Cumulative effect of accounting change	—	—	(2.05)
Net income (loss)	<u>\$ (1.75)</u>	<u>\$ 0.41</u>	<u>\$ (1.17)</u>
Weighted average common shares outstanding:			
Basic	<u>56,736</u>	<u>55,969</u>	<u>54,766</u>
Diluted	<u>56,736</u>	<u>57,288</u>	<u>55,782</u>

See accompanying Notes to Consolidated Financial Statements.

TETRA TECH, INC.
Consolidated Statements of Stockholders' Equity
Fiscal Years Ended September 28, 2003, October 3, 2004 and October 2, 2005
(in thousands)

	<u>Exchangeable Stock</u>		<u>Common Stock</u>		<u>Additional Paid-In Capital</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Retained Earnings</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>				
BALANCE AS OF SEPTEMBER 29, 2002	791	\$ 13,239	53,273	\$533	\$207,505	\$ (1,784)	\$193,214	\$412,707
Comprehensive loss:								
Net loss							(65,310)	(65,310)
Foreign currency translation adjustment						1,397		<u>1,397</u>
Comprehensive loss								<u>(63,913)</u>
Stock options exercised			601	6	4,941			4,947
Shares issued by Employee Stock Purchase Plan			215	2	2,987			2,989
Tax benefit for stock options					<u>1,475</u>			<u>1,475</u>
BALANCE AS OF SEPTEMBER 28, 2003	791	13,239	54,089	541	216,908	(387)	127,904	358,205
Comprehensive income:								
Net income							23,742	23,742
Foreign currency translation adjustment						762		<u>762</u>
Comprehensive income								<u>24,504</u>
Stock options exercised			889	9	8,857			8,866
Shares issued by Employee Stock Purchase Plan			225	2	3,237			3,239
Conversion of exchangeable stock	(706)	(11,813)	1,102	11	11,802			—
Tax benefit for stock options					<u>2,686</u>			<u>2,686</u>
BALANCE AS OF OCTOBER 3, 2004	85	1,426	56,305	563	243,490	375	151,646	397,500
Comprehensive loss:								
Net loss							(99,469)	(99,469)
Foreign currency translation adjustment						382		<u>382</u>
Comprehensive loss								<u>(99,087)</u>
Stock options exercised			302	3	2,714			2,717
Shares issued by Employee Stock Purchase Plan			308	3	3,144			3,147
Conversion of exchangeable stock	(85)	(1,426)	133	1	1,425			—
Tax benefit for stock options					<u>339</u>			<u>339</u>
BALANCE AS OF OCTOBER 2, 2005	—	\$ —	<u>57,048</u>	<u>\$570</u>	<u>\$251,112</u>	<u>\$ 757</u>	<u>\$ 52,177</u>	<u>\$304,616</u>

See accompanying Notes to Consolidated Financial Statements.

TETRA TECH, INC.
Consolidated Statements of Cash Flows
(in thousands)

	Fiscal Year Ended		
	October 2, 2005	October 3, 2004	September 28, 2003
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	\$ (99,469)	\$ 23,742	\$ (65,310)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Cumulative effect of accounting change	—	—	114,669
Depreciation and amortization	16,321	18,500	16,727
Deferred income taxes	(19,542)	(11,932)	10,236
Provision for losses on contracts and related receivables	33,411	14,786	8,411
Impairment of goodwill and other assets	108,112	—	—
Gain on sale of discontinued operations	(930)	—	—
Loss on disposal of property and equipment	1,393	1,426	98
Changes in operating assets and liabilities, net of effects of acquisitions:			
Accounts receivable	9,940	(52,185)	(26,959)
Prepaid expenses and other assets	4,686	(6,521)	(2,512)
Accounts payable	(12,695)	8,247	1,892
Accrued compensation	(3,331)	7,480	6,438
Billings in excess of costs on uncompleted contracts	19,730	11,251	911
Other current liabilities	(1,725)	16,137	4,142
Income taxes receivable/payable	(7,406)	(14,731)	(977)
Net cash provided by operating activities	<u>48,495</u>	<u>16,200</u>	<u>67,766</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Capital expenditures	(9,791)	(17,892)	(9,419)
Payments for business acquisitions, net	(8,374)	(28,853)	(87,233)
Proceeds from sale of discontinued operations	500	—	—
Proceeds on sale of property and equipment	980	2,046	1,456
Net cash used in investing activities	<u>(16,685)</u>	<u>(44,699)</u>	<u>(95,196)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Payments on long-term obligations	(119,091)	(106,695)	(90,935)
Proceeds from borrowings under long-term obligations	60,000	137,756	97,000
Net proceeds from issuance of common stock	5,863	12,105	7,892
Net cash provided by (used in) financing activities	<u>(53,228)</u>	<u>43,166</u>	<u>13,957</u>
EFFECT OF EXCHANGE RATE CHANGES ON CASH	<u>247</u>	<u>201</u>	<u>292</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>(21,171)</u>	<u>14,868</u>	<u>(13,181)</u>
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>48,032</u>	<u>33,164</u>	<u>46,345</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 26,861</u>	<u>\$ 48,032</u>	<u>\$ 33,164</u>
SUPPLEMENTAL CASH FLOW INFORMATION:			
Cash paid (received) during the year for:			
Interest	\$ 10,974	\$ 9,813	\$ 10,009
Income taxes, net of refunds received	\$ (401)	\$ 43,138	\$ 23,165

(Continued)

TETRA TECH, INC.
Consolidated Statements of Cash Flows
(in thousands)

	Fiscal Year Ended		
	October 2, 2005	October 3, 2004	September 28, 2003
SUPPLEMENTAL NON-CASH INVESTING AND FINANCING ACTIVITIES:			
See Note 4 for non-cash activities relating to business acquisitions in fiscal 2004			
In fiscal 2003, the Company's subsidiary, Tetra Tech EC, Inc. formerly known as Tetra Tech FW, Inc., purchased certain assets and assumed certain liabilities of Foster Wheeler Environmental Corporation and Hartman Consulting Corporation. The Company also purchased all of the capital stock of Engineering Management Concepts, Inc. In conjunction with these acquisitions, liabilities were assumed as follows:			
Fair value of assets acquired			\$ 135,624
Cash paid			(90,072)
Purchase price receivable			3,466
Other acquisition costs			(955)
Liabilities assumed			<u>\$ 48,063</u>

See accompanying Notes to Consolidated Financial Statements.

TETRA TECH, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Significant Accounting Policies

Business—Tetra Tech, Inc. (the “Company”) is a provider of consulting, engineering and technical services. Through fiscal 2005, the Company supported its government and commercial clients in the areas of resource management, infrastructure and communications. The Company’s services include research and development, applied science and technology, engineering design, program management, construction, construction management, and operations and maintenance.

Principles of Consolidation and Presentation—The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation. In the fourth quarter of fiscal 2005, the Company sold an operating unit in its communications segment and held for sale two operating units in the communications and resource management segments. Accordingly, the Company’s previously reported consolidated balance sheet (fiscal 2004) and statements of operations (fiscal 2004 and 2003) have been restated to present the discontinued operations separate from continuing operations. See Note 2 for further information. Certain prior year amounts have been reclassified to conform to the current year presentation.

Fiscal Year—The Company reports results of operations based on 52 or 53-week periods ending near September 30. Fiscal years 2005, 2004 and 2003 contained 52, 53 and 52 weeks, respectively.

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 and generally accepted accounting principles, are included in the Company’s revenue. Because subcontractor services can change significantly from project to project, changes in revenue may not be indicative of business trends. Accordingly, the Company also reports revenue, net of subcontractor costs.

The Company accounts for most of its contracts on the percentage-of-completion method, under which revenue is recognized as costs are incurred. Under this method for revenue recognition, the Company estimates the progress towards completion to determine the amount of revenue and profit to recognize on all significant contracts. The Company generally utilizes a cost-to-cost approach in applying the percentage-of-completion method, under which revenue is earned in proportion to total costs incurred, divided by total costs expected to be incurred.

Under the percentage-of-completion method, recognition of profit is dependent upon the accuracy of a variety of estimates, including engineering progress, materials quantities, achievement of milestones and other incentives, penalty provisions, labor productivity and cost estimates. Such estimates are based on various judgments the Company makes with respect to those factors and are difficult to accurately determine until the project is significantly underway. Due to uncertainties inherent in the estimation progress, it is possible that actual completion costs may vary from estimates. If estimated total costs on any contract indicate a loss, the Company charges the entire estimated loss to operations in the period the loss first becomes known.

The Company enters into three major types of contracts: “fixed-price,” “time-and-materials” and “cost-plus” as described below.

Fixed-Price Contracts.

Firm Fixed-Price (FFP). The Company’s FFP contracts have historically accounted for most of its fixed-price contracts. Under FFP contracts, clients pay the Company an agreed amount negotiated

in advance for a specified scope of work. The Company recognizes revenue on FFP contracts using the percentage-of-completion method described above. Prior to completion, recognized profit margins on any FFP contract depend on the accuracy of the Company's estimates and will increase to the extent that its actual costs are below the estimated amounts. Conversely, if the Company's costs exceed these estimates, its profit margins will decrease and the Company may realize a loss on a project. If the Company's actual costs exceed the original estimate, the Company must obtain a change order or contract modification, or successfully prevail in a claim, in order to receive payment for the additional costs.

Fixed-Price Per Unit (FPPU). Under the Company's FPPU contracts, clients pay a set fee for each service or unit of production. The Company is generally guaranteed a minimum number of service or production units at a fixed price. The Company recognizes revenue under FPPU contracts as it completes the related service transaction for its clients. If the Company's costs per service transaction exceed its original estimates, the Company's profit margins will decrease and it may realize a loss on the project unless it can obtain a change order or contract modification, or successfully prevail in a claim, in order to receive payment for the additional costs. Certain of the Company's FPPU contracts may be subject to maximum contract values and, accordingly, revenue related to these contracts is recognized as if the contracts were firm fixed-price contracts.

Time-and-Materials Contracts.

Under the Company's time-and-materials contracts, the Company negotiates hourly billing rates and charge its clients based on the actual time that it expends on a project. In addition, clients reimburse the Company for its actual out-of-pocket costs of materials and other direct incidental expenditures that it incurs in connection with its performance under the contract. The Company's profit margins on time-and-materials contracts fluctuate based on actual labor and overhead costs that it directly charges or allocates to contracts compared to negotiated billing rates. Many of the Company's time-and-materials contracts are subject to maximum contract values and, accordingly, revenue related to these contracts is recognized as if these contracts were fixed-price contracts. Revenue on contracts that is not subject to maximum contract values is recognized based on the actual number of hours the Company spends on the projects plus any actual out-of-pocket costs of materials and other direct incidental expenditures that it incurs on the projects. The Company's time-and-materials contracts also generally include annual billing rate adjustment provisions.

Cost-Plus Contracts.

Cost-Plus Fixed Fee. Under cost-plus fixed fee contracts, the Company charges clients for its costs, including both direct and indirect costs, plus a fixed negotiated fee. In negotiating a cost-plus fixed fee contract, the Company estimates all recoverable direct and indirect costs and then adds a fixed profit component. The total estimated cost plus the negotiated fee represents the total contract value. The Company recognizes revenue based on the actual labor costs, plus non-labor costs it incurs, plus the portion of the fixed fee it has earned to date. The Company invoices for its services as revenue is recognized or in accordance with agreed-upon billing schedules. If the actual costs are lower than the total costs the Company has estimated, its revenue related to cost recoveries from the project will be lower than originally estimated. If the actual costs exceed the original estimate, the Company must obtain a change order or contract modification, or successfully prevail in a claim, in order to receive additional fee related to the additional costs. Certain of the Company's cost-plus contracts may be subject to maximum contract values and, accordingly, revenue relating to these contracts is recognized as if these contracts were fixed-price contracts.

Cost-Plus Fixed Rate. Under the Company's cost-plus fixed rate contracts, the Company charges clients for its direct and indirect costs plus negotiated rates. In negotiating a cost-plus fixed rate contract, the Company estimates all recoverable direct and indirect costs and then adds a profit

component, which is a percentage of total recoverable costs, to arrive at a total dollar estimate for the project. The Company recognizes revenue based on the actual total costs it has expended plus the applicable fixed fee. If the actual total costs are lower than the total costs the Company has estimated, its revenue from that project will be lower than originally estimated. Certain of the Company's cost-plus contracts may be subject to maximum contract values and, accordingly, revenue related to these contracts is recognized as if these contracts were fixed-price contracts.

Cost-Plus Award Fee. Certain cost-plus contracts provide for award fees or a penalty based on performance criteria in lieu of a fixed fee or fixed rate. Other contracts include a base fee component plus a performance-based award fee. In addition, the Company may share award fees with subcontractors. The Company records accruals for fee-sharing on a monthly basis as fees are earned. The Company generally recognizes revenue to the extent of costs actually incurred plus a proportionate amount of the fee expected to be earned. The Company takes the award fee or penalty on contracts into consideration when estimating revenue and profit rates, and it records revenue related to the award fees when there is sufficient information to assess anticipated contract performance. On contracts that represent higher than normal risk or technical difficulty, the Company may defer all award fees until an award fee letter is received. Once an award letter is received, the estimated or accrued fees are adjusted to the actual award amount.

Cost-Plus Incentive Fee. Certain cost-plus contracts provide for incentive fees based on performance against contractual milestones. The amount of the incentive fees varies, depending on whether the Company achieves above, at, or below target results. The Company originally recognizes revenue on these contracts based upon expected results. These estimates are revised when necessary based upon additional information that becomes available as the contract progresses.

Labor costs and subcontractor services are the principal components of the Company's direct costs on cost-plus contracts, although some include materials and other direct costs. Some of these contracts include a provision that the total actual costs plus the fee will not exceed a guaranteed price negotiated with the client. Others include rate ceilings that limit reimbursability for general and administrative costs, overhead costs, and materials handling costs. Revenue recognition for these contracts is determined by taking into consideration such guaranteed price or rate ceilings. Revenue in excess of cost limitation or rate ceilings is recognized in accordance with the information concerning change orders and claims that is provided below.

Other Contract Matters

Federal Acquisition Regulations (FAR), which are applicable to the Company's federal government contracts and are partially incorporated in many local and state agency contracts, limit the recovery of certain specified indirect costs on contracts. Cost-plus contracts covered by FAR and certain state and local agencies also require an audit of actual costs and provide for upward or downward adjustments if actual recoverable costs differ from billed recoverable costs. Most of the Company's federal government contracts are subject to termination at the discretion of the client. Contracts typically provide for reimbursement of costs incurred and payment of fees earned through the date of such termination.

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. However, there can be no assurance that DCAA audits will not result in material cost disallowances in the future.

Change orders are modifications of an original contract that effectively change the provisions of the contract. Change orders typically result from changes in specifications or design, manner of performance,

facilities, equipment, materials, sites, or period of completion of the work. Change orders occur when changes are experienced once contract performance is underway. Change orders are sometimes documented and the terms of such change orders agreed upon with the client before the work is performed. Sometimes circumstances require that work progress without client agreement before the work is performed. Costs related to change orders are recognized when they are incurred. Change orders are included in total estimated contract revenue when it is probable that the change order will result in a bona fide addition to contract value and can be reasonably estimated.

Claims are amounts in excess of agreed contract price that the Company seeks to collect from its clients or others for client-caused delays, errors in specifications and designs, contract terminations, change orders that are either in dispute or are unapproved as to both scope and price, or other causes of unanticipated additional contract costs. Claims are included in total estimated contract revenue, only to the extent that contract costs related to the claim have been incurred, when it is probable that the claim will result in a bona fide addition to contract value and can be reliably estimated. No profit is recognized on claims until final settlement occurs.

Allowance for Uncollectible Accounts Receivable—The Company reduces its accounts receivable by an allowance for amounts that are considered uncollectible. The Company determines an estimated allowance for uncollectible amounts based on management's evaluation of the contracts involved and the financial condition of its clients. The Company regularly evaluates the adequacy of the allowance for doubtful accounts by taking into consideration factors such as:

- Type of client—government agency or commercial sector;
- Trends in actual and forecasted credit quality of the client, including delinquency and payment history;
- General economic and particular industry conditions that may affect a client's ability to pay; and
- Contract performance and the Company's change order/claim analysis.

Selling, General and Administrative Expenses—Selling, general and administrative expenses are expensed in the period incurred.

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 of fair value is performed based on the estimated undiscounted cash flows compared to 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.

Goodwill and Intangibles—Goodwill consists of amounts paid for new business acquisitions in excess of the fair value of net assets acquired. Following an acquisition, the Company performs an analysis to value the acquired company's tangible and identifiable intangible assets and liabilities. With respect to identifiable intangible assets, the Company considers backlog, non-compete agreements, customer lists, patents and other assets.

Statement of Financial Accounting Standards (SFAS) No. 142, *Goodwill and Other Intangible Assets*, requires an annual test of goodwill for impairment at each reporting unit of the Company. The Company performs its required annual assessment of goodwill annually on July 1. Reporting units for purposes of this test are identical to the Company's operating segments and consist of resource management, infrastructure and communications. The annual impairment test is a two-step process. As the first step, the Company estimates the fair value of the reporting unit and compares that amount to the sum of the carrying value of the reporting unit's goodwill and other net assets. If the fair value of the reporting unit is determined to be less than the carrying value, a second step is performed to compare the current implied fair value of the goodwill to the current carrying value of the goodwill and any resulting decrease is recorded as an impairment.

Income Taxes—The Company files a consolidated federal income tax return and combined California franchise tax return. In addition, the Company files other returns that are required in the states and jurisdictions in which it does business, which includes the Company and its subsidiaries. The Company accounts for certain income and expense items differently for financial reporting and income tax purposes. Deferred tax assets and liabilities are determined based on the difference between the financial statement and tax basis of assets and liabilities, applying enacted statutory tax rates in effect for the year in which the differences are expected to reverse. In determining the need for a valuation allowance, management reviews both positive and negative evidence, including current and historical results of operations, future income projections, and potential tax planning strategies.

Earnings Per Share—Basic earnings per share (EPS) excludes dilution and is computed by dividing net income available to common stockholders by the weighted average number of common shares and the weighted average number of shares of exchangeable stock of a subsidiary (exchangeable shares) outstanding for the period. The exchangeable shares were non-voting and were 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. Diluted EPS is computed by dividing net income by the weighted average number of common shares outstanding, the weighted average number of exchangeable shares, and dilutive potential common shares for the period. The Company includes as potential common shares the weighted average dilutive effects of outstanding stock options using the treasury stock method.

Fair Value of Financial Instruments—The carrying amounts of cash and cash equivalents, accounts receivable 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 as of October 2, 2005 and October 3, 2004 was approximately \$93 million and \$112 million, respectively.

Concentration of Credit Risk—Financial instruments, which subject the Company to credit risk, consist primarily of cash and cash equivalents and net accounts receivable. 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 October 2, 2005 and October 3, 2004, approximately 32% and 23%, respectively, 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 as of the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Recently Issued Accounting Pronouncements—In December 2004, the Financial Accounting Standards Board (FASB) issued a revision to SFAS No. 123 (revised 2004), *Share-Based Payment* (FAS 123R), that requires the Company to expense the value of employee stock options and similar awards. Under FAS 123R, share-based payment (SBP) awards result in a cost that will be measured at fair value on the awards' grant date, based on the estimated number of awards that are expected to vest. Compensation cost for awards that vest would not be reversed if the awards expire without being exercised. The Company is allowed to select from two alternative transition methods, each of which has different reporting implications. Under the first method, the Modified Prospective Application, FAS 123R applies to new awards and modified awards after the effective date, and to any unvested awards as service is rendered on or after the effective date. Under the second method, the Modified Retrospective Application, FAS 123R can be applied to either all prior years for which SFAS No. 123 was effective or only to prior interim periods in the year of adoption. The Company plans to adopt FAS 123R using the Modified Prospective Application. For the Company, the effective date for FAS 123R is the first quarter of fiscal 2006, and FAS 123R will apply to all outstanding and unvested SBP awards at the Company's adoption date. The Company has completed a preliminary evaluation of the effect of adoption of FAS 123R. Due to the fact that the Company uses stock options as a form of compensation, the adoption of FAS 123R will have an impact of approximately \$8 million to \$11 million on the Company's results of operations in fiscal 2006 based upon options outstanding as of October 2, 2005.

Stock-Based Compensation—The Company's employee stock compensation plans are accounted for utilizing the intrinsic value method in accordance with Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations. Under this method, no compensation expense is recognized as long as the exercise price equals or exceeds the market price of the underlying stock on the date of the grant.

On September 6, 2005, the Company's Board of Directors approved accelerating the vesting of certain outstanding, unvested stock options awarded to employees under the Company's stock option plans, other than its 2003 Outside Director Stock Option Plan, with exercise prices greater than \$16.95, the closing price of the Company's common stock on September 6, 2005. As a result of this vesting acceleration, options to purchase approximately 1.6 million shares of the Company's common stock became exercisable immediately. Since options were accelerated to vest in the fiscal year ended October 2, 2005, an additional pre-tax compensation cost of \$7.4 million, which represented the unamortized cost of accelerated unvested options, was included in calculating the pro forma net loss for footnote disclosure under SFAS No. 123 for the fiscal year ended October 2, 2005. As the exercise price of all modified options was greater than the market price of the Company's underlying common stock on the date of their modification, no compensation expense was recorded in accordance with APB 25.

The decision to accelerate vesting of these options was made primarily to eliminate the accounting charge in connection with future compensation expense the Company would otherwise recognize in its statement of operations with respect to these accelerated options upon the adoption of FAS 123R. It requires the Company to expense the value of employee stock options and similar awards in its statement of operations, rather than as a footnote disclosure in its consolidated financial statements.

The following pro forma information regarding net income has been calculated as if the Company had accounted for its employee stock options and stock purchase plan using the fair value method under SFAS No. 123:

	Fiscal Year Ended		
	October 2, 2005	October 3, 2004	September 28, 2003
	(in thousands, except per share data)		
Net income (loss) as reported	\$ (99,469)	\$ 23,742	\$ (65,310)
Deduct: Stock-based employee compensation expense determined under fair value method for all awards, net of related tax effects	<u>10,181</u>	<u>6,028</u>	<u>4,639</u>
Pro forma net income (loss)	<u><u>\$(109,650)</u></u>	<u><u>\$17,714</u></u>	<u><u>\$(69,949)</u></u>
Earnings (loss) per share:			
Basic—as reported	\$ (1.75)	\$ 0.42	\$ (1.19)
Basic—pro forma	\$ (1.93)	\$ 0.32	\$ (1.28)
Diluted—as reported	\$ (1.75)	\$ 0.41	\$ (1.17)
Diluted—pro forma	\$ (1.93)	\$ 0.31	\$ (1.25)

Because most options vest over several years and additional option grants are expected to be made subsequent to October 2, 2005, the results of applying the fair value method may have a materially different effect on pro forma net income (loss) in future years.

The fair value of the Company's stock options used to compute pro forma net income (loss) and pro forma earnings (loss) 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 2005, 2004 and 2003 are \$7.73, \$12.47 and \$6.31, respectively. The following assumptions were used in completing the model:

	Fiscal Year Ended		
	October 2, 2005	October 3, 2004	September 28, 2003
Dividend yield	0.0%	0.0%	0.0%
Expected volatility	52.8%	59.9%	61.2%
Risk-free rate of return, annual	4.1%	3.4%	3.2%
Expected life	4.72	4.58	4.36
	years	years	years

2. Discontinued Operations

On October 1, 2005, the Company completed the sale of eXpert Wireless Solutions, Inc. (EWS), an operating unit in the communications segment. Accordingly, the results for this operating unit were accounted for as discontinued operations in the consolidated financial statements for all fiscal years presented herein.

In addition, the Company is in the final stages of negotiations to sell two other operating units, Tetra Tech Canada Ltd. (TTC), a unit in the communications segment, and Vertex Engineering Services, Inc., a unit in the resource management segment. The results for these two operating units have been accounted for as discontinued operations (held for sale) in the consolidated financial statements presented herein as management implemented a plan to divest these operations in the fourth quarter of fiscal 2005. The Company expects to complete the divestitures of both units in the first half of fiscal 2006.

The summarized, combined statements of operations for the three discontinued operations are as follows:

	Fiscal Year Ended		
	October 2, 2005	October 3, 2004	September 28, 2003
	(in thousands)		
Revenue	\$67,984	\$61,398	\$43,681
Income (loss) before income tax expense	(2,726)	494	4,635
Income tax expense	452	221	1,886
Income (loss) from operations, net of tax	(3,178)	273	2,749
Gain on sale of discontinued operations	930	—	—
Income tax benefit on sale	(1,457)	—	—
Income (loss) from discontinued operations, net of tax	<u>\$ (791)</u>	<u>\$ 273</u>	<u>\$ 2,749</u>

The current assets of discontinued operations include net accounts receivable of \$13.4 million and \$18.5 million as of October 2, 2005 and October 3, 2004, respectively. All other financial statement accounts are individually immaterial.

3. Goodwill and Intangibles

Effective September 30, 2002, the beginning of fiscal 2003, the Company adopted SFAS No. 142, *Goodwill and Other Intangible Assets*. This statement changed the accounting method for goodwill and indefinite-lived intangible assets from an amortization approach to an impairment-only approach. As a result of the adoption of SFAS No. 142, the Company recorded a transitional goodwill impairment charge of \$114.7 million presented as a cumulative effect of accounting change in the second quarter of fiscal 2003 and reclassified into the first quarter of fiscal 2003 for the current year presentation. This charge related to the Company's communications reportable segment.

Several events occurred during the quarter ended April 3, 2005 that led management to conclude that the goodwill in the Company's infrastructure reporting unit was likely impaired. These events included significantly lower than expected operating results, a substantial loss in the infrastructure segment and a downward adjustment in forecasted future operating income and cash flows. As required by SFAS No. 142, the Company performed a two-step interim impairment test to confirm and quantify the impairment. During step one, the Company determined that the goodwill recorded in its infrastructure reporting unit was impaired because the fair value of the reporting unit was less than the carrying value of the reporting unit's net assets. The fair value of the reporting unit was estimated using the discounted cash flow method, guideline company method, and similar transactions method weighted at 70%, 15%, and 15%, respectively. In order to quantify the impairment, the Company performed step two by allocating the fair value of the infrastructure reporting unit to the reporting unit's individual assets and liabilities utilizing the purchase price allocation guidance of SFAS No. 141. The resulting implied value of the infrastructure reporting unit's goodwill was \$105.0 million less than the current carrying value of the goodwill. This difference was recorded as a non-cash impairment charge to reduce the goodwill in the infrastructure reporting unit.

In fiscal 2005, the Company also recognized post-acquisition adjustments to goodwill in the total amount of \$9.6 million related primarily to purchase price adjustments for the acquisition of Advanced Management Technology, Inc. (AMT). See Note 4 for additional information. The changes in the carrying value of goodwill by segment for the fiscal years ended October 2, 2005 and October 3, 2004 were as follows:

<u>Reporting Unit</u>	<u>Fiscal Year 2005</u>			
	<u>October 3, 2004</u>	<u>Post-Acquisition Adjustments</u>	<u>Impairment</u>	<u>October 2, 2005</u>
	<u>(in thousands)</u>			
Resource management	\$ 86,011	\$ —	\$ —	\$ 86,011
Infrastructure	168,542	9,622	(105,000)	73,164
Total	\$ 254,553	\$ 9,622	\$ (105,000)	\$ 159,175

<u>Reporting Unit</u>	<u>Fiscal Year 2004</u>			
	<u>September 28, 2003</u>	<u>Goodwill Additions</u>	<u>Post-Acquisition Adjustments</u>	<u>October 3, 2004</u>
	<u>(in thousands)</u>			
Resource management	\$ 84,141	\$ —	\$ 1,870	\$ 86,011
Infrastructure	126,651	40,383	1,508	168,542
Total	\$ 210,792	\$ 40,383	\$ 3,378	\$ 254,553

Due to the significant operating loss in the quarter ended April 3, 2005 combined with a projection of lower future earnings in the Company's infrastructure segment, identifiable intangible assets related to that segment's acquired backlog were written off in the net amount of \$0.6 million as required by SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. The gross amounts and accumulated amortization of the Company's acquired identifiable intangible assets with finite useful lives as of October 2, 2005, after the adjustment, and October 3, 2004, included in intangible and other assets—net in the accompanying consolidated balance sheets, were as follows:

<u>Identifiable Intangible Assets</u>	<u>October 2, 2005</u>		<u>October 3, 2004</u>	
	<u>Gross Amount</u>	<u>Accumulated Amortization</u>	<u>Gross Amount</u>	<u>Accumulated Amortization</u>
	<u>(in thousands)</u>			
Backlog	\$ 8,900	\$ (3,232)	\$ 11,380	\$ (3,328)
Non-compete agreements	—	—	451	(438)
Total	\$ 8,900	\$ (3,232)	\$ 11,831	\$ (3,766)

No identifiable intangible assets were acquired during fiscal 2005. Identifiable intangible assets acquired during the year ended October 3, 2004 consisted of AMT backlog of \$0.7 million with an amortization period of one year. Amortization expense for acquired intangible assets with finite useful lives for the fiscal year ended October 2, 2005, October 3, 2004 and September 28, 2003 was \$1.3 million, \$2.4 million and \$1.3 million, respectively. Estimated amortization expense, in thousands, for the succeeding five years is as follows:

2006	\$1,271
2007	1,271
2008	1,271
2009	1,271
2010	584

The goodwill and other identifiable intangibles created in the acquisition of AMT are amortizable for tax purposes and were assigned to the infrastructure segment.

4. Mergers And Acquisitions

On March 7, 2003, the Company acquired through its wholly-owned subsidiary, Tetra Tech EC, Inc. (ECI) formerly known as Tetra Tech FW, Inc., certain assets and certain related liabilities of Foster Wheeler Environmental Corporation and Hartman Consulting Corporation, providers of engineering and program management services throughout the United States. The purchase was valued at approximately \$68.1 million and consisted of cash. The following table summarizes the estimated fair values, in thousands, of the assets acquired and liabilities assumed as of the date of acquisition.

Current assets	\$53,816
Property and equipment	6,400
Goodwill	33,765
Intangible and other	15,682
Current liabilities	<u>(41,548)</u>
Net assets acquired	<u>\$68,115</u>

On July 31, 2003, the Company acquired 100% of the capital stock of Engineering Management Concepts, Inc. (EMC), an engineering and program management firm that provides information technology and weapons test range and systems logistic support services. The purchase was valued at \$20.7 million, consisted of cash and is subject to a purchase price adjustment based upon certain contingent earn-out payments. The former shareholders of EMC have certain earn-out rights that would allow them to receive an aggregate maximum of \$2.0 million upon EMC's achievement of certain operating profit objectives over a two-year period from the acquisition date. As of October 2, 2005, EMC achieved the second earn-out and the Company recognized a \$1.0 million payable to EMC's former shareholders and a corresponding increase to goodwill.

On March 5, 2004, the Company acquired 100% of the capital stock of AMT, an engineering and program management firm that provides systems engineering, program management and information management services to federal government agencies. The purchase was valued at \$39.3 million, consisted of cash and is subject to a purchase price adjustment based upon certain contingent earn-out rights. These rights would allow the former shareholders to receive an aggregate maximum of \$5.0 million upon AMT's achievement of certain operating profit objectives over a two-year period from the acquisition date. In December 2004, the Company and the former shareholders of AMT agreed to make an Internal Revenue Code Section 338(h)(10) election under which the stock purchase was treated as an asset purchase for tax purposes. In the first quarter of fiscal 2005, the Company paid \$6.0 million of additional purchase price to the former shareholders to offset their increased tax liability caused by this election. This payment, along with the first year earn-out payment of \$2.5 million and additional purchase accounting adjustments of \$0.1 million, increased goodwill. The following table summarizes the estimated fair values, in thousands, of the assets acquired and liabilities assumed as of the acquisition date.

Current assets	\$ 2,046
Property and equipment	175
Goodwill	49,390
Intangible and other	891
Current liabilities	<u>(13,193)</u>
Net assets acquired	<u>\$39,309</u>

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 cost of the acquisitions over the fair value of the net tangible and identifiable intangible

assets acquired was recorded as goodwill. The results of operations of each of the companies acquired have been included in the Company's financial statements from the date of acquisitions.

The Company may acquire other businesses that it believes are synergistic and will ultimately increase the Company's revenue and net income, although acquisitions of a certain size would require the approval of the Company's lenders and noteholders. These businesses may also perform work that is consistent with the Company's short-term and long-term strategic goals, provide critical mass with existing clients, and further expand the Company's lines of service. These factors may contribute to a purchase price that results in a recognition of goodwill.

The table below presents summarized unaudited pro forma operating results assuming that the Company had acquired ECI, EMC and AMT at the beginning of the fiscal years presented:

	Fiscal Year Ended	
	October 3, 2004	September 28, 2003
	(in thousands, except per share data) (unaudited)	
Revenue	\$ 1,414,477	\$ 1,362,158
Revenue, net of subcontractor costs	999,304	979,392
Income from continuing operations	24,108	55,582
Income from discontinued operations, net of tax	273	2,749
Income before cumulative effect of accounting change	24,381	58,331
Cumulative effect of accounting change	—	(114,669)
Net income (loss)	24,381	(56,339)
Earnings per share from continuing operations:		
Basic	\$ 0.43	\$ 1.01
Diluted	\$ 0.42	\$ 1.00
Earnings per share from discontinued operations, net of tax:		
Basic	\$ 0.01	\$ 0.05
Diluted	\$ 0.01	\$ 0.05
Cumulative effect of accounting change:		
Basic	\$ —	\$ (2.09)
Diluted	\$ —	\$ (2.06)
Net income (loss):		
Basic	\$ 0.44	\$ (1.03)
Diluted	\$ 0.43	\$ (1.01)
Weighted average shares outstanding:		
Basic	55,969	54,766
Diluted	57,288	55,782

5. Accounts Receivable—Net

Net accounts receivable consisted of the following as of October 2, 2005 and October 3, 2004:

	<u>October 2,</u> <u>2005</u>	<u>October 3,</u> <u>2004</u>
	(in thousands)	
Billed	\$ 211,064	\$ 204,200
Unbilled	141,799	171,474
Contract retentions	<u>7,908</u>	<u>5,426</u>
Total accounts receivable—gross	360,771	381,100
Allowance for doubtful accounts	<u>(45,407)</u>	<u>(23,919)</u>
Total accounts receivable—net	<u>\$ 315,364</u>	<u>\$ 357,181</u>
Billings in excess of costs on uncompleted contracts	<u>\$ 48,610</u>	<u>\$ 28,941</u>

Billed accounts receivable represents amounts billed to clients that have not been collected. Unbilled accounts receivable represents revenue recognized but not yet billed pursuant to contract terms or billed after the accounting cut-off date. Substantially all unbilled receivables as of October 2, 2005 are expected to be billed and collected within twelve months. Contract retentions represent amounts withheld by clients until certain conditions are met or the project is completed, which may be several months or years. Allowances for doubtful accounts have been determined through reviews of specific amounts determined to be uncollectible and potential write-offs as a result of debtors that 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.

Billed receivables related to federal government contracts were \$74.8 million and \$59.6 million as of October 2, 2005 and October 3, 2004, respectively. Federal government unbilled receivables, net of progress payments, were \$40.4 million and \$24.6 million as of October 2, 2005 and October 3, 2004, respectively.

Other than the federal government, no single client accounted for more than 10% of the Company's accounts receivable as of October 2, 2005. Nextel Operations, Inc. (Nextel) accounted for approximately 18.0% of the Company's accounts receivable as of October 3, 2004. A substantial portion of this amount represented unbilled receivables. In the second quarter of fiscal 2005, the Company decided to exit the wireless business and negotiated a reduction in the Nextel project scope and contract.

6. Income Taxes

Income tax expense (benefit) for fiscal 2005, 2004 and 2003 consisted of the following:

	<u>Fiscal Year Ended</u>		
	<u>October 2,</u> <u>2005</u>	<u>October 3,</u> <u>2004</u>	<u>September 28,</u> <u>2003</u>
	(in thousands)		
Current:			
Federal	\$ (7,504)	\$ 22,820	\$ 18,249
State	<u>(369)</u>	<u>5,210</u>	<u>2,507</u>
Total current income tax expense (benefit)	<u>(7,873)</u>	<u>28,030</u>	<u>20,756</u>
Deferred:			
Federal	(14,511)	(9,384)	9,347
State	<u>(3,768)</u>	<u>(2,143)</u>	<u>1,285</u>
Total deferred income tax expense (benefit)	<u>(18,279)</u>	<u>(11,527)</u>	<u>10,632</u>
Total income tax expense (benefit)	<u>\$ (26,152)</u>	<u>\$ 16,503</u>	<u>\$ 31,388</u>

The Company's effective tax rate and deferred tax accounts have been significantly impacted by the goodwill impairment recognized in the quarter ended April 3, 2005 (see Note 3). The Company's effective tax rate decreased substantially because a majority of the goodwill impairment is not deductible for tax purposes. The deductible portion of the goodwill impairment will reduce taxable income in future periods as the goodwill is amortized for tax purposes over the statutory period of 15 years. The future estimated deductible portion of the goodwill impairment is reflected as a deferred tax asset.

Total income tax expense (benefit) was different from the amount computed by applying the federal statutory rate as follows:

	Fiscal Year Ended					
	October 2, 2005		October 3, 2004		September 28, 2003	
	\$	%	\$	%	\$	%
	(\$ in thousands)					
Tax at federal statutory rate	\$(43,690)	35.0%	\$13,990	35.0%	\$27,299	35.0%
Goodwill (non deductible portion)	20,213	(16.2)	—	—	—	—
State taxes, net of federal benefit	(2,689)	2.2	1,923	4.8	3,752	4.8
Other	14	—	590	1.5	337	0.4
Total income tax (benefit) expense	<u>\$(26,152)</u>	<u>21.0%</u>	<u>\$16,503</u>	<u>41.3%</u>	<u>\$31,388</u>	<u>40.2%</u>

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

	Fiscal Year Ended	
	October 2, 2005	October 3, 2004
	(in thousands)	
Deferred Tax Asset:		
State taxes	\$ 74	\$ 418
Reserves and contingent liability	4,916	6,548
Allowance for doubtful accounts	11,352	6,559
Accrued liabilities	9,745	6,729
Intangibles	9,947	—
Capital loss carry-forward	7,670	—
Valuation allowance on capital loss carry-forward	(6,213)	—
Total deferred tax asset	<u>37,491</u>	<u>20,254</u>
Deferred Tax Liability:		
Unbilled revenue	(29,306)	(23,407)
Prepaid expense	(1,630)	(1,218)
Cash to accrual	(108)	(520)
Depreciation	(2,684)	(5,105)
Intangibles	—	(5,719)
Total deferred tax liability	<u>(33,728)</u>	<u>(35,969)</u>
Net deferred tax asset (liability)	<u>\$ 3,763</u>	<u>\$ (15,715)</u>

As of October 2, 2005, the net deferred tax asset was \$3.8 million. The sale of EWS in fiscal 2005 generated a capital loss of \$18.9 million for tax purposes, of which the Company expects to utilize \$3.6 million in fiscal 2006. The benefit from utilizing \$3.6 million of capital loss is included in the income tax provision for discontinued operations in the Consolidated Statements of Operations. A valuation allowance has been placed on the entire remaining capital loss carry-forward of \$15.3 million (\$6.2 million, tax-effected). The capital loss can be carried forward for five years. The Company has performed the

required assessment of positive and negative evidence regarding the realization of the net deferred tax asset of continuing operations in accordance with SFAS No. 109, *Accounting for Income Taxes*. This assessment included the evaluation of scheduled reversals of deferred tax liabilities, availability of carry-backs, and estimates of projected future taxable income. Although realization is not assured, based on the Company's assessment, the Company has concluded that it is more likely than not that the asset will be realized and, as such, no additional valuation allowance has been provided.

The Company is currently under examination by the Internal Revenue Service (IRS) for fiscal years 1997 through 2003. The major issue raised by the IRS relates to the research and experimentation credits (R&E credits) of \$14.5 million recognized by the Company during the years under examination. The amount of credits recognized for financial statement purposes represents the amount that the Company estimates will be ultimately realizable. Should the final resolution as to the amount of R&E credits to which the Company is entitled to be more or less than the estimated realizable amounts, the Company will recognize any difference as a component of income tax expense in the period in which the determination is made.

For the discontinued operations, the Company had an income tax benefit of \$1.0 million for fiscal 2005 and tax expense of \$0.2 million and \$1.9 million for fiscal 2004 and 2003, respectively. The net deferred tax asset was \$0.2 million and \$0.3 million for fiscal 2005 and 2004, respectively. These amounts are not included in the continuing operations disclosed above.

7. Long-Term Obligations

Long-term obligations consisted of the following:

	<u>October 2,</u> <u>2005</u>	<u>October 3,</u> <u>2004</u>
	(in thousands)	
Credit Agreement	\$ —	\$ 40,000
Senior Notes, Series A	78,857	92,000
Senior Notes, Series B	10,800	14,400
Other	<u>2,281</u>	<u>4,530</u>
Total long-term obligations	\$ 91,938	\$ 150,930
Less: Current portion of long-term obligations	<u>(17,800)</u>	<u>(58,868)</u>
Long-term obligations, less current portion	<u>\$ 74,138</u>	<u>\$ 92,062</u>

The Company has a credit agreement with several financial institutions, which was amended in July 2004, December 2004 and May 2005 (Credit Agreement). The May 2005 amendment decreased the commitment under the revolving credit facility (Facility) from \$235.0 million to \$150.0 million. However, the maximum availability under the Facility is limited to \$125.0 million until additional approvals are obtained from the lenders. As part of the Facility, the Company may request standby letters of credit up to the aggregate sum of \$100.0 million. The Facility matures on July 21, 2009, or earlier upon payment in full of loans and other obligations. The May 2005 amendment also increased the pricing for borrowings under the Facility and revised the financial covenants.

As of October 2, 2005, the Company had no borrowings under the Facility. Standby letters of credit under the Facility totaled \$12.0 million as of that date.

In May 2001, the Company issued two series of senior secured notes in the aggregate amount of \$110.0 million (Senior Notes) under a note purchase agreement that was amended in September 2001, April 2003, December 2004 and May 2005 (Note Purchase Agreement). The Series A Notes, in the original amount of \$92.0 million, are payable semi-annually and mature on May 30, 2011. The Series B Notes, in

the original amount of \$18.0 million, are payable semi-annually and mature on May 30, 2008. The May 2005 amendment increased the interest rates on the Series A Notes from 7.28% per annum to 8.28% per annum and on the Series B Notes from 7.08% per annum to 8.08% per annum. However, these interest rates will return to the pre-amendment rates of 7.28% per annum for the Series A Notes and 7.08% per annum for the Series B Notes if the Company meets certain covenant compliance criteria for three consecutive fiscal quarters. The May 2005 amendment also revised the financial covenants.

As of October 2, 2005, the outstanding principal balance on the Senior Notes was \$89.7 million. Scheduled principal payments of \$16.7 million are due on May 30, 2006 and, accordingly, were included in current portion of long-term obligations. The remaining \$73.0 million was included in long-term obligations as of October 2, 2005.

In addition to the revised financial covenants, the amendments to the Credit Agreement and Note Purchase Agreement increased the restrictions on the Company's ability to incur other debt, repurchase stock, engage in acquisitions or dispose of assets. Further, these agreements contain other restrictions, including but not limited to, the creation of liens and the payment of dividends on the Company's capital stock (other than stock dividends). Borrowings under the Credit Agreement and Note Purchase Agreement are secured by accounts receivable, the stock of certain of subsidiaries and cash, deposit accounts, investment property and financial assets. Although the Company was not in compliance with certain financial covenants during fiscal 2005 prior to the May 2005 amendments, the Company met all compliance requirements as of October 2, 2005.

The following table presents, in thousands, scheduled maturities of the Company's long-term obligations:

<u>Fiscal Year</u>	
2006	\$17,800
2007	17,162
2008	16,839
2009	13,245
2010	13,252
Thereafter	<u>13,640</u>
Total	<u>\$91,938</u>

8. Exchangeable Shares

In connection with certain acquisitions in Canada, the Company issued an aggregate of 920,354 shares of exchangeable stock of TTC (Exchangeable Shares). The Exchangeable Shares were non-voting but carried exchange rights under which a holder of Exchangeable Shares was 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, which was 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, as adjusted for stock splits and stock dividends subsequent to the original issuance. The Exchangeable Shares also participated in any cash dividends paid to holders of the Company's common stock. The Exchangeable Shares could not be put back to the Company for cash. As of April 3, 2005, all Exchangeable Shares were exchanged for the Company's common stock.

9. Stock Plans

Pursuant to the Company's 1989 Stock Option Plan, key employees were granted options to purchase an aggregate of 1,490,112 shares of the Company's common stock at prices ranging from 100% to 110% of market value on the date of grant. The 1989 Stock Option Plan terminated in 1999, except as to

outstanding options. All options granted by the Company were at least 100% of market value at the date of grant. Those options vested at 25% per year and became exercisable beginning one year from the date of grant, became fully vested in four years, and terminated ten years from the date of grant.

Pursuant to the Company's 1992 Incentive Stock Plan, key employees were granted options to purchase an aggregate of 7,202,147 shares of the Company's common stock at prices not less than 100% of market value on the date of grant. The 1992 Incentive Stock Plan terminated in December 2002, except as to the outstanding options. All options granted were at market value at the date of grant. These options became exercisable one year from the date of grant, become fully vested no later than five years, and terminate no later than ten years from the date of 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 market value on the date of grant. All options granted were at market value on the date of grant. These options vest at 25% on the first anniversary of the grant date, and the balance vests monthly thereafter, such that these options become fully vested no later than four years from the date of grant. These options terminate no later than ten years from the date of grant.

Pursuant to the Company's 1992 Stock Option Plan for Nonemployee Directors, nonemployee directors were granted options to purchase an aggregate of 178,808 shares of the Company's common stock at prices not less than 100% of market value on the date of grant. The 1992 Stock Option Plan for Nonemployee Directors terminated in December 2002, except as to the outstanding options. All options granted were at market value on the date of grant. These options are fully vested and terminate no later than ten years from the date of grant.

Pursuant to the Company's 2003 Outside Director Stock Option Plan, nonemployee directors are granted options to purchase an aggregate of up to 400,000 shares of the Company's common stock at prices not less than 100% of the market value on the date of grant. All options granted were at the market value at the date of grant. These options vest and become exercisable on the first anniversary of the date of grant if the director has not ceased to be a director prior to such date, and expire ten years following the grant date.

The Company's Employee Stock Purchase Plan (Purchase Plan) provides for the granting of purchase rights to purchase common stock to eligible full and part-time employees of the Company. Under the Purchase Plan, shares of common stock will be issued upon exercise of the purchase rights. An aggregate of 2,373,290 shares may be issued pursuant to such exercise. The maximum amount that an employee can contribute during a purchase right period is \$5,000, and the minimum contribution per payroll period is \$25. Under the Purchase Plan, the exercise price of a purchase right is the lesser of 100% of the fair market value of a share of common stock 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 applicable day.

During the three years in the period ended October 2, 2005, option activity was as follows:

	<u>Number of Options</u>	<u>Weighted Average Exercise Price</u>
	(in thousands, except exercise price)	
Balance, September 29, 2002	4,827	\$ 14.13
Granted	1,374	12.32
Exercised	(601)	8.23
Cancelled	<u>(288)</u>	15.83
Balance, September 28, 2003	5,312	14.24
Granted	1,052	24.09
Exercised	(889)	9.98
Cancelled	<u>(373)</u>	18.47
Balance, October 3, 2004	5,102	16.70
Granted	1,133	15.84
Exercised	(302)	8.99
Cancelled	<u>(756)</u>	19.45
Balance, October 2, 2005	<u>5,177</u>	16.56
Exercisable as of October 2, 2005	<u>3,737</u>	17.13
Exercisable as of October 3, 2004	<u>2,949</u>	14.65
Exercisable as of September 28, 2003	<u>2,374</u>	11.47

The following table summarizes information concerning outstanding and exercisable options as of October 2, 2005:

	<u>Options Outstanding</u>		Weighted Average Exercise Price	<u>Options Exercisable</u>	
	<u>Number Outstanding</u>	<u>Weighted Average Remaining Contractual Life (Years)</u>		<u>Number Exercisable</u>	<u>Weighted Average Exercise Price</u>
<u>Range of Exercise Prices</u>					
\$ 5.68 – \$ 8.35	246,693	1.79	\$ 7.63	235,860	\$ 7.62
8.65 – 12.85	1,146,561	5.44	11.08	931,751	10.86
13.05 – 19.20	1,954,912	7.71	15.39	740,141	14.94
19.40 – 28.00	<u>1,829,102</u>	6.94	22.44	<u>1,829,102</u>	22.44
5.68 – 28.00	<u>5,177,268</u>	6.65	16.56	<u>3,736,854</u>	17.13

10. Earnings Per Share

Basic EPS excludes dilution and is computed by dividing net income available to common stockholders by the weighted average number of common shares and the weighted average number of shares of Exchangeable Shares outstanding for the period. The Exchangeable Shares were non-voting and were 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. Diluted EPS is computed by dividing net income (loss) by the weighted average number of common shares outstanding, the weighted average number of Exchangeable Shares, and dilutive potential common shares for the period. The Company includes as potential common shares the weighted average dilutive effects of outstanding stock options using the

treasury stock method. The following table sets forth the number of weighted average shares used to compute basic and diluted EPS:

	Fiscal Year Ended		
	October 2, 2005	October 3, 2004	September 28, 2003
	(in thousands, except per share data)		
Income (loss) from continuing operations	\$ (98,678)	\$ 23,469	\$ 46,610
Income (loss) from discontinued operations	(791)	273	2,749
Cumulative effect of accounting change	—	—	(114,669)
Net income (loss)	<u>\$ (99,469)</u>	<u>\$ 23,742</u>	<u>\$ (65,310)</u>
Denominator for basic earnings (loss) per share:			
Weighted average shares	56,703	55,836	53,531
Exchangeable stock of a subsidiary	<u>33</u>	<u>133</u>	<u>1,235</u>
Denominator for basic earnings (loss) per share	<u>56,736</u>	<u>55,969</u>	<u>54,766</u>
Denominator for diluted earnings (loss) per share:			
Denominator for basic earnings (loss) per share	56,736	55,969	54,766
Potential common shares:			
Stock options	—	<u>1,319</u>	<u>1,016</u>
Denominator for diluted earnings (loss) per share	<u>56,736</u>	<u>57,288</u>	<u>55,782</u>
Basic earnings (loss) per share:			
Income (loss) from continuing operations	\$ (1.74)	\$ 0.42	\$ 0.85
Income (loss) from discontinued operations	(0.01)	—	0.05
Cumulative effect of accounting change	—	—	(2.09)
Net income (loss)	<u>\$ (1.75)</u>	<u>\$ 0.42</u>	<u>\$ (1.19)</u>
Diluted earnings (loss) per share:			
Income (loss) from continuing operations	\$ (1.74)	\$ 0.41	\$ 0.83
Income (loss) from discontinued operations	(0.01)	—	0.05
Cumulative effect of accounting change	—	—	(2.05)
Net income (loss)	<u>\$ (1.75)</u>	<u>\$ 0.41</u>	<u>\$ (1.17)</u>

For the fiscal year ended October 2, 2005, 5.2 million options were excluded from the calculation of diluted potential common shares because the inclusion would be anti-dilutive. For the fiscal year ended October 3, 2004 and September 28, 2003, 1.8 million and 2.3 million options were excluded from the calculation of potential common shares, respectively. For fiscal 2004 and 2003, options were excluded because their exercise prices exceeded the average market price for these periods.

11. Leases

The Company leases office and field equipment, vehicles and buildings under various operating and capital leases. Rent expense under all operating leases was approximately \$56.6 million, \$58.1 million and \$51.6 million for the fiscal years ended October 2, 2005, October 3, 2004 and September 28, 2003, respectively. Amounts payable under noncancelable operating and capital lease commitments are as follows during the following fiscal years:

<u>Year</u>	<u>Operating</u>	<u>Capital</u>
	<u>(in thousands)</u>	
2006	\$ 26,658	\$ 1,057
2007	20,941	419
2008	16,297	96
2009	13,494	102
2010	10,098	109
Thereafter	<u>23,452</u>	<u>498</u>
Total	<u>\$ 110,940</u>	<u>2,281</u>
Less: Imputed interest		<u>(410)</u>
Net present value		<u>\$ 1,871</u>

The Company calculated the above imputed interest using 8.21% per annum, the borrowing weighted average interest rate as of October 2, 2005.

In connection with the continuing consolidation of certain operations in the civil infrastructure and communications businesses, and in accordance with SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*, the Company recorded a charge related to the abandonment of certain leased facilities of \$5.6 million in the second quarter of fiscal 2005, which was offset by an adjustment of \$1.8 million due to favorable sub-lease agreements and lease settlements in the third and fourth quarters of fiscal 2005. These amounts were recorded as selling, general and administrative expenses. These facilities are no longer in use, and the estimated costs are net of reasonably estimated sublease income. There were no other charges required to be accrued by SFAS No. 146.

The following is a summary of lease exit accrual activity:

	<u>October 3,</u>	<u>Charge</u>	<u>Reserve Utilization</u>	<u>Adjustments</u>	<u>October 2,</u>
	<u>2004</u>		<u>(in thousands)</u>		<u>2005</u>
Resource management	\$ —	\$ 300	\$ (40)	\$ —	\$ 260
Infrastructure	1,200	3,400	(1,110)	(470)	3,020
Communications	<u>—</u>	<u>1,900</u>	<u>(540)</u>	<u>(1,360)</u>	<u>—</u>
Total	<u>\$ 1,200</u>	<u>\$ 5,600</u>	<u>\$ (1,690)</u>	<u>\$ (1,830)</u>	<u>\$ 3,280</u>

12. Retirement Plans

The Company and its subsidiaries have established defined contribution plans including 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 October 2, 2005, October 3, 2004 and September 28, 2003, employer contributions relating to the plans were approximately \$6.0 million, \$14.1 million and \$12.3 million, respectively. In the fourth quarter of fiscal 2005, the Company realized forfeitures which favorably impacted earnings by \$2.5 million.

13. Comprehensive Income (Loss)

The Company includes two components in its comprehensive income (loss): net income (loss) during a period and other comprehensive income (loss). Other comprehensive income consists of translation gains and losses from subsidiaries with functional currencies different than the Company's reporting currency. Comprehensive loss of \$99.1 million, income of \$24.5 million and loss of \$63.9 million were realized for the fiscal years ended October 2, 2005, October 3, 2004 and September 28, 2003, respectively. The Company realized a net translation gain of \$0.4 million, \$0.8 million and \$1.4 million for the fiscal years ended October 2, 2005, October 3, 2004 and September 28, 2003, respectively.

14. Litigation

The Company is subject to certain claims and lawsuits typically filed against engineering and consulting firms, alleging primarily professional errors or omissions. The Company carries professional liability insurance, subject to certain deductibles and policy limits, against such claims. Management's opinion is that the resolution of these claims will not have a material adverse effect on the Company's financial position, results of operations or cash flows.

The Company continues to be involved in the contract dispute with Horsehead Industries, Inc., doing business as Zinc Corporation of America (ZCA). In April 2002, a Washington County Court in Bartlesville, Oklahoma dismissed with prejudice the Company's counter-claims relating to receivables due from ZCA and other costs. In December 2002, the Court rendered a judgment for \$4.1 million and unquantified legal fees against the Company in this dispute. In February 2004, the Court quantified the previous award and ordered the Company to pay approximately \$2.6 million in ZCA's attorneys' and consultants' fees and expenses, together with post-judgment interest.

The Company has posted bonds and filed appeals with respect to the earlier judgments. On December 27, 2004, the Court of Civil Appeals of the State of Oklahoma rendered a decision relating to certain aspects of the Company's appeals. In its decision, the Court vacated the \$4.1 million verdict against the Company. In addition, the Court upheld the dismissal of the Company's counter-claims. The Court has not yet ruled on the status of ZCA's attorneys' and consultants' fees and expenses. Several legal alternatives remain available to both parties including appeals to the Oklahoma Supreme Court. On January 18, 2005, both the Company and ZCA filed petitions for rehearing with the Oklahoma Court of Civil Appeals. Although the Company's legal counsel in these matters continues to believe that a favorable outcome is reasonably possible, final outcome of these matters cannot yet be accurately predicted. As a result, the Company continues to maintain the amounts recorded in its restated fiscal 2002 financial statements, consisting of \$4.1 million in accrued liabilities relating to the original judgment, and a \$2.6 million accrual for ZCA's attorneys' and consultants' fees and expenses. Once the legal proceedings relating to ZCA are finally resolved, accruals will be adjusted appropriately.

15. Reportable Segments

The Company manages its business in three reportable segments: resource management, infrastructure and communications. The Company's management established these segments based upon the services provided, the different marketing strategies associated with these services and the specialized needs of their respective clients. The resource management reportable segment provides engineering and consulting services related primarily to water quality and availability, environmental restoration, productive reuse of defense facilities and strategic environmental resource planning to both public and private organizations. The infrastructure reportable segment provides engineering, program management and construction management services for the additional development, upgrade and replacement of existing civil and security infrastructure to both public and private organizations. The communications

reportable segment provides network planning, engineering, site acquisition and construction management services to telecommunications companies and cable operators.

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. The Company's management evaluates the performance of these reportable segments based upon their respective income (loss) from operations before the effect of any acquisition-related amortization. All inter-company balances and transactions are eliminated in consolidation.

The following tables set forth summarized financial information concerning the Company's reportable segments:

Reportable Segments:

	<u>Resource Management</u>	<u>Infrastructure</u>	<u>Communications</u>	<u>Total</u>
	(in thousands)			
<u>Fiscal Year Ended October 2, 2005</u>				
Revenue	\$ 890,036	\$ 376,680	\$ 75,232	\$ 1,341,948
Revenue, net of subcontractor costs	574,275	301,628	23,276	899,179
Gross profit (loss)	102,535	46,354	(34,298)	114,591
Segment income (loss) from operations	35,340	(95,770)	(45,999)	(106,429)
Depreciation expense	5,218	2,997	2,094	10,309
Total assets	445,314	65,786	35,191	546,291
<u>Fiscal Year Ended October 3, 2004</u>				
Revenue	\$ 861,545	\$ 393,929	\$ 163,814	\$ 1,419,288
Revenue, net of subcontractor costs	585,807	315,301	74,101	975,209
Gross profit (loss)	114,264	51,299	(14,304)	151,259
Segment income (loss) from operations	61,935	18,419	(23,933)	56,421
Depreciation expense	6,212	3,674	3,816	13,702
Total assets	414,334	151,105	84,063	649,502
<u>Fiscal Year Ended September 28, 2003</u>				
Revenue	\$ 684,201	\$ 325,814	\$ 112,775	\$ 1,122,790
Revenue, net of subcontractor costs	486,729	269,499	68,354	824,582
Gross profit	101,399	55,725	14,900	172,024
Segment income from operations	61,305	25,722	5,707	92,734
Depreciation expense	4,372	4,671	3,142	12,185
Total assets	355,915	139,592	86,920	582,427

Reconciliations:

	Fiscal Year Ended		
	October 2, 2005	October 3, 2004	September 28, 2003
	(in thousands)		
Revenue			
Revenue from reportable segments	\$ 1,341,948	\$ 1,419,288	\$ 1,122,790
Elimination of inter-segment revenue	(55,917)	(43,129)	(35,804)
Total consolidated revenue	<u>\$ 1,286,031</u>	<u>\$ 1,376,159</u>	<u>\$ 1,086,986</u>
Revenue, net of subcontractor costs			
Revenue, net of subcontractor costs from reportable segments	\$ 899,179	\$ 975,209	\$ 824,582
Total consolidated revenue, net of subcontractor costs	<u>\$ 899,179</u>	<u>\$ 975,209</u>	<u>\$ 824,582</u>
Gross profit			
Gross profit from reportable segments	\$ 114,591	\$ 151,259	\$ 172,024
Total consolidated gross profit	<u>\$ 114,591</u>	<u>\$ 151,259</u>	<u>\$ 172,024</u>
Income (loss) from operations			
Segment income (loss) from operations	\$ (106,429)	\$ 56,421	\$ 92,734
Other expense(1)	(5,453)	(4,356)	(4,176)
Amortization of intangibles	(1,785)	(2,418)	(1,286)
Total consolidated income (loss) from operations	<u>\$ (113,667)</u>	<u>\$ 49,647</u>	<u>\$ 87,272</u>
Total assets			
Total assets from reportable segments	\$ 546,291	\$ 649,502	\$ 582,427
Total assets not allocated to segments	180,096	223,325	184,621
Total assets of discontinued operations	18,060	22,842	24,237
Elimination of inter-segment assets	(96,404)	(87,162)	(88,053)
Total consolidated assets	<u>\$ 648,043</u>	<u>\$ 808,507</u>	<u>\$ 703,232</u>

(1) Other expense includes corporate costs not allowable or allocable to the segments and litigation settlements.

Geographic Information:

	Fiscal Year Ended					
	October 2, 2005		October 3, 2004		September 28, 2003	
	Revenue, Net of Subcontractor Costs(1)	Long-Lived Assets(2)	Revenue, Net of Subcontractor Costs(1)	Long-Lived Assets(2)	Revenue, Net of Subcontractor Costs(1)	Long-Lived Assets(2)
	(in thousands)					
United States	\$ 899,179	\$ 252,478	\$ 975,209	\$ 351,545	\$ 824,582	\$ 303,879

(1) Revenue, net of subcontractor costs, is reported based on clients' locations.

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

16. Major Clients

Other than the federal government, the Company had no single client that accounted for more than 10% of its revenue. All three segments reported revenue from federal government, state and local government and commercial clients.

The following table presents revenue, net of subcontractor costs, by client sector:

<u>Client Sector</u>	<u>Fiscal Year Ended</u>		
	<u>October 2, 2005</u>	<u>October 3 2004</u>	<u>September 28, 2003</u>
		(\$ in thousands)	
Federal government	\$ 426,672	\$ 443,412	\$ 287,020
State and local government	148,304	161,263	172,589
Commercial	321,258	361,860	362,397
International	2,945	8,674	2,576
Total	\$ 899,179	\$ 975,209	\$ 824,582

17. Restatement

Subsequent to the fourth quarter of the Company's fiscal year ended October 3, 2004, the Company's management, along with the Audit Committee of its Board of Directors, identified certain accounting errors, as described below. As a result, the accompanying Consolidated Financial Statements for the fiscal year ended September 28, 2003 were restated from the amounts previously reported.

The principal adjustments are summarized below:

Legal Proceedings

In connection with the jury verdict rendered against the Company in a contract dispute with Horsehead Industries, Inc., doing business as Zinc Corporation of America (ZCA), the Company recorded a reserve for the verdict in the amount of \$4.1 million in fiscal 2002 (see Note 14). The judgment also required the Company to pay ZCA's unquantified attorneys' fees and expenses. The Company has concluded that it should have recorded a \$2.6 million reserve in fiscal 2002 for these fees. Additionally, the Company has concluded that it should have fully reserved for a contract receivable in fiscal 2002 that was owed to the Company by ZCA in the amount of \$1.2 million at the time its counter-claim against ZCA was dismissed by the court in April 2002. Finally, the Company has concluded that it improperly capitalized legal fees and expenses in the amounts of \$481,000, \$657,000 and \$512,000 during fiscal 2001, 2002 and 2003, respectively.

In an unrelated matter, the Company had recorded a \$1.2 million receivable during fiscal 2001, which was reduced to \$1.0 million in fiscal 2002 from Northwest Development and Construction (NW), a subcontractor on a design and construction contract. The receivable resulted from backcharges and a claim that the Company was pursuing against NW. The Company has concluded that it should not have recorded \$1.2 million as a receivable in fiscal 2001.

Other Restatement-Related Adjustments

The Company recorded certain other restatement adjustments in fiscal 2003 whereby it recorded a land purchase and reversed other contract costs in the amount of \$1,000,000, reversed revenue and recorded billings in excess of costs on uncompleted contracts by \$1,383,000, for a net decrease to income of \$383,000. In addition, the Company reserved another unbilled receivable in the amount of \$350,000.

Earnings per Share

The Company determined that the denominator for basic earnings (loss) per share and basic earnings per share before cumulative effect of accounting change for the fiscal years ended September 28, 2003 and September 29, 2002 should have included 1,235,000 shares of exchangeable stock of a subsidiary. Previously, the exchangeable shares were included only in the denominator for diluted earnings per share, but not basic earnings per share.

A summary of the significant effects of the restatement is as follows:

	Fiscal Year Ended September 28, 2003			
	As Previously Reported	Restatement Amounts	Reclassification Amounts(1)	As Restated and Reclassified
	(in thousands, except per share data)			
Revenue	\$ 1,132,050	\$ (1,383)	\$ (43,681)	\$ 1,086,986
Revenue, net of subcontractor costs	860,772	(1,383)	(34,807)	824,582
Gross profit	180,614	(383)	(8,207)	172,024
Selling, general and administrative expenses	87,462	862	(3,572)	84,752
Income from operations	93,152	(1,245)	(4,635)	87,272
Income before income tax expense and cumulative effect of accounting change	83,878	(1,245)	(4,635)	77,998
Income tax expense	33,769	(495)	(1,886)	31,388
Income from continuing operations	50,109	(750)	(2,749)	46,610
Income from discontinued operations, net of tax	—	—	2,749	2,749
Income before cumulative effect of accounting change	50,109	(750)	—	49,359
Net loss	\$ (64,560)	\$ (750)	—	\$ (65,310)
Basic loss per share:				
Income before cumulative effect of accounting change	\$ 0.94	—	—	\$ 0.90
Net loss	(1.21)	—	—	(1.19)
Diluted (loss) earnings per share:				
Income before cumulative effect of accounting change	\$ 0.90	—	—	\$ 0.88
Net loss	(1.16)	—	—	(1.17)
Weighted average common shares outstanding:				
Basic	53,531	—	—	54,766
Diluted	55,782	—	—	55,782

(1) See Note 2.

18. Quarterly Financial Information—Unaudited

In the opinion of management, the following unaudited quarterly data for the fiscal years ended October 2, 2005 and October 3, 2004 reflect all adjustments necessary for a fair statement of the results of operations. All such adjustments are of a normal recurring nature.

Fiscal Year 2005(1)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(in thousands, except per share data)			
Revenue	\$ 331,998	\$ 275,242	\$ 327,607	\$ 351,184
Revenue, net of subcontractor costs	235,386	200,360	233,010	230,423
Gross profit (loss)	39,328	(17,259)	38,818	53,704
Income (loss) from continuing operations	7,675	(123,240)	4,419	12,468
Income(loss) from discontinued operations	228	(593)	2,986	(3,412)
Net income (loss)(2)	7,903	(123,833)	7,405	9,056
Basic earnings (loss) per share:				
Income (loss) from continuing operations	\$ 0.14	\$ (2.18)	\$ 0.08	\$ 0.22
Income (loss) from discontinued operations	—	(0.01)	0.05	(0.06)
Net income (loss)	<u>\$ 0.14</u>	<u>\$ (2.19)</u>	<u>\$ 0.13</u>	<u>\$ 0.16</u>
Diluted earnings (loss) per share:				
Income (loss) from continuing operations	\$ 0.14	\$ (2.18)	\$ 0.08	\$ 0.22
Income (loss) from discontinued operations	—	(0.01)	0.05	(0.06)
Net income (loss)	<u>\$ 0.14</u>	<u>\$ (2.19)</u>	<u>\$ 0.13</u>	<u>\$ 0.16</u>
Weighted average common shares outstanding:				
Basic	56,469	56,643	56,808	57,026
Diluted	56,977	56,643	57,002	57,546

Fiscal Year 2004(1)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(in thousands, except per share data)			
Revenue	\$ 319,880	\$ 317,504	\$ 359,523	\$ 379,252
Revenue, net of subcontractor costs	230,994	233,021	254,189	257,005
Gross profit	45,536	45,581	41,324	18,818
Income (loss) from continuing operations	12,080	12,053	8,215	(8,879)
Income (loss) from discontinued operations	862	976	816	(2,381)
Net income (loss)	12,942	13,029	9,031	(11,260)
Basic earnings (loss) per share:				
Income (loss) from continuing operations	\$ 0.22	\$ 0.21	\$ 0.15	\$ (0.16)
Income (loss) from discontinued operations	0.01	0.02	0.01	(0.04)
Net income (loss)	<u>\$ 0.23</u>	<u>\$ 0.23</u>	<u>\$ 0.16</u>	<u>\$ (0.20)</u>
Diluted earnings (loss) per share:				
Income (loss) from continuing operations	\$ 0.21	\$ 0.21	\$ 0.15	\$ (0.16)
Income (loss) from discontinued operations	0.01	0.02	0.01	(0.04)
Net income (loss)	<u>\$ 0.22</u>	<u>\$ 0.23</u>	<u>\$ 0.16</u>	<u>\$ (0.20)</u>
Weighted average common shares outstanding:				
Basic	55,504	55,885	56,104	56,382
Diluted	57,395	57,465	57,157	56,382

- (1) As a result of the reporting for discontinued operations in the fourth quarter of fiscal 2005, the Company restated all periods presented.
- (2) As a result of the two-step interim impairment test required by SFAS No. 142, the Company recorded a goodwill impairment charge of \$105.0 million in the second quarter of fiscal 2005. This charge related to the Company's infrastructure reportable segment.

SECURITIES INFORMATION

Tetra Tech's common stock is traded on the Nasdaq National Market under the symbol TTEK. There were 3,036 stockholders of record as of December 1, 2005. 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. Tetra Tech's Credit Agreement and Note Purchase Agreement restrict the extent to which cash dividends may be declared or paid.

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.

<u>Fiscal Year 2005</u>	<u>High</u>	<u>Low</u>
First Quarter	\$ 17.02	\$ 11.98
Second Quarter	16.82	12.45
Third Quarter	13.53	10.51
Fourth Quarter	17.24	13.40

<u>Fiscal Year 2004</u>	<u>High</u>	<u>Low</u>
First Quarter	\$ 25.97	\$ 19.21
Second Quarter	27.60	19.10
Third Quarter	22.74	14.33
Fourth Quarter	18.99	12.50

Subsidiaries of Tetra Tech, Inc.

NAME	JURISDICTION OF FORMATION
Advanced Management Technology, Inc.	VIRGINIA
America's Schoolhouse Consulting Services, Inc.	NEW YORK
America's Schoolhouse Council, LLC	NEW YORK
Ardaman & Associates, Inc.	FLORIDA
Chen Northern, Inc.	COLORADO
Cosentini Associates, Inc.	NEW YORK
Engineering Management Concepts, Inc.	CALIFORNIA
Evergreen Utility Contractors, Inc.	WASHINGTON
FHC, Inc.	OKLAHOMA
Foster Wheeler Environmental Corporation (Mass.)	MASSACHUSETTS
Foster Wheeler Environmental Corporation (Ohio)	DELAWARE
GeoTrans, Inc.	VIRGINIA
Hartman & Associates, Inc.	FLORIDA
Kansas City Testing Laboratory, Inc.	MISSOURI
KCM International, Inc.	WASHINGTON
KCM, Inc.	WASHINGTON
MFG, INC.	DELAWARE
Nebraska Testing Corporation	NEBRASKA
River Corridor Closure, LLC	DELAWARE
Rizzo Associates, Inc.	MASSACHUSETTS
Sciences International, Inc.	DELAWARE
SCM Consultants, Inc.	WASHINGTON
SCM Staff Placement Specialist, Inc.	WASHINGTON
Tetra Tech Argentina S. A.	ARGENTINA
Tetra Tech Cape Canaveral, LLC	FLORIDA
Tetra Tech Caribe, Inc.	PUERTO RICO
Tetra Tech Construction Services, Inc.	COLORADO
Tetra Tech Consulting & Remediation, Inc.	DELAWARE
Tetra Tech EC Australia Pty. Ltd.	AUSTRALIA
Tetra Tech EC, Inc.	DELAWARE
Tetra Tech EM Inc.	DELAWARE
Tetra Tech Executive Services, Inc.	CALIFORNIA
Tetra Tech India Limited	INDIA
Tetra Tech International (BVI) Ltd.	BRITISH V. I.
Tetra Tech Latin America, LLC	DELAWARE
Tetra Tech Leasing, LLC	DELAWARE
Tetra Tech NUS, Inc.	DELAWARE
Tetra Tech RMC, Inc.	DELAWARE
Tetra Tech Technical Services, Inc.	DELAWARE
Tetra Tech Wired Communications of California, Inc.	CALIFORNIA
The Thomas Group of Companies, Inc.	DELAWARE
Thomas Communications & Technologies, LLC	NEW YORK
Thomas Environmental Services, LLC	NEW YORK
Thomas Management Services, LLC	NEW YORK
Western Utility Cable, Inc.	ILLINOIS
Western Utility Contractors, Inc.	ILLINOIS
Whalen & Company, Inc.	DELAWARE
Whalen Service Corps Inc.	DELAWARE
Whalen/Sentrex LLC	CALIFORNIA

EXHIBIT 23.1**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 033-46240, 033-47533, 033-80606, 033-94706, 333-11757, 333-53036 and 333-85558) of Tetra Tech, Inc. of our report dated December 15, 2005, relating to the financial statements, management's assessment of the effectiveness of internal control over financial reporting and the effectiveness of internal control over financial reporting, which appears in the Annual Report to Stockholders, which is incorporated in this Annual Report on Form 10-K. We also consent to the incorporation by reference of our report dated December 15, 2005 relating to the financial statement schedule, which appears in this Form 10-K.

/s/ PRICEWATERHOUSECOOPERS LLP

Los Angeles, California
December 16, 2005

EXHIBIT 23.2**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the incorporation by reference in Registration Statement Nos. 033-46240, 033-47533, 033-80606, 033-94706, 333-11757, 333-53036 and 333-85558 of Tetra Tech, Inc. on Form S-8 of our reports dated December 12, 2003 (December 30, 2004, as to the effect of the restatement discussed in Note 17 and December 15, 2005 as to the reclassification of discontinued operations discussed in Note 2) which reports express unqualified opinions and include explanatory paragraphs relating to the restatement described in Note 17 and the change in the Company's method of accounting for goodwill and other intangible assets effective September 30, 2002, appearing in, and incorporated by reference in, this Annual Report on Form 10-K of Tetra Tech, Inc. for the year ended October 2, 2005.

/s/ DELOITTE & TOUCHE LLP

Los Angeles, California
December 15, 2005

**Chief Executive Officer Certification Pursuant to
Section 302 of the Sarbanes–Oxley Act of 2002**

I, Dan L. Batrack, Chief Executive Officer of Tetra Tech, Inc., certify that:

1. I have reviewed this Annual Report on Form 10–K of Tetra Tech, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a–15(e) and 15d–15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a–15(f) and 15d–15(f) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of registrant’s board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Dated: December 16, 2005

/s/ DAN L. BATRACK
Dan L. Batrack
Chief Executive Officer
(Principal Executive Officer)

**Chief Financial Officer Certification Pursuant to
Section 302 of the Sarbanes–Oxley Act of 2002**

I, David W. King, Chief Financial Officer and Treasurer of Tetra Tech, Inc., certify that:

1. I have reviewed this Annual Report on Form 10–K of Tetra Tech, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a–15(e) and 15d–15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a–15(f) and 15d–15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of registrant’s board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Dated: December 16, 2005

/s/ DAVID W. KING
David W. King
Chief Financial Officer and Treasurer
(Principal Financial Officer)

EXHIBIT 32.1

**Certification of Chief Executive Officer Pursuant to
Section 906 of the Sarbanes–Oxley Act of 2002**

In connection with the Annual Report of Tetra Tech, Inc. (the “Company”) on Form 10–K for the fiscal year ended October 2, 2005 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Dan L. Batrack, Chief Executive Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes–Oxley Act of 2002, that, to my knowledge:

1. The Report fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: December 16, 2005

/s/ DAN L. BATRACK

Dan L. Batrack
Chief Executive Officer
(Principal Executive Officer)

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Tetra Tech, Inc. and will be retained by Tetra Tech, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

The foregoing certification is being furnished to the Securities and Exchange Commission as an exhibit to the Form 10–K and shall not be considered filed as part of the Form 10–K.

EXHIBIT 32.2

**Certification of Chief Financial Officer Pursuant to
Section 906 of the Sarbanes–Oxley Act of 2002**

In connection with the Annual Report of Tetra Tech, Inc. (the “Company”) on Form 10–K for the fiscal year ended October 2, 2005 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, David W. King, Chief Financial Officer and Treasurer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes–Oxley Act of 2002, that, to my knowledge:

1. The Report fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: December 16, 2005

/s/ DAVID W. KING

David W. King
Chief Financial Officer and Treasurer
(Principal Financial Officer)

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Tetra Tech, Inc. and will be retained by Tetra Tech, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

The foregoing certification is being furnished to the Securities and Exchange Commission as an exhibit to the Form 10–K and shall not be considered filed as part of the Form 10–K.