

Willdan Group, Inc.  
Form 10-K  
March 29, 2012

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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 December 30, 2011.

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 001-33076

**WILLDAN GROUP, INC.**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**14-1951112**  
(I.R.S. Employer  
Identification No.)

**2401 East Katella Avenue, Suite 300, Anaheim, California 92806**

(Address of principal executive offices) (Zip Code)

**(800) 424-9144**

(Registrant's telephone number, including area code)

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

**Common Stock, \$0.01 par value**  
(Title of class)

**NASDAQ Global Market**  
(Name of exchange)

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

**None**

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

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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 whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  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 a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a  
smaller reporting  
company)

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, as reported on the NASDAQ Global Market, as of the last business day of the registrant's most recently completed second fiscal quarter was \$23.3 million.

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

On March 26, 2012, 7,296,585 shares of the registrant's common stock were issued and outstanding.

### DOCUMENTS INCORPORATED BY REFERENCE

Part III of this Form 10-K incorporates information by reference from the registrant's definitive proxy statement for the 2012 Annual Meeting to be filed on or prior to 120 days after the end of our fiscal year.

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**PART I**

**ITEM 1. BUSINESS**

**Overview**

We are a provider of professional technical and consulting services to public agencies at all levels of government, public and private utilities, and commercial and industrial firms. We enable these entities to provide a wide range of specialized services, without having to incur and maintain the overhead necessary to develop staffing in-house. We assist our clients with a broad range of complementary services relating to:

Engineering and Planning;

Energy Efficiency and Sustainability;

Economic and Financial Consulting; and

National Preparedness and Interoperability.

We operate our business through a network of offices located primarily in California and New York. We also have operations in Arizona, Florida, Texas, Washington and Washington, DC. As of December 30, 2011, we had a staff of 562 which includes licensed engineers and other professionals. Based on our 2010 revenue, we ranked 149 out of 500 top design firms in Engineering News-Record's 2011 Design Survey. Historically, our clients have been public agencies in communities with populations ranging from 10,000 to 300,000 people. We believe communities of this size are underserved by large outsourcing companies that tend to focus on securing large federal and state projects, as well as projects for the private sector. Recently, we have begun to provide increased services to public and private utilities that service major metropolitan communities and commercial and industrial firms, particularly in connection with the growth of our energy efficiency and sustainability services. We seek to establish close working relationships with our clients and expand the breadth and depth of the services we provide to them over time.

While we currently serve communities throughout the country, our business with public agencies is concentrated in California and neighboring states. We provide services to approximately 56% of the 482 cities and over 60% of the 58 counties in California. We also serve special districts, school districts, a range of public agencies and private industry. Our business with public and private utilities is concentrated in California and New York.

In fiscal 2008 and 2009, general economic conditions declined due to a number of factors including slower economic activity, a lack of available credit, decreased consumer confidence and reduced corporate profits and capital spending, leading to a slowdown in construction, particularly residential housing construction, in the western United States. As a result of this slowdown, both our Engineering Services segment and Public Finance Services segment suffered declines in revenue and operating margin compression. While economic conditions began to improve in fiscal 2010 and 2011, the recovery has been slow, particularly with regard to our traditional engineering services and public finance services. However, our profitability has increased in fiscal 2010 and 2011 as a result of increased revenues from our Energy Efficiency Services segment. See "Management's Discussion and Analysis of Financial Condition and Results of Operation."

We were founded in 1964 and Willdan Group, Inc., a Delaware corporation, was formed in 2006 to serve as our holding company. We consist of a family of wholly owned companies that operate within the following segments for financial reporting purposes:

*Engineering Services.* Our Engineering Services segment includes the operations of our subsidiaries, Willdan Engineering and Public Agency Resources ("PARs"). Willdan Engineering

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provides civil engineering-related and city planning services, geotechnical and other engineering consulting services to our clients. PARs primarily provides staffing to Willdan Engineering. For fiscal years 2011 and 2010, contract revenue for the Engineering Services segment represented approximately 32% and 42%, respectively, of our overall consolidated contract revenue.

*Energy Efficiency Services.* Our Energy Efficiency Services segment consists of the business of our subsidiary, Willdan Energy Solutions, which offers energy efficiency and sustainability consulting services to utilities, public agencies and private industry. For fiscal years 2011 and 2010, contract revenue for the Energy Efficiency Services segment represented approximately 54% and 38%, respectively, of our consolidated contract revenue. This segment is currently our largest segment based on contract revenue.

*Public Finance Services.* Our Public Finance Services segment consists of the business of our subsidiary, Willdan Financial Services, which offers economic and financial consulting services to public agencies. For fiscal years 2011 and 2010, contract revenue for the Public Finance Services segment represented approximately 9% and 13%, respectively, of our consolidated contract revenue.

*Homeland Security Services.* Our Homeland Security Services segment consists of the business of our subsidiary, Willdan Homeland Solutions, which offers national preparedness and interoperability services and communications and technology solutions. For fiscal years 2011 and 2010, contract revenue for our Homeland Security Services segment represented approximately 5% and 7%, respectively, of our consolidated contract revenue.

**Our Markets**

We provide engineering and planning, energy efficiency, economic and financial consulting and national preparedness and interoperability services primarily to public agencies and utilities, as well as private utilities and firms. We believe the market for these privatized governmental services is, and will be, driven by a number of factors, including:

Population growth, which leads to a need for increased capacity in government services and infrastructure;

Demand by constituents for a wider variety of services;

Increased demand for services and solutions that provide energy efficiency, sustainability, water conservation and renewable energy in both the public and private sectors;

The creation of new municipalities and the growth of smaller communities, which creates the need to obtain highly specialized services without incurring the costs of hiring permanent staffing and the associated support structure;

The deterioration of local infrastructures, especially in aging areas; and

Government funding programs, such as federal homeland security grants and various state legislation, that provide funds for local communities to provide services to their constituents.

***Engineering and Planning Services***

Engineering and planning services encompass a variety of disciplines associated with the design and construction of public infrastructure improvements. We expect continued population growth in California and other western states to place a significant strain on the infrastructure in those areas, driving the need for both new infrastructure and the rehabilitation of aging structures. Federal, state and local governments have responded to this need by proposing an increase in their funding of

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infrastructure related activities, and voters in California and Arizona have, in recent years, passed sales tax increases to fund transportation improvements.

***Energy Efficiency and Sustainability Services***

In response to an increased awareness of global warming and climate change issues, private industry and public agencies are increasingly seeking out cost-effective, turn-key solutions that provide innovative energy efficiency, renewable, water conservation and sustainability services. State and local governments are frequently turning to specialized resource conservation firms to strike the balance between environmental responsibility and economic competitiveness. Consultants have the expertise to develop efficient and cost effective solutions. The use of energy efficiency services, including audits, program design, benchmark analysis, metering and partnerships provides government agencies, utilities and private firms with the ability to realize long-term savings.

***Economic and Financial Consulting***

Public agencies face an increasing burden to raise the necessary funding to build, improve and maintain infrastructure and to provide services to their local communities. While tax revenues are a primary source of funding, in California there are property tax and spending limits that curtail the generation of these funds. Alternatives include the issuance of tax-exempt securities; the formation of special financing districts to assess property owners on a parcel basis for infrastructure and public improvements, such as assessment districts and community facilities districts (known as Mello-Roos districts in California); the implementation of development impact fee programs that require developers to bear the cost of the impact of development on local infrastructure; user fee programs that pass costs along to the actual users of services; optimization of utility rates; and special taxes enacted by voters for specific purposes.

Public agencies frequently contract with private consultants to provide the advance studies, manage the processes and provide the administration necessary to support these methods. Consultants have the expertise necessary to form the special financing districts and produce an impact fee study used to develop a schedule of developer fees. Privatized services are also utilized to implement the programs or revised rate schedules, and in the case of special financing districts, administer the districts through the life of the bonds. Consultants also frequently provide the services necessary to comply with federal requirements for tax-exempt debt, such as arbitrage rebate calculations and continuing disclosure reports. Use of such services allows public agencies to capitalize on innovative public finance techniques without incurring the cost of developing in-house expertise.

***Homeland Security, National Preparedness and Interoperability Services***

After September 11, 2001, the need to protect civil infrastructure and implement additional security measures became a priority at all levels of government. In addition to the threat of terrorism, Hurricanes Katrina and Rita highlighted the vulnerability of our country's infrastructure to natural disasters, while the Deepwater Horizon oil spill along the Louisiana Gulf Coast emphasized the need for disaster preparedness. These events placed an increased burden on local and regional public agencies to be prepared to respond. In addition to fire and safety personnel, agencies responsible for the physical safety of infrastructure elements, such as water and wastewater systems, ports and airports, roads and highways, bridges and dams, are under increased pressure to prepare for natural and man-made disasters. Accordingly, the federal government now considers public works staff members to be "first responders" to such incidents and we believe that agencies are allocating resources accordingly.

For fiscal year 2011, under the Department of Homeland Security Grant Program, (HSGP), the federal government provided approximately \$1.3 billion to the states, which in turn disbursed these

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funds to local law enforcement and other agencies. The federal Department of Homeland Security ("DHS"), designated 31 metropolitan areas throughout the country to receive almost half of the HSGP funds through a program called the DHS Urban Areas Security Initiative, or UASI. Designated UASI metropolitan areas include eight metropolitan areas in California and the Phoenix, Arizona; Tucson, Arizona; Denver, Colorado; and Las Vegas, Nevada metropolitan areas.

**Our Services**

We specialize in providing professional technical and consulting services to public agencies, utilities and private industry. Our core client base is composed of cities, counties, special districts, other local and state agencies, tribal governments, public and private utilities and commercial and industrial firms.

We are organized to profitably manage numerous small to mid-size contracts at the same time. Our typical contracts can range from \$1,000 to over \$5,000,000 in contract revenue. Our typical project contracts typically have a duration of less than 12 months, although we have city services contracts that have been in effect for over 29 years. At December 30, 2011, we had approximately 2,100 open projects.

We offer services in four segments: Engineering Services, Energy Efficiency Services, Public Finance Services, and Homeland Security Services. The interfaces and synergies among these segments are key elements of our strategy. 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 following table presents, for the periods indicated, the approximate percentage of our consolidated contract revenue attributable to each segment:

|                            | Fiscal Year |      |      |
|----------------------------|-------------|------|------|
|                            | 2011        | 2010 | 2009 |
| Engineering Services       | 32%         | 42%  | 55%  |
| Energy Efficiency Services | 54%         | 38%  | 20%  |
| Public Finance Services    | 9%          | 13%  | 19%  |
| Homeland Security Services | 5%          | 7%   | 6%   |

See Item 8 of Part II, "Financial Statements and Supplementary Data" for additional segment information.

**Engineering Services**

We provide a broad range of engineering-related services to the public sector and limited services to the private sector. In general, contracts for engineering services (as opposed to construction contracts) are awarded by public agencies based primarily upon the qualifications of the engineering professional, rather than the proposed fees. We have longstanding relationships with many of these agencies and are recognized as an engineering consultant with relevant expertise and customer focused services. A substantial percentage of our engineering-related work is for existing clients that we have served for many years.

Our engineering-related services are described individually below:

*Building and Safety.* Our building and safety services range from managing and staffing an entire municipal building department to providing specific outsourced services, such as plan review and field inspections. Other aspects of this discipline include performing accessibility compliance and providing disaster recovery teams, energy compliance evaluations, permit processing and issuance, seismic retrofitting programs, and structural plan review. Many of our building and safety services engagements are with municipalities and counties where we supplement the capacity of in-house staff.

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*City Engineering.* We specialize in providing engineering services tailored to the unique needs of municipalities. City engineering can range from staffing an entire engineering department to carrying out specific projects within a municipality, such as developing a pavement management program or reviewing engineering plans on behalf of a city. This is the core of our original business and was the first service offered when we were founded.

*Code Enforcement.* We assist municipalities with the development and implementation of neighborhood preservation programs and the staffing of code enforcement personnel. Our code enforcement and neighborhood preservation services include reviewing, studying and analyzing existing programs, developing and implementing community educational programs, developing ordinances and writing grant proposals, and providing project managers and/or supervisors.

*Development Review.* We offer development plan review and inspection service to clients throughout California and the Southwest. Our experience in plan review and inspection includes ADA compliance, preliminary and final plats (maps), grading and drainage, complete infrastructure improvements for residential site plans, commercial site plans, industrial developments, subdivision, and major master planned developments. Our development review services include grading plans, street lighting and traffic signal plans, erosion control plans, storm drain plans, street improvement plans, sewer water and utility plans.

*Disaster Recovery* We provide disaster recovery services to cities, counties and local government. Our experience in disaster recovery includes assisting communities in the disaster recovery process following earthquakes, firestorms, mudslides and other natural disasters. We typically organize and staff several disaster recovery centers which function as "one-stop permit centers" which guarantee turn-around performance for fast-track plan checking and inspection services. In addition, we have experience in dealing with street and storm drain clean-up, replacement or repair of damaged storm drains, streets, and bridges, debris management and preparation and implementation of a near-term erosion and sediment control program.

*Environmental Engineering.* We provide environmental consulting and remediation services to cities, counties, and local governments. Our environmental services encompass many technical disciplines and programs, including environmental assessments and audits, environmental characterization and assessment, soil and groundwater investigations and information technology services.

*Geotechnical.* Our geotechnical and earthquake engineering services include soils engineering, earthquake and seismic hazard studies, geology and hydrogeology engineering, and construction inspection. We operate a licensed, full-service geotechnical laboratory at our headquarters in Anaheim, California, which offers an array of testing services, including construction materials testing and inspection.

*Landscape Architecture.* We assist public agencies in the design and planning of parks and recreation developments, as well as redevelopment and community-wide beautification plans. Our services in the area of landscape architecture include design, landscape management, urban forestry and planning. Specific projects include park design and master planning, bidding and construction documents, water conservation plans, urban beautification programs, landscape maintenance management, site planning, and assessment district management.

*Planning.* We assist communities with a full range of planning services, from the preparation of long-range policy plans to assistance with the day to day operations of a planning department. For several cities, we provide contract staff support. We provide environmental documentation services (NEPA/CEQA/EIR compliance and document preparation), mitigation monitoring programs and third party environmental review. We also provide urban planning and design services focused on



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investigation of specific planning and design issues and the formulation of plans, policies, and strategies for communities as a whole or for specific study areas. Typical assignments include land use studies, development of specific plans or general plan elements, design guidelines, and zoning ordinances. Our urban planning services include assisting communities with the implementation of general plans, land use enforcement, capital improvement planning, community development and redevelopment programs, and economic development strategies. We typically perform the development services function for emerging and newly incorporated cities.

*Program and Construction Management.* We provide comprehensive program and construction management services to our public-sector clients. These services include construction administration, inspection, observation, labor compliance, and community relations, depending on the client's needs and the scope of the specific project. Our construction management experience encompasses projects such as streets, bridges, sewers and storm drains, water systems, parks, pools, public buildings, and utilities.

*Contract Staff Support Services.* We provide cities and counties with both interim and long-term contract staff support services, including capital improvement planning, contract administration and code enforcement management. Public agencies have contracted with us when it is not cost-effective to have a full-time engineer on staff; to relieve peak workload situations; or to fill vacant positions during a job search. We have also provided small or newly incorporated cities with the functions of entire departments, such as building and safety, engineering, planning, or public works. In other instances, public agencies have retained our personnel to serve as city engineers, building officials, case planners, public works directors, or project managers for large or unusually complex projects.

*Structures.* Our structural engineering services include bridge design, bridge evaluation and inspection, highway and railroad bridge planning and design, highway interchange design, railroad grade separation design, bridge seismic retrofitting, building design and retrofit, sound wall and retaining wall design, and planning and design for bridge rehabilitation and replacement.

*Survey.* Our surveying and mapping services include major construction layout, design survey, topographic survey, aerial mapping, Geographic Information Systems (GIS), and right-of-way engineering.

*Traffic.* We specialize in providing traffic engineering and planning services to governmental agencies. Our services range from responding to citizen complaints to designing and managing multimillion dollar capital improvement projects. Traffic engineering services include serving as the contract city traffic engineer in communities, as well as performing design and traffic planning projects for our clients. These services and projects include parking management studies, intersection analyses and improvements, traffic impact reports, and traffic signal and control systems. We develop geometric design and channelization, traffic signal and street lighting plans, parking lot designs, and traffic control plans for construction.

*Transportation.* Our engineers design streets and highways, airport and transit facilities, freeway interchanges, high-occupancy vehicle lanes, pavement reconstruction, and other elements of city, county, and state infrastructure. Our transportation engineering services cover a full spectrum of support functions, including right of way, utility relocation, landscape, survey and mapping, geographic information systems, public outreach, and interagency coordination. These services are typically provided to local public works agencies, planning and redevelopment agencies, regional and state transportation agencies and commissions, transit districts, ports, railroads, and airports.

*Water Resources.* We assist clients in addressing the many facets of water development, treatment, distribution and conservation, including energy savings, technical, financial, legal, political, and regulatory requirements. Our core competencies include hydraulic modeling, master planning, rate

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studies and design and construction services. Our design experience includes reservoirs, pressure reducing stations, pump and lift stations, and pipeline alignment studies, as well as water/wastewater collection, distribution, and treatment facilities. We also provide a complete analysis and projection of storm flows for use in drainage master plans and for individual storm drain systems to reduce flooding in streets and adjacent properties. We design open and closed storm drain systems and detention basin facilities, for cities, counties and the Army Corp of Engineers.

*Representative Projects.* The following are examples of typical projects we have in the Engineering Services segment:

*Camp Pendleton.* We provided an upgrade and repair of the Del Mar Bridge and the Las Flores Area Tank Crossing in Camp Pendleton for the U.S. Navy. As part of the Green Beach project, we performed a scour analysis for the San Onofre Creek to protect the existing I-5 highway bridges, the new tank access road and the new NCTD railroad bridge. Flood protection measures were designed to protect the existing and proposed amendments.

*City of Brea.* We have been retained to document and evaluate the city's storm drainage systems, and to assess their adequacy for handling storm water runoff. The documentation will be done by compiling available city and county records into a Geographic Information System (GIS) format which will then be used in system modeling activities and to produce a working tool for the city staff when complete. We will incorporate updated hydrologic data for the region and define storm runoff conditions and flows. This data will be used in hydraulic modeling to evaluate system capacities and/or deficiencies. Resulting deficiencies will be validated and costs/priorities developed for establishing a Capital Improvement Program (CIP) plan and schedule for the city to use in their annual project planning. A final report will be prepared for adoption.

*City of Calimesa.* We are providing professional engineering services for the design of the Safe Routes to School ("SR2S") improvements along Avenue "L" and 2<sup>nd</sup> Street in the City of Calimesa. The project limits will cover 5,300 linear feet and provide safer routes for K-6 students at Calimesa Elementary School.

*City of Elk Grove.* We partnered with the City of Elk Grove, a community of more than 140,000 located just south of Sacramento, California, to provide city engineering, municipal, and operational services, as well as public works management consulting services for the city's Public Works Department. Our involvement with Elk Grove dates back to before the city's incorporation in 2000. In 2010, the City Council opted for contracting with a single vendor instead of multiple vendors to provide public works services and selected Willdan to assist them in developing a new model that offers a better balance of experienced and cost-effective labor, provides checks and balances to ensure the efficient delivery of quality services and positions the Public Works Department for successful service management and delivery as the city continues to grow in population and complexity. We are providing the city with the service commitment of a fully staffed public works/city engineering department. At the city's request, we have expanded our role and now provide all public infrastructure maintenance services. We have procured and executed contracts with a select group of specialty firms to provide these services. We will manage this team to maintain roadway, storm drain and drainage facilities, traffic signal and street lighting outages, street signs and pavement markings, graffiti abatement, and other field services such as emergency hazard material spill response.

*City of Long Beach.* For over eight years, we have been providing the City of Long Beach with a range of on-call services including construction management, public works observation, building and safety, and materials testing services relating to various public works projects throughout the city. We manage and inspect approximately \$40 million worth of publicly funded projects per year including paving, street repairs, sewers, bridges, storm drains, slurry seals, airport runway

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repair at the Long Beach Airport, alley improvement projects, and tenet improvements to city owned buildings and other appurtenant work. In addition to our construction management and inspection services, we have provided public outreach services for many of the city's high profile public works projects such as the city's recent award winning Downtown Bike Lane Project, Long Beach Boulevard Reconstruction Project, and Atlantic Boulevard through Bixby knolls.

*City of Los Angeles.* We are providing construction management support services to the City of Los Angeles Bridge Program under a master task order contract for five bridges. Our construction support services on each of the five projects includes providing daily on-site resident engineering service, visiting the project sites and providing technical support when requested, and providing remote technical support from the office. Technical support services include bridge engineering, geotechnical engineering, cost estimating, and project scheduling services. The project is expected to be completed in December 2013.

*City of San Bernardino.* We have been selected to design and implement a residential energy audit and retrofit program for the City of San Bernardino. This Green Home Makeover Program, which is a key component of the city's broader Sustainable San Bernardino Program, will offer rebates for energy efficiency improvements to owner and renter occupied single-family homes built prior to 1970. The program is being funded with \$600,000 in Energy Efficiency and Conservation Block Grant funds from the U.S. Department of Energy as part of the American Recovery and Reinvestment Act. These funds will be leveraged with rebates from the Energy Upgrade California Program. In addition, no cost weatherization improvements are being offered to lower income residents by the Community Action Partnership of San Bernardino County. The program is intended to reduce energy consumption and the associated greenhouse gas emissions in single-family homes. By reducing energy consumption, the program will aid in reducing monthly housing costs. The program will also generate new "green" jobs and training opportunities for the city's residents through the hiring of local contractors and the use of locally trained energy auditors and analysts through the Clean Energy Workforce Training Program of the San Bernardino Community College District.

*City of Santa Monica.* We provided professional traffic engineering design services to the City of Santa Monica for the preparation of five separate construction contract plan, specification, and estimate packages. The project consisted of a multi-year conversion program that will convert old 5KV street lighting circuits to new 120 V multiple circuits. The project required the removal of existing 5KV infrastructure including wiring, pull boxes, services, and luminaries and the installation of the replacement infrastructure. Value engineering was provided to ensure the design of each of the conversion projects could be constructed within the allocated total construction budget of \$11.4 million. We also provided utility notices and utility coordination for relocations as needed for substructures present within the project limits, and with Southern California Edison for service feed points.

*County of Glenn.* We have been assisting the County of Glenn since 2008 providing on-call services as well as serving as their County Engineer, Road Commissioner, and County Surveyor. During our tenure with the county, we have conducted flood studies, reviewed and approved various surveys and record maps, evaluated over forty structures for scour potential, served as resident engineer on construction projects, and assisted the county with a landfill closure. We are currently developing the designs for seven different bridge projects for the county. Part of our full service commitment to the county includes assisting them with processing all of the paperwork involved in their federal aid projects. In this role, we have helped the county leverage its scarce funding to qualify for nearly \$28 million of federal bridge replacement funding.

*County of Yolo.* We are contracted with the County of Yolo, a region of over 200,000 residents, to provide a variety of on-call services including civil engineering, environmental, energy

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conservation, plan check and other consulting services for the county over three years. Civil engineering services include various mechanical and electrical engineering assessments of county facilities. Consulting services include energy use and conservation, design services, engineering studies, construction documents, bidding and contract administration phases for a variety of projects that may arise. Environmental services are related to California Environmental Quality Act (CEQA) and/or National Environmental Policy Act (NEPA) compliance and jurisdictional permitting requirements.

*Los Angeles County Metropolitan Transportation Authority (MTA).* We teamed with another engineering firm to execute an engineering and design services project for the Los Angeles MTA. The project includes the construction of a Bus Rapid Transit (BRT) line that extends four miles north from Metro Orange Line Canoga Station to the Metrolink Chatsworth Station and the construction of four new stations at Sherman Way, Roscoe Boulevard, Nordhoff Street and Chatsworth Train Depot. This dedicated busway will offer improvements to north-south mobility in the western San Fernando Valley by connecting activity centers along the corridor and connecting the Metro Orange Line with Metrolink. Other benefits include faster travel times, improved bus connections, and better access to destinations throughout Los Angeles County. Construction is scheduled to be completed in the summer of 2012.

***Energy Efficiency Services***

In fiscal 2008, we acquired our subsidiary, Willdan Energy Solutions ("WES"), formerly known as Intergy. WES is an energy efficiency and sustainability consulting firm that provides specialized, innovative services in energy, water, and resource management to businesses, utilities, state agencies, municipalities, and non-profit organizations. Our talented staff and experienced engineers develop efficient and cost-effective approaches within all phases of projects. WES energy efficiency services include comprehensive surveys, program design, benchmarking analysis, and metering.

Our range of energy efficiency services are described below:

*Energy Efficiency.* We provide complete energy efficiency consulting and engineering services, including: program design, management and administration; marketing, customer outreach, and project origination; energy audits and feasibility analyses; retro-commissioning; implementation contractor recruitment, training and management; data management and reporting; retro-commissioning services; and measurement and verification services.

*Sustainability.* We assist clients (including utilities, schools and private companies) in developing and managing facilities and infrastructures through a holistic, practical approach to sustainability. Our services in the area of sustainability cover renewable energy, master plans, Leadership in Energy and Environmental Design (LEED) certification for buildings, GHG reduction strategies, and the development of California Assembly Bill No. 811 (AB-811) projects.

*Climate Action Plans.* We assist governmental clients with the development and implementation of climate action plans. These plans include energy efficiency, water conservation, land development, renewable, and GHG reduction strategies.

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*Representative Projects.* The following are examples of typical ongoing projects we have in the Energy Efficiency Services segment:

*Consolidated Edison of New York.* We serve as Con Edison's program manager and implementer for its Small Business Direct Install (SBDI) Program in New York City and Westchester County, New York. The Program helps small businesses achieve energy efficiency and financial savings, offering both free and cost-shared energy efficiency retrofits, including installation of high-efficiency lighting; heating, ventilation, and air conditioning; and refrigeration energy conservation measures. As the program implementer, we are responsible for: managing a network of over 50 subcontractors; moving a high volume of projects from survey to retrofit; tracking, analyzing, and reporting on project status and program data; and oversight of construction management. To date, we have performed over 36,000 energy efficiency surveys and have overseen nearly 14,000 retrofit projects in Con Edison's service territory, resulting in over 150 million kWh of annualized energy savings.

*New York State Energy Research & Development Authority (NYSERDA).* Under the State of New York's Industrial Process Efficiency (IPE) Program we serve as the exclusive energy efficiency contractor for data centers. We are tasked with managing NYSERDA's entire program process, from customer outreach to application to post-installation review, and stimulating energy efficiency investment in the data center sector, which is the fastest-growing energy consumer sector in New York. We have worked with 450 customers and 136 strategic partners to identify and foster over 150 data centers projects, with an estimated energy savings of almost 100 million kWh in New York State.

*Pacific Gas & Electric (PG&E), Southern California Edison (SCE), and San Diego Gas & Electric (SDG&E) Hospital Energy Efficiency Program (HEEP).* We serve as program administrator for HEEP, which offers turn-key energy efficiency services for hospitals and medical office buildings in the territories of PG&E, SCE, and SDG&E, including acute hospitals (ambulatory surgery centers licensed under acute hospitals and acute hospital outpatient services); acute psychiatric hospitals; medical or healthcare-related office buildings; chemical dependency recovery hospitals; skilled nursing facilities; free-standing trauma centers; community clinics; convalescent hospitals; and extended care facilities.

*Pacific Gas & Electric (PG&E) Ozone Laundry Energy Efficiency Program (OLEEP).* OLEEP captures cost-effective natural gas savings for on-premise laundry equipment in hotels and lodging facilities with over 250 rooms, hospitals and residential care facilities, commercial laundry services, and correctional facilities. Our program administration services include facility audits, engineering and financial analysis, contractor bid and selection assistance, and water agency incentive assistance.

*Southern California Edison (SCE) and San Diego Gas & Electric (SDG&E) Lodging Energy Efficiency Program (LEEP).* LEEP provides customized energy-saving solutions for lodging customers, including full-service development, management, and implementation of energy-savings projects. We are implementing the large hotel segment of the Lodging Savers program.

*Los Angeles Commercial Building Performance Partnership (LACBPP).* We serve as program administrator for the "Energy Upgrade Los Angeles Commercial Initiative" through the Los Angeles Commercial Building Performance Partnership, a US Department of Energy funded program designed and administered by the City of Los Angeles. LACBPP was designed to help building owners develop and make capital investments in comprehensive energy efficiency and water efficiency improvements and/or distribute generation renewable energy sources in existing non-residential commercial buildings including industrial facilities. As program administrator, we manage and oversee all aspects of program activity.

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*San Diego Gas & Electric (SDG&E) Direct Install Program.* We administer and manage SDG&E's Direct Install Program, which offers incentives for small- and medium-sized businesses to make energy efficiency upgrades. Typical upgrades include lighting, photocells, occupancy sensors, LED signs, refrigeration, HVAC, and water heating.

*Orange & Rockland Utilities (O&R) Lighten Up Program.* We serve as O&R's program manager and implementer for its Lighten Up energy efficiency program that is part of the Small Business Direct Install (SBDI) Program in New York City and Westchester County, New York. The Program helps small businesses achieve energy efficiency and financial savings, offering both free and cost-shared energy efficiency retrofits, including installation of high-efficiency lighting; heating, ventilation, and air conditioning; and refrigeration energy conservation measures. As the program implementer, we are responsible for: managing a network of subcontractors; moving a high volume of projects from survey to retrofit; tracking, analyzing, and reporting on project status and program data; and oversight of construction management. To date, we have performed over 3,500 energy efficiency surveys and have overseen nearly 1,300 retrofit projects in O&R's service territory, resulting in over 18 million kWh of annualized energy savings.

**Public Finance Services**

We acquired our subsidiary Willdan Financial Services (formerly known as MuniFinancial), a public finance consulting business, in 1999 to supplement the engineering services we offer our clients. In general, we supply expertise and support for the various financing techniques employed by public agencies to finance their operations and infrastructure. We also support the mandated reporting and other requirements associated with these financings. We do not provide underwriting or financial advisory services for municipal securities.

Unlike our Engineering Services business, we often compete for business, at least initially, through a competitive bid process. Agencies competitively bid out services on a regular basis. The new contract terms are generally one, three or five years per contract.

Our services in this segment include the following:

*District Administration.* We administer special districts on behalf of public agencies. The types of special districts administered include community facilities districts (in California, Mello-Roos districts), assessment districts, landscape and lighting districts, school facilities improvement districts, water districts, benefit assessment districts, fire suppression districts, and business improvement districts. Our administration services include calculating the annual levy for each parcel in the district; billing charges directly or through a county tax roll; preparing the annual Engineer's Report, budget and resolutions; reporting on collections and payment status; calculating prepayment quotes; and providing financial analyses, modeling and budget forecasting.

The key to our District Administration services is our proprietary software package, MuniMagic®: Municipal Administration & Government Information Coordinator, which we developed internally to redefine the way we administer special districts. MuniMagic® is a database management program that maintains parcel data; calculates special taxes, assessments, fees and charges; manages payment tracking; maintains bond-related information in a single, central location; and provides reporting, financial modeling and analysis at multiple levels of detail. MuniMagic® offers a significant competitive advantage in an industry driven by the ability to accurately process extremely large quantities of data. MuniMagic® is also available for licensing by our existing clients. See " Intellectual Property" for a discussion of the licensing terms.

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*Financial Consulting.* We perform economic analyses and financial projects for public agencies, including:

Fee and rate studies, such as cost allocation studies; user fee analysis; utility rate analysis for water, wastewater and stormwater; fiscal and economic impact analysis; and development fee studies;

Special district formation, which involves the design, development and initiation of community facilities districts, school facilities improvement districts, assessment districts, landscape and lighting districts, benefit assessment districts, business improvement districts, fire suppression assessments, Proposition 218 studies, assessment balloting, and re-engineering;

Other special projects which include facility financing plans, the formation of new public entities, annexations and incorporations; reassessment engineering for bond refunding; infrastructure analysis both to evaluate the need for rehabilitation efforts, and for financial reporting purposes, in association with Willdan Engineering; development and financial projections; nexus studies between public and private enterprises, including public-private partnerships and the benefits of economic development to municipalities and to state, provincial, regional and national governments; implementation of infrastructure and development projects (including the fiscal impacts and public and private project financing); and fiscal, economic and real estate analysis services.

*Federal Compliance.* We offer federal compliance services to issuers of municipal securities, which can be cities, towns, school districts, housing authorities and other entities that are eligible to issue tax-exempt securities. Specifically, we provide arbitrage rebate calculations and municipal disclosure services that help issuers remain in compliance with federal regulations. We provide these reports, together with related compliance services such as bond elections, temporary period yield restriction, escrow fund monitoring, rebate payments and refund requests. In terms of continuing disclosure services, we both produce the required annual reports and disseminate those reports on behalf of the issuers. We provide federal compliance services to approximately 610 issuers in 38 states and the District of Columbia on more than 2,500 bond issues totaling over \$60 billion in municipal debt.

*Representative Projects.* Examples of typical projects we have in the Public Finance Services segment include:

*County of Imperial.* We were engaged by the County of Imperial to evaluate the fiscal and economic impact of a series of solar farms to be constructed on agricultural land in the county. We calculated the direct, indirect and induced economic impacts of the proposed projects, as well as the impact of the cessation of agricultural production on the land. We also prepared an estimate of the fiscal revenues and expenditures that would be generated by the construction and operation of the solar farm.

*Town of Jupiter, FL.* We have contracted with the Town of Jupiter to provide an assessment methodology study for undergrounding overhead utility lines in one portion of the town. We are the only company in Florida to have performed this type of study. The project is to be constructed concurrently with a significant beautification project in an area adjacent to the only federally designated wild and scenic river in Florida the Loxahatchee. In such a benefit assessment program, the special and particular benefits that accrue to each property as the result of undergrounding existing utility lines must be identified and quantified. The calculation of the cost to be assessed to each parcel requires that a fair and reasonable apportionment methodology be developed based on the unique characteristics of the area and each property's special and particular benefits received.

*California Enterprise Development Authority (CEDA).* We were hired by CEDA to provide Property Assessed Clean Energy ("PACE") assessment administration services. These services

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include maintaining a database of the parcels within each program, establishing and maintaining amortization schedules for each parcel through the term of the lien/loan, submitting the annual assessment levy, reviewing county records to determine which parcels are delinquent, preparing delinquency reports and sending reminder letters to property owners, and providing a toll-free number to field inquiries regarding assessment proceedings and annual installments. Additional services such as preparation of prepayment calculations, preparation of required program documents, review of assessment documentation for each parcel, and the recording of the assessment agreements may be provided as well.

*County of Stanislaus.* We were engaged by the Stanislaus Council of Governments (StanCOG), a regional council of city and county governments, to create a Regional Transportation Impact Fee Program (RTIP) that provides a common vision for a fee program to fund regional transportation improvements, while meeting the requirements of the California Mitigation Fee Act (AB 1600). The County of Stanislaus created a public facilities fee (PFF) program in 1990 that included a range of fees to fund development's fair share of facilities to serve future growth in the county, within both the cities and in the unincorporated portion of the county. The transportation component of the fee originally included three types of fees for different categories of county roads. Since then there has been divergence from the fee impact programs.

*City of San Diego.* We were selected as the Special Tax Consultant for the City of San Diego's Convention Center Expansion Project. The project is tasked with forming a Communities Facilities District (CFD) to levy a special tax for the expansion of the city's convention center, which will be funded through the issuance of tax exempt bonds. The entire city is included in the CFD and only hotels properties are taxed based on a percentage of rent received for their hotel rooms. There are 3 zones within the CFD and each zone is taxed at a different percentage of rent.

*Elk Grove Water District.* We assisted the Elk Grove Water District staff in developing a comprehensive revenue requirements analysis and financial plan, and provide targeted rate and fee structure recommendations, based on the district's objectives and timeline. A primary project objective was to develop a robust pro forma financial model that would serve as the basis for developing updated rate and fee structures that will provide for long-term financial stability, appropriately reflect levels of service demand attributable to different customer classes, and comply with the requirements of Proposition 218.

*City of Delano.* We were hired by the City of Delano to perform a utility rate study and financial analysis for water, sanitary sewer, solid waste, and street cleaning. The city's objectives were focused on ratepayer equity and affordability, water conservation, and overall financial stability. We collaborated with the city to prepare and present a comprehensive analysis that ensured the rate structure and financial recommendations accomplish the city's objectives. Our scenario planning capabilities and financial expertise resulted in an analysis and rate structures that provide adequate revenue to fund operations, create a secure and reliable funding source for future capital improvements, while fully ensuring that rates are equitable, predictable, and reflect the true cost-of-service.

***Homeland Security Services***

In fiscal 2004, we formed our subsidiary Willdan Homeland Solutions (WHS), formerly known as American Homeland Solutions. WHS provides emergency preparedness planning, emergency preparedness training, emergency preparedness exercises, communications and technology, and water security services that focus on integrating local resources and assets within state and federal systems to cities, counties and related municipal service agencies, such as utility and water companies, as well as school districts, port and transportation authorities, tribal governments and large business enterprises



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with a need for homeland security related services. We staff our projects in this area with former high-level local and regional public safety officers and focus on solutions tailored for local agencies and their personnel. Our services include the following:

*Emergency Preparedness Planning.* We design, develop, implement, review, and evaluate public and private agencies' emergency operations and hazard mitigation plans, including compliance and consistency with federal, state and local laws and policies. Plans are tailored to respond to terrorism, intentional acts of sabotage, and natural disasters. We also provide command and control and emergency response training for all types of unusual occurrences. We have developed emergency operations, hazard mitigation, continuity of operations and business continuity and recovery plans for municipal governments, special districts, school districts, and private-industry clients.

*Emergency Preparedness Training.* We design customized training courses for all aspects of disaster, unusual occurrence and emergency responses. In this regard, we have developed and own several training courses that meet or exceed the requirements for the federal National Incident Management System (NIMS) training. These courses assist clients in meeting their obligations to prepare their staff to utilize the NIMS. Our courses have been approved by California's Commission on Peace Officers Standards and Training, the California Emergency Management Agency, and the Federal National Integration Center, Training and Education Division, formerly the Department of Homeland Security's "Office of Grants and Training."

*Emergency Preparedness Exercises.* We conduct planning sessions and exercises, including those relating to weapons of mass destruction, large events, mass casualty transportation disasters, terrorism incident response, natural disaster response and recovery, and civil disorder events. We design these exercises for multi-agency involvement so they are fully compliant with the federal government's Homeland Security Exercise and Evaluation Program (HSEEP), the State Emergency Management System (SEMS) for California, and the National Response Framework. Exercises are designed to evaluate and test "first responders" and support personnel, as well as elected officials and agency management.

*Communications and Technology.* We provide homeland security, public safety, and emergency response capabilities for government and corporate clients that focus on integrating local resources and assets within federal, state, and local systems. Core competencies include requirements development, integration, life cycle analysis, system design, procurement and selection, deployment, interoperability, project management, quality management, assessments, conceptual and final design and gap analysis in the public safety radio land mobile communications and corporate market including broadband networks, commercial cellular test plans, data networks, microwave network planning and related engineering design.

*Water Security.* We offer National Incident Management System (NIMS) and Incident Command System (ICS) courses specific to water and wastewater agencies. Our instructors and course facilitators have significant experience in water and wastewater security, emergency preparedness, and business continuity. All courses are DHS-certified. Eligible agencies may use DHS-TSGP funds for this approved training.

*Representative Projects.* Examples of typical Homeland Security Services projects include:

*Southern Planning Area Project (SPA).* We were awarded a third contract with GTSI, Inc. to provide public safety interoperable communications professional services to the 11 California counties that comprise the California Statewide Interoperability Executive Committee Southern Planning Area (SPA). The SPA is an area larger than the State of New York with a population of more than 22 million. As the technical lead on the project, we are providing strategic planning, exercise development, technical and operational assessment and administrative support

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services in the development of the SPA's region wide integration of public safety communications. Our communications professionals will support each of the 11 counties with the goal of unifying the communications systems and improving the SPA's interoperable communications through compliance with the California Statewide Communication Interoperability Plan and the National Emergency Communication Plan.

*Continuity of Operations Plan (COOP) Program.* We were engaged in 2010 to establish a COOP program. The program was broken into four developmental phases to support 25 cities and 3 Police Departments in Orange County, California. Phase I includes the development of COOP plans for an estimated 280 city departments and overarching plans for each city. We provide COOP training for each city during Phase II. Tabletop or discussion-based exercises are designed, developed and delivered to each city during Phase III. Lessons learned during the first three phases are used to finalize the plans in Phase IV. We are currently implementing this program.

*New York Mass Transit Authority Training Program (NY MTA).* We were contracted to develop and deliver advanced security and emergency response courses and workshops for NY MTA employees. The NY MTA is the largest public transportation provider in the western hemisphere, serving 14.4 million people. The program covers several MTA agencies and course development will include courses like Behavioral Recognition, Counter Terrorism, Evacuation, Emergency Command and Control, Critical Incident Management, Crisis Communications and Leadership. Course delivery is anticipated to include 36,000 MTA students.

**Competitive Strengths**

We have a well-established track record of providing a wide range of privatized services to the public sector, and have recently begun providing increased services to private firms and utilities. We have developed the experience base, professional staff and support technology and software necessary to quickly and effectively respond to the needs of our clients. We believe we have developed a reputation within our industry as problem solvers across a broad range of client issues. Some of our competitive strengths include:

*Quality of service.* We pride ourselves on the quality of service that we provide to our clients. The work for which we compete is awarded primarily based on the company's qualifications, rather than the fees proposed. We believe that our service levels, experience and expertise satisfy even the most rigorous qualification standards. We have developed a strong reputation for quality, based upon our depth of experience, ability to attract quality professionals, customized technology and software that support our services, local knowledge and the expertise we possess across multiple disciplines. We believe we are well-positioned to serve public sector clients due to our knowledge of the unique reporting processes and operating procedures of public agencies, which differ substantially from the private sector. We believe our high quality of service is a significant reason we currently provide services to approximately 56% of the cities and over 60% of the counties in California.

*Broad range of services.* Our focus on customer service has led us to continually broaden the scope of the services we provide. At different stages in our history, as the needs of our public sector clients have evolved, we have developed service capabilities complementary to our core engineering business, including building and safety services, financial and economic services, planning services, geotechnical services, code enforcement services, disaster planning and homeland security services, and most recently, energy efficiency and sustainability. Further, because we recognize that local public sector projects and issues often cross departmental lines, we have developed the ability to deliver multiple services in a cohesive manner to better serve our client communities as a whole.

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*Strategic locations in key markets.* Local agencies want professionals who understand their local needs. Therefore, we deliver our services through a network of offices dispersed throughout the western United States and New York. Each of our offices is staffed with quality professionals, including former management level public sector employees, such as planners, engineers, inspectors, and police and fire department personnel. These professionals understand the local and regional markets in which they work.

*Strong, long-term client relationships.* We have developed strong relationships with our public agency clients, some of whom we have worked with for over 29 years. The value of these long-term relationships is reflected in the recurring award of new projects, ongoing staffing assignments, and long-term projects that require high-level supervision. We also seek to maintain close personal relationships with public agency decision-makers to strengthen our relationships with them and the agencies with which they work. We frequently develop new client relationships as our public agency contacts are promoted or move to other agencies. Our strong culture of community involvement and leadership in key public agency organizations underscores our customer focus and helps us cultivate and expand our client base.

*Experienced, talented and motivated employees.* Our staff consists of seasoned professionals with a broad array of specialties, and a strong customer service orientation. Our corporate culture places a high priority on investing in our people, including providing opportunities for stock ownership to attract, motivate and retain top professionals. Our executive officers have an average of more than 34 years of experience in the engineering and consulting industry, and an average of 5 years with our company.

**Clients**

Our clients primarily consist of public and governmental agencies including cities, counties, redevelopment agencies, water districts, school districts and universities, state agencies, federal agencies, a variety of other special districts and agencies, tribal governments and public utilities. We also provide services to private utilities and private industry. Our clients are often public agencies serving communities of 10,000 to 300,000 people, although we have begun providing increased services to public and private utilities with the growth of our energy efficiency segment. In fiscal 2011, we served over 750 distinct clients. For fiscal 2011, we had one client, the Consolidated Edison Company of New York, that accounted for 28% of our consolidated contract revenue. None of our other clients accounted for over 10% of our consolidated contract revenue. Our clients are primarily based in California and New York, as well as Arizona Florida, Texas, Washington and Washington, DC. In fiscal 2011, services provided to clients in California accounted for approximately 60% of our contract revenue and services provided to clients in New York accounted for approximately 35% of our contract revenue.

**Contract Structure**

We provide our services under contracts, purchase orders or retainer letters. The contracts we enter into with our clients contain three principal types of pricing provisions:

*Time and materials provisions* provide for reimbursement of costs and overhead plus a fee for labor based on the time expended on a project multiplied by a negotiated hourly billing rate. The profitability achievable on a time and materials basis is driven by billable headcount and cost control.

*Unit based provisions* require the delivery of specific units of work, such as arbitrage rebate calculations, dissemination of municipal securities continuing disclosure reports, or building plan checks, at an agreed price per unit, with the total payment under the contract determined by the actual number of units performed.

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*Fixed price provisions* require all work under a contract to be performed for a specified lump sum, which may be subject to adjustment if the scope of the project changes. Contracts with fixed price provisions 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 can vary substantially.

We also receive monthly retainers from a limited number of our clients. The following table presents, for the periods indicated, the approximate percentage of our contract revenue subject to each type of pricing provision:

|                    | Fiscal Year |             |
|--------------------|-------------|-------------|
|                    | 2011        | 2010        |
| Time and materials | 33%         | 44%         |
| Unit based         | 52%         | 27%         |
| Fixed price        | 14%         | 28%         |
| Monthly retainer   | 1%          | 1%          |
| <b>Total</b>       | <b>100%</b> | <b>100%</b> |

The percentage of our contract revenue derived from fixed price contracts decreased to 14% in fiscal year 2011 from 28% in fiscal year 2010 primarily because Willdan Energy Solutions had time and materials and unit based provisions in a higher percentage of its new contracts than in previous years.

For time and materials and fixed price contracts, we bill our clients periodically in accordance with the contract terms based on costs incurred, on either an hourly fee basis or on a percentage of completion basis, as the project progresses. For unit based and retainer based contracts, we bill our clients upon delivery of the contracted item or service, and in some cases, in advance of delivery.

Our contracts come up for renewal periodically and at the time of renewal may be subject to renegotiation, which could impact the profitability on that contract. In addition, during the term of a contract, public agencies may request additional or revised services which may impact the economics of the transaction. Most of our contracts permit our clients, with prior notice, to terminate the contracts at any time without cause. While we have a large volume of transactions and generally low customer concentration, the renewal, termination or modification of a contract may have a material adverse effect on our consolidated operations.

**Competition**

The market for our services is highly fragmented. We often compete with many other firms ranging from small local firms to large national firms. Contract awards are based primarily on qualifications, relevant experience, staffing capabilities, geographic presence, stability and price.

Doing business with governmental agencies is complex and requires the ability to comply with intricate regulations and satisfy periodic audits. We have been serving cities, counties, special districts and other public agencies for over 46 years. We believe that the ability to understand these requirements and to successfully conduct business with governmental entities and agencies is a barrier to entry for potential competitors.

Our competition varies by type of client, type of service and geography. The range of competitors for any one project can vary depending upon technical specialties, the relative value of the project, geographic location, financial terms, risks associated with the work, and any client imposed restrictions. Unlike most of our competitors, we focus our services on public sector clients. Public sector clients generally choose among competing firms by weighing the quality, experience, innovation and timeliness

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of the firm's services. When selecting consultants for engineering projects, many government agencies are required to, and others choose to, employ Qualifications Based Selection, or QBS. QBS requires the selection of the most technically qualified firms for a project, while the financial and legal terms of the engagement are generally secondary. QBS applies primarily to work done by our Engineering Services segment. Contracts in the Public Finance Services and Homeland Security Services areas typically are not subject to mandatory QBS standards, and often are awarded through a competitive bid process.

Our competition varies geographically. Although we provide services in several states, we may be stronger in certain service lines in some geographical areas than in other regions. Similarly, some of our larger competitors are stronger in some service lines in certain localities but are not as competitive in others. Our smaller competitors generally are limited both geographically as well as in the services they are able to provide.

We believe that the primary competitors for our Engineering Services segment include Charles Abbott & Associates, Inc., Bureau Veritas, Harris & Associates, Psomas, RBF Consulting, Tetra Tech, Inc., Stantec, Inc., Michael Baker Corporation, TRC Companies, Inc., AECOM Technology Corporation, CH2M Hill and Jacobs Engineering Group, Inc. We believe the Energy Efficiency Services segment competes primarily with ICF International, Lime Energy, KEMA (a division of the DNV Group) and Nexant, Inc. Our chief competitors in our Public Finance Services segment include David Taussig & Associates, Harris & Associates and NBS Government Finance Group. We believe the Homeland Security Services segment competes primarily with EG&G (a division of URS Corporation) and SRA International, Inc.

**Insurance**

We currently maintain general liability insurance, with coverage in the amount of \$1.0 million per occurrence, subject to a \$2.0 million general aggregate limit; and professional liability insurance, with \$5.0 million in coverage per claim, and a \$10.0 million annual aggregate limit. Our professional liability policy is a "claims made" policy. We also carry excess coverage of an additional \$10.0 million for general, automobile and employer's liability claims. We are liable to pay these claims from our assets if and when the aggregate settlement or judgment amount exceeds our policy limits.

**Employees**

At December 30, 2011, we had approximately 412 full-time employees and 150 part-time employees. All Public Agency Resources' employees are classified as part-time. Our employees include, among others, licensed civil, traffic and structural engineers, land surveyors, certified building officials, licensed geotechnical engineers and engineering geologists, certified inspectors and plans examiners, licensed architects and landscape architects, certified planners, and information technology specialists. We believe that we attract and retain highly skilled personnel with significant industry experience and strong client relationships by offering them challenging assignments in a stable work environment. We believe that our employee relations are good. We currently have one field survey employee covered by a Master Labor Agreement between the International Union of Operating Engineers Local Union No. 12 and the Southern California Association of Civil Engineers and Land Surveyors, which expires in October 2013.

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The following table sets forth the number of our employees in each of our business segments and our holding company:

|   | As of Fiscal Year End |      |      |
|---|-----------------------|------|------|
|   | 2011                  | 2010 | 2009 |
| Engineering Services                            | 292                   | 286  | 278  |
| Energy Efficiency Services                      | 132                   | 97   | 46   |
| Public Finance Services                         | 51                    | 64   | 65   |
| Homeland Security Services                      | 19                    | 29   | 20   |
| Holding Company Employees (Willdan Group, Inc.) | 68                    | 64   | 57   |
| Total   | 562                   | 540  | 466  |

At December 30, 2011, we contracted with approximately 185 former and current public safety officers to conduct homeland security services training courses. These instructors are classified as subconsultants and not employees.

**Intellectual Property**

The Willdan, Willdan Group, Inc., Willdan Engineering, Willdan Financial Services, Willdan Energy Solutions and Willdan Homeland Services names are service marks of ours, and we have obtained a service mark for the Willdan logo. We have also obtained federal trademark registration with the United States Patent and Trademark Office for the "Willdan" name and the "extending your reach" tagline. We believe we have strong name recognition in the western United States and New York, and that this provides us a competitive advantage in obtaining new business. Consequently, we believe it is important to protect our brand identity through trademark registrations. The name and logo of our proprietary software, MuniMagic®, are registered trademarks of Willdan Financial Services, and we have registered a federal copyright for the source code for the MuniMagic® software. We license the MuniMagic® software to existing clients pursuant to licensing agreements that allow varying levels of access to data. This technology allows clients to view their own data and is a form of deliverable to our clients. The use of licensing provides us protection for this proprietary technology. MuniMagic® is not a commercial product offered for sale.

**Available Information**

Our website is [www.willdan.com](http://www.willdan.com) and our investor relations page is under the caption "Investors" on our website. We make available on this website under "SEC Filings," free of charge, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports as soon as reasonably practicable after we electronically file or furnish such materials to the U.S. Securities and Exchange Commission, or SEC. We also make available on this website our prior earnings calls and, under the heading "Investors Corporate Governance," our Code of Ethical Conduct. The information on our website is not a part of or incorporated by reference into this filing. Further, a copy of this annual report on Form 10-K is located at the SEC's Public Reference Room at 100 F Street, NE, Room 1580, Washington, D.C. 20549. Information on the operation of the Public Reference Room can be obtained by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements and other information regarding our filings at <http://www.sec.gov>.

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**ITEM 1A. RISK FACTORS**

**Risks Relating to Our Business and Industry**

*A further downturn in public and private sector construction activity in the regions we serve, or other conditions that impact the construction industry, may have a material adverse effect on our business, financial condition and results of operations.*

A further downturn in construction activity in our geographic service areas may affect demand for our services, which could have a material adverse effect on our results of operations and our financial condition. During fiscal year 2011, a portion of our contract revenue was generated by services rendered to public agencies in connection with private and public sector construction projects.

Since 2008, general economic conditions declined due to a number of factors including slower economic activity, a lack of available credit, decreased consumer confidence and reduced corporate profits and capital spending, leading to a slowdown in construction, particularly residential housing construction, in the western United States. As a result of this slowdown, both our engineering services segment and public finance services segment suffered declines in revenue and operating margin compression and we made several reductions in workforce and facility leases. Economic conditions began to improve in fiscal 2010 and throughout fiscal 2011. While we began to increase our workforce again, the recovery has been slow with regard to our traditional engineering and public finance services segments. If the economy declines again, we will need to evaluate whether reductions in headcount and facilities in geographic areas that are underperforming are again needed.

Our business, financial condition and results of operations may also be adversely affected by conditions that impact the construction sector in general, including, among other things:

Changes in national and local market conditions due to changes in general or local economic conditions and neighborhood characteristics;

Slow-growth or no-growth initiatives or legislation;

Adverse changes in local and regional governmental policies on investment in infrastructure;

Adverse changes in federal and state policies regarding the allocation of funds to local and regional agencies;

The impact of present or future environmental legislation and compliance with environmental laws and other regulatory requirements;

Changes in real estate tax rates and assessments;

Increases in interest rates and changes in the availability, cost and terms of financing;

Adverse changes in other governmental rules and fiscal policies; and

Earthquakes and other natural disasters, which can cause uninsured losses, and other factors which are beyond our control.

Any of these factors could adversely affect the demand for our services, which could have a material adverse effect on our business, results of operations and financial condition.

*Changes in the local and regional economies of California could have a material adverse effect on our business, financial condition and results of operations.*

Adverse economic and other conditions affecting the local and regional economies of California may reduce the demand for our services, which could have a material adverse effect on our business,



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financial condition and results of operations. During fiscal year 2011, approximately 60% of our contract revenue was derived from services rendered to public agencies, utilities, and private industry in California. From 1991 to 1996, California experienced an economic downturn that had a negative impact on the construction and development sectors. This economic downturn caused us to experience cash flow difficulties and substantial operating losses. California experienced another economic downturn in fiscal 2009, which negatively impacted our revenue and profitability and continues to negatively impact revenues in our Engineering Services and Public Finance Services segments. Any future downturns could have similar significant adverse impacts on our results of operations.

***We may not be able to obtain capital when desired on favorable terms, if at all, or without dilution to our stockholders, which may impact our ability to execute on our current or future business strategies.***

We anticipate that our current cash, cash equivalents, cash provided by operating activities and funds available through our revolving credit facility will be sufficient to meet our current and anticipated needs for general corporate purposes during the next 12 months. It is possible, however, that we may not generate sufficient cash flow from operations or otherwise have the capital resources to meet our future capital needs. For example, at the end of our third and fourth fiscal quarters in 2008, we did not meet certain financial covenants under our previous revolving credit facility with Wells Fargo Bank, National Association ("Wells Fargo"). As a result of these covenant violations, Wells Fargo was no longer obligated to extend funds to us under the revolving credit agreement. Wells Fargo waived these breaches and eliminated or modified certain financial covenants in the credit agreement in exchange for a reduction in the commitment from \$10 million to \$5 million, increased pricing and additional collateral being provided. As of December 30, 2011, we had \$0.3 million in outstanding borrowings under this facility. We have since refinanced that facility with a new credit facility with Wells Fargo that matures on April 1, 2013 and contains certain financial covenants described under "Management's Discussion and Analysis of Financial Condition and Results of Operation Outstanding Indebtedness." If we fail to comply with any covenant, including the financial covenants, in the credit agreement, any loans outstanding at that time could be accelerated by Wells Fargo and Wells Fargo would not be obligated to make any new loans under the new revolving credit facility. We cannot provide any assurance that Wells Fargo will continue to make loans under the facility if we violate a covenant in the future or that Wells Fargo will renew the facility when it expires. If this occurs and we do not generate sufficient cash flow from operations or otherwise, we may need additional financing to execute on our current or future business strategies, which include the following:

Hire additional personnel;

Develop new or enhance existing service lines;

Expand our business geographically;

Enhance our operating infrastructure;

Acquire complementary businesses; or

Otherwise respond to competitive pressures.

The financial covenants in our revolving credit agreement also restrict our ability to incur additional indebtedness, which may impair our ability to pursue acquisitions or otherwise execute on our business strategies. If we raise additional funds through the issuance of convertible debt or equity securities, the percentage ownership of our stockholders could be significantly diluted, and these newly issued securities may have rights, preferences or privileges senior to those of existing stockholders. We cannot assure you that additional financing will be available on terms favorable to us, or at all. If adequate funds are not available or are not available on acceptable terms, if and when needed, our

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ability to fund our operations, take advantage of strategic opportunities, or otherwise respond to competitive pressures would be significantly limited.

***Reductions in state and local government budgets could negatively impact their capital spending and adversely affect our business, financial condition and results of operations.***

Several of our state and local government clients are currently facing budget deficits, resulting in smaller budgets and reduced capital spending, which has negatively impacted our revenue and profitability. Our state and local government clients may continue to face budget deficits that prohibit them from funding new or existing projects. In addition, existing and potential clients may either postpone entering into new contracts or request price concessions. If we are not able to reduce our costs quickly enough to respond to the revenue decline from these clients that may occur, our operating results would be adversely affected. Accordingly, these factors affect our ability to accurately forecast our future revenue and earnings from business areas that may be adversely impacted by market conditions.

***We depend on a limited number of clients for a significant portion of our business.***

Our largest client, Consolidated Edison Company of New York, accounted for approximately 28% of our consolidated contract revenue in fiscal 2011 and 21% in fiscal 2010. This revenue primarily relates to the contract we entered into in fiscal 2009 with Consolidated Edison, which is subject to renewal this year. Our top five customers collectively accounted for approximately 48% of our revenue in fiscal 2011. The loss of, or reduction in orders from, these clients could have a material adverse effect on our business, financial condition and results of operations.

***Legislation may be enacted that limits the ability of state, regional or local agencies to contract for our privatized services. Such legislation would affect our ability to obtain new contracts and may decrease the demand for our services.***

Legislation is proposed periodically, particularly in the state of California, that attempts to limit the ability of governmental agencies to contract with private consultants to provide services. Should such legislation pass and be upheld, demand for our services may be materially adversely affected. During fiscal year 2011, approximately 44% of our contract revenue was derived from services rendered to public agencies, including public utilities, in California. While attempts at such legislation have failed in the past, such measures could be adopted in the future.

***State and other public employee unions may bring litigation that seeks to limit the ability of public agencies to contract with private firms to perform government employee functions in the area of public improvements. Judicial determinations in favor of these unions could affect our ability to compete for contracts and may have an adverse effect on our revenue and profitability.***

For more than 20 years, state and other public employee unions have challenged the validity of propositions, legislation, charters and other government regulations that allow public agencies to contract with private firms to provide services in the fields of engineering, design and construction of public improvements that might otherwise be provided by public employees. These challenges could have the affect of eliminating, or severely restricting, the ability of municipalities to hire private firms for the purpose of designing and constructing public improvements, and otherwise require them to use union employees to perform the services.

For example, the Professional Engineers in California Government, or PECG, a union representing state civil service employees, began challenging Caltrans' hiring of private firms in 1986, and in 2002 began a judicial challenge of Caltrans' hiring practices based on Caltrans' interpretation of the effect of

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Proposition 35 (Professional Engineers in California Government, et al. v. Jeff Morales, et al.). The California Supreme Court ruled in favor of Caltrans, concluding that Caltrans may hire private contractors to perform architectural and engineering services on public works. Although Caltrans was successful in this litigation, similar claims may be brought in the future and we cannot predict their outcome. If a state or other public employee union is successful in its challenge and as a result the ability of state agencies to hire private firms is severely limited, such a decision would likely lead to additional litigation challenging the ability of the state, counties, municipalities and other public agencies to hire private engineering, architectural and other firms, the outcome of which could affect our ability to compete for contracts and may have an adverse effect on our revenue and profitability.

***Changes in elected or appointed officials could have a material adverse effect on our ability to retain an existing contract with or obtain additional contracts from a public agency.***

Since the decision to retain our services is made by individuals, such as city managers, city councils and other elected or appointed officials, our business and financial results or condition could be adversely affected by the results of local and regional elections. A change in the individuals responsible for selecting consultants for and awarding contracts on behalf of a public agency due to an election could adversely affect our ability to retain an existing contract with or obtain additional contracts from such public agency.

***Fixed price contracts under which we perform some of our services impose risks to our ability to maintain or grow our profitability.***

In fiscal year 2011, approximately 14% of our contract revenue was derived from fixed price contracts. Under fixed price contracts, we perform services under a contract at a stipulated price which protects clients but exposes us to a greater number of risks than time-and-materials and unit-based contracts. These risks include:

Underestimation of costs;

Ambiguities in specifications;

Problems with new technologies;

Unforeseen costs or difficulties;

Failures of subcontractors;

Delays beyond our control; and

Economic and other changes that may occur during the contract period.

The occurrence of any such risk could have a material adverse effect on our results of operations or financial condition.

***Because we primarily provide services to municipalities, public utilities and other public agencies, we are more susceptible to the unique risks associated with government contracts.***

We primarily work for municipalities, public utilities and other public agencies. Consequently, we are exposed to certain risks associated with government contracting, any one of which can have a material adverse effect on our business, financial condition or results of operations. These risks include:

The ability of the public agency to terminate the contract with 30 days' prior notice or less;



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Changes in government spending and fiscal policies which can have an adverse effect on demand for our services;

Contracts that are subject to government budget cycles, and often are subject to renewal on an annual basis;

The often wide variation of the types and pricing terms of contracts from agency to agency;

The difficulty of obtaining change orders and additions to contracts; and

The requirement to perform periodic audits as a condition of certain contract arrangements.

***Changes in the perceived risk of acts of terrorism or natural disasters could have a material adverse effect on our ability to grow our Homeland Security Services business.***

If there is a significant decrease in the perceived risk of the likelihood that one or more acts of terrorism will be conducted in the United States, or a significant decrease in the perceived risk of the occurrence of natural disasters, our ability to grow and generate revenue through our Homeland Security Services segment, could be negatively affected. Our Homeland Security Services segment provides training and consulting services to local and regional agencies related to preparing for and responding to incidents of terrorism and natural disaster. Should the perceived risk of such incidence decline, federal and state funding for homeland security and emergency preparedness could be reduced, which might decrease demand for our services and have a material adverse affect on our business, financial condition and results of operations.

***The loss of certain of our key executives could adversely affect our business, including our ability to secure and complete engagements and attract and retain employees.***

Our success is highly dependent upon the efforts, talents, abilities, marketing skills and operational execution of our key executives and managers. Between 2006 and 2008 we experienced significant turnover in our management team. Any future losses of our management team or key employees could have a material adverse effect on our business, including the ability to secure or complete contracts and to attract and retain additional employees.

***Our ability to grow and compete in our industry will be hampered if we are unable to retain the continued service of our key employees or to identify, hire and retain additional qualified employees.***

A critical factor to our business is our ability to attract and retain qualified employees. We are continually at risk of losing current employees or being unable to hire additional employees as needed. If we are unable to attract new qualified employees, our ability to grow will be adversely affected. If we are unable to retain current employees, our financial condition and results of operations may be adversely affected, including as a result of our former employees competing against us for contracts.

***We operate in a highly fragmented industry, and we may not be able to compete effectively with our larger competitors.***

The market for engineering and planning, energy efficiency, economic and financial consulting and national preparedness and interoperability services is competitive and highly fragmented. Contract awards are based primarily on quality of service, relevant experience, staffing capabilities, reputation, geographic presence, stability and price. Some of our competitors in certain service areas have more personnel and greater financial, technical and marketing resources than us. In particular, our competitors for engineering related services, which represented approximately 32% and 42% of our contract revenue for fiscal years 2011 and 2010, respectively, include many larger consulting firms such

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as AECOM Technology Corporation, CH2M Hill, Jacobs Engineering Group Inc. and Tetra Tech, Inc. Our energy efficiency and sustainability consulting services, which represented approximately 54% and 38% of our contract revenue for fiscal years 2011 and 2010, respectively, competes with larger energy efficiency consulting firms such as ICF International, KEMA (A Division of the DNV Group), and Nexant, Inc. In certain public finance consulting services, we may compete with large accounting firms. We can offer no assurance that we will be able to compete successfully in the future with these or other competitors.

***Our services may expose us to liability in excess of our current insurance coverage, which may have a material adverse effect on our liquidity.***

Our services involve significant risks of professional and other liabilities, which may substantially exceed the fees we derive from our services. In addition, from time to time, we assume liabilities as a result of indemnification provisions contained in our service contracts. We cannot predict the magnitude of these potential liabilities.

We currently maintain general liability insurance, with coverage in the amount of \$1.0 million per occurrence, subject to a \$2.0 million general aggregate limit; and professional liability insurance, with \$5.0 million in coverage per claim, and a \$10.0 million annual aggregate limit. We also carry excess coverage of an additional \$10.0 million for general, automobile and employer's liability claims. Claims may be made against us that exceed these limits. We are liable to pay claims from our assets if and when the aggregate settlement or judgment amount exceeds our policy limits. Our professional liability policy is a "claims made" policy. Thus, only claims made during the term of the policy are covered. If we terminate our professional liability policy and do not obtain retroactive coverage, we would be uninsured for claims made after termination even if these claims are based on events or acts that occurred during the term of the policy. Further, our insurance may not protect us against liability because our policies typically have various exceptions to the claims covered and also require us to assume some costs of the claim even though a portion of the claim may be covered. In addition, if we expand into new markets, we may not be able to obtain insurance coverage for these new activities or, if insurance is obtained, the dollar amount of any liabilities incurred could exceed our insurance coverage. A partially or completely uninsured claim, if successful and of significant magnitude, could have a material adverse effect on our liquidity.

***We have increasingly relied on subconsultants. The quality of our service and our ability to perform under some of our contracts would be adversely affected if qualified subconsultants are unavailable for us to engage.***

Under some of our contracts, we rely on the efforts and skills of subconsultants for the performance of some of the tasks. Subconsultant costs comprised approximately 32% of our contract revenue in fiscal 2011, an increase from 21% in fiscal 2010. The use of subconsultants increased in fiscal 2011 because of increased demand for the energy efficiency, sustainability and renewable energy services of our subsidiary Willdan Energy Solutions, which generally utilizes a higher percentage of subconsultants than our other subsidiaries. The absence of qualified subconsultants with whom we have a satisfactory relationship could adversely affect the quality of our service offerings and therefore our financial results. Additionally, we may have disputes with our subconsultants arising from, among other things, the quality and timeliness of work performed by the subconsultant or client concerns about the subconsultant.

***Potential future acquisitions could be difficult to integrate, divert the attention of key personnel, disrupt our business, dilute stockholder value and impair our financial results.***

As part of our business strategy, we intend to consider acquisitions of companies that are complementary to our business. Appropriate acquisitions could allow us to expand into new

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geographical locations, offer new services, or acquire additional talent. Accordingly, our future performance will be impacted by our ability to identify appropriate businesses to acquire, negotiate favorable terms for such acquisitions and then effectively and efficiently integrate such acquisitions into our existing businesses. There is no certainty that we will succeed in such endeavors.

Acquisitions involve numerous risks, any of which could harm our business, including:

Difficulties in integrating the operations, technologies, products, existing contracts, accounting and personnel of the target company and realizing the anticipated synergies of the combined businesses;

Difficulties in supporting and transitioning customers, if any, of the target company;

Diversion of our financial and management resources from existing operations;

The price we pay or other resources that we devote may exceed the value we realize, or the value we could have realized if we had allocated the purchase price or other resources to another opportunity;

Risks of entering new markets in which we have limited or no experience;

Potential loss of key employees, customers and strategic alliances from either our current business or the target company's business;

Assumption of unanticipated problems or latent liabilities, such as problems with the quality of the target company's services; and

Inability to generate sufficient net income to justify the acquisition costs.

Acquisitions also frequently result in the recording of goodwill and other intangible assets which are subject to potential impairment in the future that could harm our financial results. In addition, if we finance acquisitions by issuing convertible debt or equity securities, our existing stockholders may be diluted, which could lower the market price of our common stock. As a result, if we fail to properly evaluate acquisitions or investments, we may not achieve the anticipated benefits of any such acquisitions, and we may incur costs in excess of amounts that we anticipate.

***We have incurred, and will continue to incur, significant costs as a public company.***

As a public company, we incur significant legal, accounting and other expenses that we would not incur as a private company such as more costly director and officer liability insurance and legal and financial compliance costs. If new rules and regulations for public companies are put in place, they may further increase our compliance costs and make some activities more time-consuming and costly.

***The concentration of ownership of our stock may delay or prevent a change of control of our company or changes in our management, and as a result may hinder the ability of our stockholders to take advantage of a premium offer.***

The concentration of ownership of our stock may have the effect of delaying or preventing a change in control of the company or a change in our management and may adversely affect the voting or other rights of other holders of our common stock. As of March 23, 2012 our directors and executive officers beneficially own 1,527,191 shares of common stock, or approximately 19.8% of our outstanding common stock. Of these shares, 722,156 shares, or approximately 9.9% of our outstanding common stock, are beneficially owned by Linda L. Heil, a member of our board of directors. Wedbush, Inc. beneficially owns 829,378 shares, or approximately 11.4% of our outstanding common stock.





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***Cautionary Statement Regarding Forward-Looking Information***

In addition to current and historical information, this report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements relate to our future operations, prospects, potential products, services, developments and business strategies. These statements can, in some cases, be identified by the use of words like "may," "will," "should," "could," "would," "intend," "expect," "plan," "anticipate," "believe," "estimate," "predict," "project," "potential," or "continue" or the negative of such terms or other comparable terminology. This report includes, among others, forward-looking statements regarding our:

Expectations about future customers;

Expectations about expanded service offerings;

Expectations about our ability to cross-sell additional services to existing clients;

Expectations about our intended geographical expansion;

Expectations about our ability to attract executive officers and key employees;

Evaluation of the materiality of our current legal proceedings; and

Expectations about positive cash flow generation and existing cash and cash equivalents being sufficient to meet normal operating requirements.

These statements involve certain known and unknown risks and uncertainties that could cause our actual results to differ materially from those expressed or implied in our forward-looking statements. Such risks and uncertainties include, among others, those listed in this section. We do not intend, and undertake no obligation, to update any of our forward-looking statements after the date of this report to reflect actual results or future events or circumstances.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

**ITEM 2. PROPERTIES**

Our corporate headquarters are located in approximately 38,000 square feet of office space that we lease at 2401 East Katella Avenue, Anaheim, California. In addition, we lease office space in 26 other locations principally in California, New York and Arizona. In total, our facilities contain approximately 147,000 square feet of office space and are subject to leases that expire through fiscal year 2015. A small portion of this includes office space that we rent 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.

**ITEM 3. LEGAL PROCEEDINGS**

We are subject to claims and lawsuits from time to time, including those alleging professional errors or omissions that arise in the ordinary course of business against firms, like ours, that operate in the engineering and consulting professions. We carry professional liability insurance, subject to certain deductibles and policy limits, for such claims as they arise and may from time to time establish reserves for litigation that is considered probable of a loss.



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In accordance with accounting standards regarding loss contingencies, we accrue an undiscounted liability for those contingencies where the incurrence of a loss is probable and the amount can be reasonably estimated, and we disclose the amount accrued and an estimate of any reasonably possible loss in excess of the amount accrued, if such disclosure is necessary for our financial statements not to be misleading. We do not accrue liabilities when the likelihood that the liability has been incurred is probable but the amount cannot be reasonably estimated, or when the liability is believed to be only reasonably possible or remote.

Because litigation outcomes are inherently unpredictable, our evaluation of legal proceedings often involves a series of complex assessments by management about future events and can rely heavily on estimates and assumptions. If the assessments indicate that loss contingencies that could be material to any one of our financial statements are not probable, but are reasonably possible, or are probable, but cannot be estimated, then we disclose the nature of the loss contingencies, together with an estimate of the possible loss or a statement that such loss is not reasonably estimable. While the consequences of certain unresolved proceedings are not presently determinable, and a reasonable estimate of the probable and reasonably possible loss or range of loss in excess of amounts accrued for such proceedings cannot be made, an adverse outcome from such proceedings could have a material adverse effect on our earnings in any given reporting period. However, in the opinion of our management, after consulting with legal counsel, and taking into account insurance coverage, the ultimate liability related to current outstanding claims and lawsuits is not expected to have a material adverse effect on our financial statements.

*French v. Willdan Engineering*, Superior Court of California, Riverside County

In January 1991, we were originally retained by the City of Calimesa, California to review and process development plans. We have provided plan review continuously since that date under various contracts with the city. As the city receives applications from developers for project approvals, the city forwards the project plans to us for processing. We process the plans and the city pays us for our services. In August 2008, a suit was filed by a city employee alleging that the city processed development applications without first collecting fees from developers to cover the costs of processing. The suit further alleges that even though we performed the work requested by the city, the city should not have paid us for our work in advance of collecting the developers' fees. The complaint was amended by the plaintiff in May 2010 to provide additional details and we filed an answer to the complaint. The plaintiff seeks to recover for the city amounts paid to us for processing project plans for which the developer fees have not been paid. The City of Calimesa has not requested any refunds from us or joined in the litigation, and the city continues to retain our services. On January 11, 2012, this suit proceeded to trial where we prevailed.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

Table of Contents**PART II****ITEM 5. MARKET FOR THE REGISTRANT'S COMMON STOCK, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES***Market Information for Common Stock*

Since November 21, 2006, the common stock of Willdan Group, Inc. has been listed and traded on the Nasdaq Global Market under the symbol "WLDN". The following table sets out the high and low daily closing sale prices as reported on the NASDAQ Global Market for fiscal years 2011 and 2010. These reported prices reflect inter-dealer prices without adjustments for retail markups, markdowns, or commissions.

|                         | 2011    |         | 2010    |         |
|-------------------------|---------|---------|---------|---------|
|                         | High    | Low     | High    | Low     |
| 1st Quarter             | \$ 4.89 | \$ 3.86 | \$ 2.52 | \$ 2.11 |
| 2 <sup>nd</sup> Quarter | \$ 4.40 | \$ 3.83 | \$ 2.98 | \$ 2.18 |
| 3 <sup>rd</sup> Quarter | \$ 4.10 | \$ 3.72 | \$ 3.40 | \$ 2.54 |
| 4 <sup>th</sup> Quarter | \$ 4.13 | \$ 3.76 | \$ 4.06 | \$ 3.28 |

On March 23, 2012, the closing sales price per share of our common stock, as reported on the Nasdaq Global Market, was \$3.80.

*Stockholders*

As of March 23, 2012, there were 126 stockholders of record of our common stock.

*Dividends*

We did not declare or pay cash dividends on our common stock in fiscal years 2011 and 2010. Our revolving credit agreement prohibits the payment of any dividend or distribution on our common stock either in cash, stock or any other property without the lender's consent.

*Recent Sales of Unregistered Securities*

In the three years preceding the filing of this report, we have not issued any securities in transactions that were not registered under the Securities Act.

*Issuer Purchases of Equity Securities*

None.

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The financial data set forth below should be read in conjunction with our corresponding consolidated financial statements and notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this annual report.

|   | Fiscal Year   |               |               |               |               |
|---|---------------|---------------|---------------|---------------|---------------|
|   | 2011          | 2010          | 2009          | 2008          | 2007          |
| (in thousands except per share amounts)   |               |               |               |               |               |
| <b>Consolidated Statement of Operations Data:</b>   |               |               |               |               |               |
| Contract revenue  | \$ 107,165    | \$ 77,896     | \$ 61,605     | 73,190        | \$ 78,798     |
| Direct costs of contract revenue (exclusive of depreciation and amortization shown separately below): |               |               |               |               |               |
| Salaries and wages  | 25,714        | 21,607        | 18,130        | 21,991        | 25,769        |
| Subconsultant services  | 34,195        | 16,523        | 7,997         | 7,750         | 4,600         |
| Other direct costs  | 4,818         | 3,892         | 2,715         | 2,973         | 1,568         |
| <b>Total direct costs of contract revenue</b>   | <b>64,727</b> | <b>42,022</b> | <b>28,842</b> | <b>32,714</b> | <b>31,937</b> |
| General and administrative expenses:  |               |               |               |               |               |
| Salaries and wages, payroll taxes, employee benefits  | 22,594        | 17,582        | 20,325        | 24,439        | 25,061        |
| Facilities and facility related   | 4,875         | 4,290         | 4,430         | 4,803         | 4,546         |
| Stock-based compensation  | 201           | 235           | 272           | 214           | 209           |
| Depreciation and amortization   | 877           | 1,042         | 1,814         | 1,978         | 1,747         |
| Lease abandonment (recovery), net   | 2             | (68)          | 707           | 742           |               |
| Impairment of goodwill  |               |               | 2,763         | 148           |               |
| Litigation accrual (reversal)   |               |               | (1,125)       |               | 1,049         |
| Other   | 10,488        | 9,719         | 11,070        | 10,952        | 11,727        |
| <b>Total general and administrative expenses</b>  | <b>39,037</b> | <b>32,800</b> | <b>40,256</b> | <b>43,276</b> | <b>44,339</b> |
| Income (loss) from operations   | 3,401         | 3,074         | (7,493)       | (2,800)       | 2,522         |
| Other (expense) income:   |               |               |               |               |               |
| Interest income   | 5             | 12            | 30            | 313           | 693           |
| Interest expense  | (77)          | (54)          | (38)          | (33)          | 499           |
| Other, net  | 1             | 32            | (5)           | (15)          | (27)          |
| <b>Total other (expense) income, net</b>  | <b>(71)</b>   | <b>(10)</b>   | <b>(13)</b>   | <b>265</b>    | <b>1,165</b>  |
| Income (loss) before income tax expense   | 3,330         | 3,064         | (7,506)       | (2,535)       | 3,687         |
| Income tax expense (benefit)  | 1,500         | 344           | (1,931)       | (930)         | 1,543         |
| Net income (loss)   | \$ 1,830      | \$ 2,720      | \$ (5,575)    | \$ (1,605)    | \$ 2,144      |
| Earnings (loss) per common share:   |               |               |               |               |               |
| Basic   | \$ 0.25       | \$ 0.38       | \$ (0.78)     | \$ (0.22)     | \$ 0.30       |
| Diluted   | \$ 0.24       | \$ 0.37       | \$ (0.78)     | \$ (0.22)     | \$ 0.30       |
| Weighted average common shares outstanding: Basic   |               |               |               |               |               |
| Diluted   | 7,262         | 7,233         | 7,192         | 7,159         | 7,149         |
| Diluted   | 7,485         | 7,311         | 7,192         | 7,159         | 7,150         |
| <b>Other Operating Data (unaudited):</b>  |               |               |               |               |               |
| Adjusted EBITDA(1)  | \$ 4,350      | \$ 4,074      | \$ (3,333)    | \$ 68         | \$ 5,326      |
| Employee headcount at period end(2)   | 562           | 540           | 466           | 550           | 628           |



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|   | Fiscal Year Ended    |                      |                    |                    |                      |
|---|----------------------|----------------------|--------------------|--------------------|----------------------|
|   | December 30,<br>2011 | December 31,<br>2010 | January 1,<br>2010 | January 2,<br>2009 | December 28,<br>2007 |
| <b>Consolidated Balance Sheet Data:</b> |                      |                      |                    |                    |                      |
| Cash and cash equivalents               | \$ 3,001             | \$ 6,642             | \$ 8,445           | \$ 8,144           | \$ 15,511            |
| Working capital                         | 13,083               | 18,060               | 16,704             | 19,820             | 30,171               |
| Total assets                            | 64,311               | 49,454               | 40,332             | 47,570             | 48,226               |
| Total indebtedness                      | 1,232                | 1,490                | 1,230              | 394                | 1,547                |
| Total stockholders' equity              | 34,293               | 32,162               | 29,117             | 34,336             | 35,652               |

(1)

Adjusted EBITDA is a supplemental measure used by our management to measure our operating performance. We define Adjusted EBITDA as net income (loss) plus net interest expense, income tax expense (benefit), depreciation and amortization, goodwill impairment expense, lease abandonment expense (recovery), loss (gains) on sales of assets and accrued expenses related to a litigation matter. Our definition of Adjusted EBITDA may differ from those of many companies reporting similarly named measures. This measure should be considered in addition to, and not as a substitute for or superior to, other measures of financial performance prepared in accordance with U.S. generally accepted accounting principles, or GAAP, such as operating income and net income. We believe Adjusted EBITDA enables management to separate non-recurring income and expense items from our results of operations to provide a more normalized and consistent view of operating performance on a period-to-period basis. We use Adjusted EBITDA to evaluate our performance for, among other things, budgeting, forecasting and incentive compensation purposes. We also believe Adjusted EBITDA is useful to investors, research analysts, investment bankers and lenders because it removes from our operational results the impact of certain non-recurring income and expense items, which may facilitate comparison of our results from period to period.

Adjusted EBITDA is not a recognized term under GAAP and does not purport to be an alternative to operating income or net income as an indicator of operating performance or any other GAAP measure

The following is a reconciliation of net income (loss) to Adjusted EBITDA (in thousands):

|                                      | Fiscal Year |          |            |            |          |
|--------------------------------------|-------------|----------|------------|------------|----------|
|                                      | 2011        | 2010     | 2009       | 2008       | 2007     |
| Net income (loss)                    | \$ 1,830    | \$ 2,720 | \$ (5,575) | \$ (1,605) | \$ 2,144 |
| Interest income                      | (5)         | (12)     | (30)       | (313)      | (693)    |
| Interest expense (reversal)          | 77          | 54       | 38         | 33         | (499)    |
| Income tax expense (benefit)         | 1,500       | 344      | (1,931)    | (930)      | 1,543    |
| Lease abandonment expense (recovery) | 2           | (68)     | 707        | 742        |          |
| Impairment of goodwill               |             |          | 2,763      | 148        |          |
| Depreciation and amortization        | 944         | 1,053    | 1,814      | 1,978      | 1,755    |
| Loss (gain) on sale of assets        | 2           | (17)     | 6          | 15         | 27       |
| Litigation (reversal) accrual        |             |          | (1,125)    |            | 1,049    |
| Adjusted EBITDA                      | \$ 4,350    | \$ 4,074 | \$ (3,333) | \$ 68      | \$ 5,326 |

(2)

Includes full-time and part-time employees.

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**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**Overview**

We are a provider of professional technical and consulting services to public agencies at all levels of government, public and private utilities, and commercial and industrial firms. We enable these entities to provide a wide range of specialized services without having to incur and maintain the overhead necessary to develop staffing in-house. We assist our clients with a broad range of complementary services relating to:

Engineering and Planning;

Energy Efficiency and Sustainability;

Economic and Financial Consulting; and

National Preparedness and Interoperability.

We operate our business through a network of offices located primarily in California and New York. We also have operations in Arizona, Florida, Texas, Washington and Washington, DC. As of December 30, 2011, we had a staff of 562 which includes licensed engineers and other professionals. Historically, our clients have primarily been public agencies in communities with populations ranging from 10,000 to 300,000 people. We believe communities of this size are underserved by large outsourcing companies that tend to focus on securing large federal and state projects, as well as projects for the private sector. Recently, we have begun to provide increased services to public and private utilities that service major metropolitan communities and commercial and industrial firms, particularly in connection with the growth of our energy efficiency and sustainability services. We seek to establish close working relationships with our clients and expand the breadth and depth of the services we provide to them over time.

While we currently serve communities throughout the country, our business with public agencies is concentrated in California and neighboring states. We provide services to approximately 56% of the 482 cities and over 60% of the 58 counties in California. We also serve special districts, school districts, a range of public agencies and private industry. Our business with public and private utilities is concentrated in California and New York.

We were founded in 1964 and Willdan Group, Inc., a Delaware corporation, was formed in 2006 to serve as our holding company. We consist of a family of wholly owned companies that operate within the following segments for financial reporting purposes:

*Engineering Services.* Our Engineering Services segment includes the operations of our subsidiaries, Willdan Engineering and Public Agency Resources ("PARs"). Willdan Engineering provides civil engineering-related and city planning services to our clients. PARs primarily provides staffing to Willdan Engineering. For fiscal years 2011 and 2010, contract revenue for the Engineering Services segment represented approximately 32% and 42%, respectively, of our consolidated contract revenue.

*Energy Efficiency Services.* Our Energy Efficiency Services segment consists of the business of our subsidiary, Willdan Energy Solutions, which offers energy efficiency and sustainability consulting services to utilities, public agencies and private industry. For fiscal years 2011 and 2010, contract revenue for the Energy Efficiency Services segment represented approximately 54% and 38%, respectively, of our consolidated contract revenue, and this segment is currently our largest segment based on contract revenue.

*Public Finance Services.* Our Public Finance Services segment consists of the business of our subsidiary, Willdan Financial Services, which offers economic and financial consulting services to





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public agencies. For fiscal years 2011 and 2010, contract revenue for the Public Finance Services segment represented approximately 9% and 13%, respectively, of our consolidated contract revenue.

*Homeland Security Services.* Our Homeland Security Services segment consists of the business of our subsidiary, Willdan Homeland Solutions, which offers national preparedness and interoperability services and communications and technology solutions. For fiscal years 2011 and 2010, contract revenue for our Homeland Security Services segment represented approximately 5% and 7%, respectively, of our consolidated contract revenue.

In fiscal 2008 and 2009, general economic conditions declined due to a number of factors including slower economic activity, a lack of available credit, decreased consumer confidence and reduced corporate profits and capital spending, leading to a slowdown in construction, particularly residential housing construction, in the western United States. As a result of this slowdown, both our Engineering Services segment and Public Finance Services segment suffered declines in revenue and operating margin compression. While economic conditions began to improve in fiscal 2010 and 2011, the recovery has been slow, particularly with regard to our traditional engineering services and public finance services. However, our profitability has increased in fiscal 2010 and 2011 as a result of increased revenues from our Energy Efficiency Services segment.

**Components of Income and Expense**

***Contract Revenue***

We provide our services under contracts, purchase orders or retainer letters. The contracts we enter into with our clients contain three principal types of pricing provisions: time and materials, unit based, and fixed price. Revenue on our time and materials and unit based contracts are recognized as the work is performed in accordance with specific terms of the contract. Approximately 33% of our contracts are based on contractual rates per hour plus costs incurred. Some of these contracts include maximum contract prices, but the majority of these contracts are not expected to exceed the maximum. Contract revenue on our fixed price contracts is determined on the percentage of completion method based generally on the ratio of direct costs incurred to date to estimated total direct costs at completion. Many of our fixed price contracts are relatively short in duration, thereby lowering the risks of not properly estimating the percent complete.

Adjustments to contract cost estimates are made in the periods in which the facts requiring such revisions become known. When the revised estimate indicates a loss, such loss is recognized currently in its entirety. Claims revenue is recognized only upon resolution of the claim. Change orders in dispute are evaluated as claims. Costs related to un-priced change orders are expensed when incurred and recognition of the related contract revenue is based on an evaluation of the probability of recovery of the costs. Estimated profit is recognized for un-priced change orders if realization of the expected price of the change order is probable.

Our contracts come up for renewal periodically and at the time of renewal may be subject to renegotiation, which could impact the profitability on that contract. In addition, during the term of a contract, public agencies may request additional or revised services which may impact the economics of the transaction. Most of our contracts permit our clients, with prior notice, to terminate the contracts at any time without cause. While we have a large volume of transactions, the renewal, termination or modification of a contract, in particular our contract with Consolidated Edison of New York, may have a material adverse effect on our consolidated operations

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***Direct Costs of Contract Revenue***

Direct costs of contract revenue consist primarily of subconsultant services and that portion of technical and nontechnical salaries and wages that have been incurred in connection with revenue producing projects. Direct costs of contract revenue also include production expenses and other expenses that are incurred in connection with revenue producing projects. Direct costs of contract revenue generally exclude depreciation and amortization, that portion of technical and nontechnical salaries and wages related to marketing efforts, vacations, holidays and other time not spent directly generating revenue under existing contracts. Such costs are included in general and administrative expenses. Additionally, payroll taxes, bonuses and employee benefit costs for all of our personnel are included in general and administrative expenses since no allocation of these costs is made to direct costs of contract revenue. No allocation of facilities costs is made to direct costs of contract revenue nor is depreciation and amortization allocated to direct costs. We expense direct costs of contract revenue when incurred.

As a firm that provides multiple and diverse services, we do not believe gross margin is a consistent or appropriate indicator of our performance and therefore we do not use this measure as construction contractors and other types of consulting firms may. Other companies may classify as direct costs of contract revenue some of the costs that we classify as general and administrative expenses. As a result, our direct costs of contract revenue may not be comparable to direct costs for other companies, either as a line item expense or as a percentage of contract revenue.

***General and Administrative Expenses***

General and administrative expenses include the costs of the marketing and support staffs, other marketing expenses, management and administrative personnel costs, payroll taxes, bonuses and employee benefits for all of our employees and the portion of salaries and wages not allocated to direct costs of contract revenue for those employees who provide our services. General and administrative expenses also include facility costs, depreciation and amortization, professional services, legal and accounting fees and administrative operating costs. Within general and administrative expenses, "Other" includes expenses such as professional services, legal and accounting, computer costs, travel and entertainment and marketing costs. We expense general and administrative costs when incurred.

***Critical Accounting Policies***

This discussion and analysis of financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with generally accepted accounting principles in the U.S., or GAAP. To prepare these financial statements in conformity with GAAP, we must make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amount of revenue and expenses in the reporting period. Our actual results may differ from these estimates. We have provided a summary of our significant accounting policies in Note 2 to our consolidated financial statements included elsewhere in this report. We describe below those accounting policies that require material subjective or complex judgments and that have the most significant impact on our financial condition and results of operations. Our management evaluates these estimates on an ongoing basis, based upon information currently available and on various assumptions management believes are reasonable as of the date of this report.

***Contract Accounting***

Applying the percentage-of-completion method of recognizing revenue requires us to estimate the outcome of our long-term contracts. We forecast such outcomes to the best of our knowledge and belief of current and expected conditions and our expected course of action. Differences between our

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estimates and actual results often occur resulting in changes to reported revenue and earnings. Such changes could have a material effect on our future consolidated financial statements.

Accounts receivable are carried at original invoice amount less an estimate made for doubtful accounts based upon our review of all outstanding amounts on a monthly basis. We determine the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Our credit risk is minimal with governmental entities. Accounts receivable are written off when deemed uncollectible. Recoveries of accounts receivable previously written off are recorded when received. For further information on the types of contracts under which we perform our services, see "Business Contract Structure" elsewhere in this report.

***Goodwill***

We test goodwill, at least annually, for possible impairment. Accordingly, we complete our annual testing of goodwill as of the last day of the first month of our fourth fiscal quarter each year to determine whether there is impairment. In addition to our annual test, we regularly evaluate whether events and circumstances have occurred that may indicate a potential impairment of goodwill. We recognized impairment charges for fiscal year 2009 related to our Public Finance Services reporting unit. We did not recognize any goodwill impairment charges in fiscal years 2010 or 2011.

We test our goodwill for impairment at the level of our reporting units, which are components of our operating segments. The only reporting unit that currently has a material amount of goodwill is Energy Solutions, which comprises our Energy Efficiency Services segment. The process of testing goodwill for impairment, pursuant to ASU 2011-08, now involves an optional qualitative assessment on goodwill impairment of our reporting units to determine whether a quantitative assessment is necessary. If a quantitative assessment is warranted, we then determine the fair value of the applicable reporting units. To estimate the fair value of our reporting units, we use both an income approach based on management's estimates of future cash flows and other market data and a market approach based upon multiples of EBITDA earned by similar public companies. For our annual impairment testing in fiscal years 2011, 2010 and 2009, we weighted the income approach and the market approach at 80% and 20%, respectively. The income approach was given a higher weight because it has a more direct correlation to the specific economics of the reporting units than the market approach, which is based on multiples of public companies that, although comparable, may not provide the same mix of services as our reporting units.

Once the fair value is determined, we then compare the fair value of the reporting unit to its carrying value, including goodwill. If the fair value of the reporting unit is determined to be less than the carrying value, we perform an additional assessment to determine the extent of the impairment based on the implied fair value of goodwill compared with the carrying amount of the goodwill. In the event that the current implied fair value of the goodwill is less than the carrying value, an impairment charge is recognized.

Inherent in such fair value determinations are significant judgments and estimates, including but not limited to assumptions about our future revenue, profitability and cash flows, our operational plans and our interpretation of current economic indicators and market valuations. To the extent these assumptions are incorrect or economic conditions that would impact the future operations of our reporting units change, our goodwill may be deemed to be impaired, and an impairment charge could result in a material adverse effect on our financial position or results of operation. At our measurement date, the estimated fair value of our Energy Solutions reporting unit exceeded the carrying value. A reduction in estimated fair value of our Willdan Energy Solutions reporting unit could result in an impairment charge in future periods.

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*Accounting for Claims Against the Company*

We accrue an undiscounted liability related to claims against us for which the incurrence of a loss is probable and the amount can be reasonably estimated. We disclose the amount accrued and an estimate of any reasonably possible loss in excess of the amount accrued, if such disclosure is necessary for our financial statements not to be misleading. We do not accrue liabilities related to claims when the likelihood that a loss has been incurred is probable but the amount cannot be reasonably estimated, or when the liability is believed to be only reasonably possible or remote. Losses related to recorded claims are included in general and administrative expenses.

Determining probability and estimating claim amounts is highly judgmental. Initial accruals and any subsequent changes in our estimates could have a material effect on our consolidated financial statements.

*Income Taxes*

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences of temporary differences between the financial reporting basis and tax basis of our assets and liabilities, subject to a judgmental assessment of recoverability of deferred tax assets. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is recorded when it is more likely than not that some of the deferred tax assets may not be realized.

We recognize the tax benefit from uncertain tax positions if it is more likely than not that the tax positions will be sustained on examination by the tax authorities, based on the technical merits of the position. The tax benefit is measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. We recognize interest and penalties related to unrecognized tax benefits in income tax expense.

Table of Contents**Results of Operations**

The following table sets forth, for the periods indicated, certain information derived from our consolidated statements of operations expressed as a percentage of contract revenue. Amounts may not add to the totals due to rounding.

|  | Fiscal Year  |             |             |
|--|--------------|-------------|-------------|
|  | 2011         | 2010        | 2009        |
| <b>Statement of Operations Data:</b>   |              |             |             |
| Contract revenue   | 100.0%       | 100.0%      | 100.0%      |
| Direct costs of contract revenue (exclusive of depreciation and amortization shown separately below) |              |             |             |
| Salaries and wages   | 24.0         | 27.7        | 29.4        |
| Subconsultant services   | 31.9         | 21.2        | 13.0        |
| Other direct costs   | 4.5          | 5.0         | 4.4         |
| <b>Total direct costs of contract revenue</b>  | <b>60.4</b>  | <b>53.9</b> | <b>46.8</b> |
| General and administrative expenses:   |              |             |             |
| Salaries and wages, payroll taxes, employee benefits   | 21.1         | 22.6        | 33.0        |
| Facilities and facility related  | 4.5          | 5.5         | 7.2         |
| Stock-based compensation   | 0.2          | 0.3         | 0.4         |
| Depreciation and amortization  | 0.8          | 1.3         | 2.9         |
| Lease (recovery) abandonment, net  |              | (0.1)       | 1.1         |
| Impairment of goodwill   |              |             | 4.5         |
| Litigation reversal  |              |             | (1.8)       |
| Other  | 9.8          | 12.5        | 18.0        |
| <b>Total general and administrative expenses</b>   | <b>36.4</b>  | <b>42.1</b> | <b>65.3</b> |
| Income (loss) from operations  | 3.2          | 3.9         | (12.2)      |
| Other income (expense):  |              |             |             |
| Interest income  |              |             |             |
| Interest expense   | (0.1)        | (0.1)       | (0.1)       |
| Other, net   |              |             |             |
| <b>Total other income (expense), net</b>   | <b>(0.1)</b> |             |             |
| Income (loss) before income taxes  | 3.1          | 3.9         | (12.2)      |
| Income tax expense (benefit)   | 1.4          | 0.4         | (3.1)       |
| Net income (loss)  | 1.7%         | 3.5%        | (9.0)%      |

***Fiscal Year 2011 Compared to Fiscal Year 2010***

**Contract revenue.** Our contract revenue was \$107.2 million for the fiscal year ended December 30, 2011, with \$33.9 million attributable to the Engineering Services segment, \$57.7 million attributable to the Energy Efficiency Services segment, \$9.7 million attributable to the Public Finance Services segment, and \$5.9 million attributable to the Homeland Security Services segment. Consolidated contract revenue increased \$29.3 million, or 37.6%, to \$107.2 million for the fiscal year ended December 30, 2011 from \$77.9 million in the fiscal year ended December 31, 2010. This increase was due primarily to an increase of \$28.6 million, or 97.6%, in contract revenue of the Energy Efficiency Services segment as a result of the increase in demand for the energy efficiency, sustainability and renewable energy services of our subsidiary, Willdan Energy Solutions. Contract revenue for the Engineering Services segment increased \$0.8 million, or 2.5%, to \$33.9 million for the fiscal year ended



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December 30, 2011 from \$33.0 million for the fiscal year ended December 31, 2010. Contract revenue in the Homeland Security Services segment increased \$0.6 million, or 11.1%, to \$5.9 million for the fiscal year ended December 30, 2011 from \$5.3 million for the fiscal year ended December 31, 2010. Contract revenue for our Public Finance Services segment decreased \$0.7 million, or 6.5%, to \$9.7 million for the fiscal year ended December 30, 2011 from \$10.4 million for the fiscal year ended December 31, 2010.

Contract revenue for the Energy Efficiency Services segment increased primarily because of increased demand for energy efficiency services in the states of California and New York. The increase in contract revenue for Willdan Energy Solutions includes a settlement of \$0.9 million from a subcontractor. Contract revenue for the Engineering Services segment continues to be impacted by the decline in the California residential housing market and state and local government budget cuts. A source of revenue in our Engineering Services segment is fees assessed for building permits. Since the second half of fiscal 2007, we have experienced reductions in revenue from these fees because of the slowdown in residential construction in the western United States, and a decline in our other building and safety projects which is both directly and indirectly affected by the housing market. Revenue in the Homeland Security Services segment increased due to an increase in demand for our traditional and expanded homeland security, management consulting and public safety consulting services. Our Homeland Security Services segment has expanded its service offerings beyond its traditional planning, training and exercise services to include public safety and interoperability communications and management consulting. Revenue in the Public Finance Services segment decreased primarily due to lower levels of activity in the financial consulting business as a result of the general downturn in macro-economic conditions.

*Direct costs of contract revenue.* Direct costs of contract revenue was \$64.7 million for the fiscal year ended December 30, 2011, with \$17.7 million attributable to the Engineering Services segment, \$41.0 million attributable to the Energy Efficiency Services segment, \$3.0 million attributable to the Public Finance Services segment, and \$3.0 million attributable to the Homeland Security Services segment. Overall, direct costs of contract revenue increased by \$22.7 million, or 54.0%, to \$64.7 million for the fiscal year ended December 30, 2011 from \$42.0 million for the fiscal year ended December 31, 2010. This increase is primarily attributable to increases in direct costs within our Energy Efficiency Services segment of \$21.4 million, or 108.9%, as a result of increased demand for these services. Direct costs of contract revenue increased by \$0.5 million, or 2.9%, \$0.6 million, or 24.4%, and \$0.2 million, or 8.9%, respectively, in our Engineering Services, Homeland Security Services, and Public Finance Services segments. Direct costs of contract revenue as a percentage of contract revenue for the fiscal year ended December 30, 2011 increased to 60.4% from 53.9% for the fiscal year ended December 31, 2010.

Direct costs increased as a result of increases in salaries and wages, sub-consultant services and other direct costs of \$4.1 million, \$17.1 million and \$1.5 million, respectively. Within direct costs of contract revenue, salaries and wages decreased to 24.0% of contract revenue for the fiscal year ended December 30, 2011 from 27.7% for the fiscal year ended December 31, 2010 and sub-consultant services increased to 31.9% of contract revenue for the fiscal year ended December 30, 2011 from 21.2% of contract revenue for the fiscal year ended December 31, 2010. Subconsultant services increased primarily because of increased demand for the energy efficiency, sustainability and renewable energy services of our subsidiary Willdan Energy Solutions, which generally utilizes a higher percentage of subconsultants than our other subsidiaries. Increased chargeability of labor also shifted more employee related costs to direct costs of contract revenue because we only allocate the portion of salaries and wages related to time spent directly generating revenues to direct costs of contract revenue.

*General and administrative expenses.* General and administrative expenses increased by \$6.3 million, or 19.0%, to \$39.0 million for the fiscal year ended December 30, 2011 from \$32.8 million for the fiscal year ended December 31, 2010. This was due primarily to increases of \$0.4 million,



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\$6.2 million and \$0.6 million, in the General and administrative expenses of the Engineering Services, Energy Efficiency Services and Homeland Security Services segments, respectively, partially offset by a decrease in General and administrative expenses for the Public Finance Services segment of \$1.3 million. Unallocated corporate expenses increased by \$0.4 million. General and administrative expenses as a percentage of contract revenue decreased to 36.4% for the fiscal year ended December 30, 2011 from 42.1% for the fiscal year ended December 31, 2010.

Of the \$6.3 million increase in general and administrative expenses, approximately \$5.0 million relates to increases in salaries and wages, payroll taxes and employee benefits. The increase in employee related costs primarily resulted from increased headcount due to the growth of our Energy Efficiency Services segment. As discussed above under "Components of Income and Expense-Direct Costs of Contract Revenue," we do not allocate that portion of salaries and wages not related to time spent directly generating revenue to direct costs of contract revenue. General and administrative expenses for the fiscal year ended December 30, 2011 also included a decrease of \$0.2 million as a result of a decrease in depreciation and amortization charges. Depreciation and amortization expense decreased primarily as a result of the decrease in the amortization of acquired intangible assets. The increase in facilities and facilities related expenses of \$0.6 million primarily resulted from expanded facilities in Washington, D.C. and other areas. Other general and administrative expenses increased by \$0.8 million, primarily as a result of increases in professional services, marketing and other expenses.

*Income from operations.* As a result of the above factors, our operating income was \$3.4 million for the fiscal year ended December 30, 2011 as compared to operating income of \$3.1 million for the fiscal year ended December 31, 2010. Income from operations, as a percentage of contract revenue, decreased to 3.2% for the fiscal year ended December 30, 2011, from 3.9% for the fiscal year ended December 31, 2010.

*Other (expense) income.* Other (expense) income, net, was \$71,000 for the fiscal year ended December 30, 2011 as compared to other (expense) income of \$10,000 the fiscal year ended December 31, 2010.

*Income tax expense (benefit).* We recorded an income tax expense of \$1.5 million for the fiscal year ended December 30, 2011, as compared to an income tax expense of \$0.3 million for the fiscal year ended December 31, 2010 due to a change in the income tax provision. For further discussion of our income tax provision, see Note 12 "Income Taxes."

*Net income (loss).* As a result of the above factors, our net income was \$1.8 million for the fiscal year ended December 30, 2011, compared to net income of \$2.7 million for the fiscal year ended December 31, 2010.

***Fiscal Year 2010 Compared to Fiscal Year 2009***

*Contract revenue.* Our contract revenue was \$77.9 million for the fiscal year ended December 31, 2010, with \$33.0 million attributable to the Engineering Services segment, \$29.2 million attributable to the Energy Efficiency Services segment and \$10.4 million attributable to the Public Finance Services segment. Our Homeland Security Services segment generated \$5.3 million during this period. Consolidated contract revenue increased \$16.3 million, or 26.5%, to \$77.9 million for the fiscal year ended December 31, 2010 from \$61.6 million in the fiscal year ended January 1, 2010. This increase was due primarily to an increase of \$16.7 million, or 133.6%, in contract revenue of the Energy Efficiency Services segment as a result of the increase in demand for the energy efficiency, sustainability and renewable energy services of our subsidiary, Willdan Energy Solutions. Contract revenue in the Engineering Services segment decreased \$0.8 million, or 2.4%, to \$33.0 million for the fiscal year ended December 31, 2010 from \$33.8 million in the fiscal year ended January 1, 2010. Contract revenue in the Homeland Security Services segment increased \$1.8 million, or 51.4%, to

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\$5.3 million for the fiscal year ended December 31, 2010 from \$3.5 million in the fiscal year ended January 1, 2010. Contract revenue for our Public Finance Services segment decreased \$1.4 million, or 11.9%, to \$10.4 million in the fiscal year ended December 31, 2010 from \$11.8 million in the fiscal year ended January 1, 2010.

The \$16.3 million increase in consolidated contract revenue resulted primarily from an increase of \$16.7 million of revenue recognized by our Energy Efficiency Services segment in fiscal 2010, partially offset by decreases in our Engineering Services and Public Finance Services segments. Contract revenue in the Energy Efficiency Service segment increased primarily because of increased demand for energy efficiency services in the state of New York. Contract revenue for the Engineering Services segment continues to be impacted by the decline in the California residential housing market and state and local government budget cuts. A source of revenue in our Engineering Services segment is fees assessed for building permits. Since the second half of fiscal 2007, we have experienced reductions in revenue from these fees because of the slowdown in residential construction in the western United States. We have also experienced a decline in our other building and safety projects which is both directly and indirectly affected by the housing market. Revenue in the Public Finance Services segment decreased primarily due to lower levels of activity in the financial consulting business as a result of the general downturn in macro-economic conditions. Revenue in the Homeland Security Services segment has increased due to an increase in demand for our traditional and expanded homeland security, management consulting and public safety consulting services. Our Homeland Security Services segment also expanded its service offerings beyond its traditional planning, training and exercise services to include public safety and interoperability communications and management consulting.

*Direct costs of contract revenue.* Direct costs of contract revenue was \$42.0 million for the fiscal year ended December 31, 2010, with \$17.2 million attributable to the Engineering Services segment, \$19.6 million attributable to the Energy Efficiency Services segment and \$2.8 million attributable to the Public Finance Services segment, respectively. The additional \$2.4 million is attributable to direct costs of contract revenue for our Homeland Security Services segment. Overall, direct costs of contract revenue increased by \$13.2 million, or 45.8%, to \$42.0 million for the fiscal year ended December 31, 2010 from \$28.8 million for the fiscal year ended January 1, 2010. This increase is primarily attributable to increases in direct costs within our Energy Efficiency Services segment, our Engineering Services segment and our Homeland Security Services segment of \$11.9 million, or 154.5%, \$1.1 million, or 6.8%, and \$0.7 million, or 41.2%, respectively. Direct costs of contract revenue decreased by \$0.5 million, or 15.2%, in our Public Finance Services segment due to decreased levels of activity in the Public Finances Services segment. Direct costs of contract revenue as a percentage of contract revenue for the fiscal year ended December 31, 2010 increased to 53.9% from 46.8% for the fiscal year ended January 1, 2010.

Direct costs increased as a result of increases in salaries and wages, sub-consultant services and other direct costs of \$3.5 million, \$9.0 million and \$0.7 million, respectively. Within direct costs of contract revenue, salaries and wages decreased to 27.7% of contract revenue for the fiscal year ended December 31, 2010 from 29.4% for the fiscal year ended January 1, 2010 and sub-consultant services increased to 21.2% of contract revenue for the fiscal year ended December 31, 2010 from 13.0% of contract revenue for the fiscal year ended January 1, 2010. Subconsultant services increased primarily because of increased demand for the energy efficiency, sustainability and renewable energy services of our subsidiary Willdan Energy Solutions, which generally utilizes a higher percentage of subconsultants than our other subsidiaries. Increased chargeability of labor also shifted more employee related costs to direct costs of contract revenue because we only allocate the portion of salaries and wages related to time spent directly generating revenues to direct costs of contract revenue.

*General and administrative expenses.* General and administrative expenses decreased by \$7.5 million, or 18.6%, to \$32.8 million for the fiscal year ended December 31, 2010 from \$40.3 million for the fiscal year ended January 1, 2010. This was due primarily to decreases of \$8.1 million and

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\$3.4 million, in the General and administrative expenses of the Engineering Services and Public Finance Services segments, respectively. General and administrative expenses for the Energy Efficiency Services segment, Homeland Security Services segment and unallocated corporate expenses increased by \$3.1 million, \$0.7 million and \$0.2 million, respectively. General and administrative expenses as a percentage of contract revenue decreased to 42.1% for the fiscal year ended December 31, 2010 from 65.3% for the fiscal year ended January 1, 2010.

Of the \$7.5 million decrease in general and administrative expenses, approximately \$2.7 million relates to decreases in salaries and wages, payroll taxes and employee benefits. The reduction in employee related costs primarily resulted from increased chargeability of labor which shifted more employee related costs to direct costs of contract revenue. As discussed above under "Components of Income and Expense-Direct Costs of Contract Revenue," we do not allocate that portion of salaries and wages not related to time spent directly generating revenue to direct costs of contract revenue. General and administrative expenses for the fiscal year ended December 31, 2010 also included decreases of \$2.8 million in impairment of goodwill charges and \$0.8 million as a result of a decrease in lease abandonment charges. Our lease abandonment charges decreased because we were able to successfully renew certain abandoned facility lease terms on more favorable terms. Depreciation and amortization expense decreased \$0.8 million primarily as a result of the decrease in the amortization of acquired intangible assets. Other general and administrative expenses decreased \$1.4 million due to a decrease in bad debt expense, net of increases in miscellaneous expenses. These decreases were partially offset by an increase in litigation accrual charges of \$1.1 million.

*Income (loss) from operations.* As a result of the above factors, income from operations was \$3.1 million for the fiscal year ended December 31, 2010 as compared to a loss from operations of \$7.5 million for the fiscal year ended January 1, 2010. Income from operations, as a percentage of contract revenue, increased to 3.9% for the fiscal year ended December 31, 2010, from (12.2)% for the fiscal year ended January 1, 2010.

*Other (expense) income.* Other (expense) income, net, essentially remained flat for the fiscal year ended December 31, 2010 as compared to the fiscal year ended January 1, 2010.

*Income tax expense (benefit).* Income tax expense was \$0.3 million for the fiscal year ended December 31, 2010, as compared to an income tax benefit of \$1.9 million for the fiscal year ended January 1, 2010. The increase was principally related to higher pre-tax income in 2010, partially offset by a reversal of the \$0.9 million of valuation allowance in the current year.

*Net income (loss).* As a result of the above factors, our net income was \$2.7 million for the fiscal year ended December 31, 2010, compared to a net loss of \$5.6 million for the fiscal year ended January 1, 2010.

**Liquidity and Capital Resources**

As of December 30, 2011, we had \$3.0 million of cash and cash equivalents. Our primary sources of liquidity are cash generated from operations and borrowings under our revolving credit agreement. We believe that our cash on hand, cash generated by operating activities and funds available under our credit agreement will be sufficient to finance our operating activities for at least the next 12 months.

***Cash Flows from Operating Activities***

Cash flows used in operating activities were \$0.7 million for fiscal year 2011 compared to cash flows provided by operating activities of \$0.1 million for fiscal year 2010 and \$2.2 million for fiscal year 2009. Our cash flows used in operating activities in fiscal year 2011 primarily resulted from increases in accounts receivable and costs and estimated earnings in excess of billings on uncompleted contracts, partially offset by increases in accounts payable and accrued liabilities. Our cash flows from operating

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activities were also reduced by non-cash revenue of \$0.9 million from a subcontractor settlement in fiscal year 2011. The cash flows provided by operating activities in fiscal 2010 were lower than in fiscal 2009, despite higher net income, due primarily to increases in accounts receivable, costs and estimated earnings in excess of billings on uncompleted contracts and fewer adjustments for non-cash items partially offset by increases in accounts payable and accrued liabilities.

***Cash Flows from Investing Activities***

Cash flows used in investing activities were \$3.1 million for fiscal year 2011 compared to \$2.7 million for fiscal year 2010 and \$2.8 million for fiscal year 2009. Payments related to business acquisitions, in fiscal 2011 were \$2.7 million, as compared to \$2.1 million in fiscal 2010 and \$2.4 million in fiscal 2009. These payments were in accordance with the provisions of the stock purchase agreement for the 2008 purchase of Willdan Energy Solutions, formerly known as Intergy Corp. Aside from payments for business acquisitions, our cash used in investing activities is primarily related to the purchase of equipment and leasehold improvements.

***Cash Flows from Financing Activities***

Cash flows provided by financing activities in fiscal 2011 was \$0.2 million as compared to \$0.8 million for fiscal year 2010 and \$0.9 million for fiscal year 2009. The net cash flows provided by financing activities in fiscal 2011 was primarily attributable to changes in the excess of outstanding checks over bank balance and proceeds from notes payable, partially offset by repayments of our revolving line of credit. The net cash flows provided by financing activities in fiscal 2010 was primarily attributable to changes in the excess of outstanding checks over bank balance. The net cash flows provided in fiscal 2009 was primarily attributable to borrowings under our line of credit to support working capital needs.

***Outstanding Indebtedness***

We currently have a revolving credit agreement with Wells Fargo Bank, National Association ("Wells Fargo"), which was entered into on December 23, 2011 and became effective as of January 1, 2012. The credit agreement replaces our prior credit facility with Wells Fargo that expired on January 1, 2012. There was \$0.3 million outstanding under our prior credit facility as of December 30, 2011. We have also financed, from time to time, insurance premiums by entering into unsecured notes payable with insurance companies. During our annual insurance renewals in the fourth quarter of our fiscal year ended December 30, 2011, we elected to finance our insurance premiums for the upcoming fiscal year.

Our credit agreement with Wells Fargo provides for a \$5.0 million revolving line of credit, including a \$5.0 million standby letter of credit sub-facility, and matures on April 1, 2013. Loans made under the revolving line of credit will accrue interest at either (i) a floating rate equal to the prime rate in effect from time to time or (ii) a fixed rate of 2.25% above LIBOR, with the interest rate to be selected by us.

Borrowings under the revolving line of credit are guaranteed by all of our subsidiaries except Public Agency Resources (the "Guarantors") and secured by all of our and the Guarantors' accounts receivable and other rights to payment, general intangibles, inventory and equipment. Pursuant to the credit agreement, we also must pay a 0.25% fee on unused commitments and customary fees on any letters of credit drawn under the facility.

The credit agreement contains customary representations and affirmative covenants, including financial covenants that require us to maintain (i) net income after taxes of at least \$250,000, measured on a rolling four quarter basis, without losses in two consecutive quarters; (ii) a maximum ratio of total funded debt (measured as the sum of all obligations for borrowed money, including subordinated debt,

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plus all capital lease obligations) to EBITDA of 1.75 to 1.00, measured quarterly on a rolling four quarter basis; and (iii) a minimum asset coverage ratio of 2.50 to 1.00 as of each quarter end, measured as unrestricted cash plus net-billed accounts receivables divided by amounts outstanding and issued letters of credit under the revolving line of credit.

The credit agreement also includes customary negative covenants, including (i) restrictions on the incurrence of additional indebtedness by us or the Guarantors other than purchase money indebtedness not to exceed \$2.0 million and indebtedness existing on the date of the credit agreement, (ii) restrictions on the payment of dividends on our stock and redemptions, repurchases or other acquisitions of our stock, except that we can repurchase stock with an aggregate fair market value up to \$5.0 million in any calendar year, and (iii) limitations on asset sales, mergers and acquisitions. In addition, the credit agreement includes customary events of default. Upon the occurrence of an event of default, the interest rate will be increased by 4.0%, Wells Fargo has the option to make any loans then outstanding under the credit agreement immediately due and payable, and Wells Fargo is no longer obligated to extend further credit to us under the credit agreement.

***Contractual Obligations***

We have certain cash obligations and other commitments which will impact our short- and long-term liquidity. At December 30, 2011, such obligations and commitments consisted of long-term debt, operating leases and capital leases. The following table sets forth our contractual obligations as of December 30, 2011:

| <b>Contractual Obligations</b>     | <b>Total</b>  | <b>Less than<br/>1 Year</b> | <b>1-3 Years</b> | <b>3-5 Years</b> | <b>More<br/>than<br/>5 Years</b> |
|------------------------------------|---------------|-----------------------------|------------------|------------------|----------------------------------|
| Long term debt(1)                  | \$ 935,000    | \$ 857,000                  | \$ 78,000        | \$               | \$                               |
| Operating leases                   | 9,262,000     | 3,447,000                   | 5,090,000        | 725,000          |                                  |
| Capital leases                     | 398,000       | 208,000                     | 190,000          |                  |                                  |
| Total contractual cash obligations | \$ 10,595,000 | \$ 4,512,000                | \$ 5,358,000     | \$ 725,000       | \$                               |

- 
- (1) Long-term debt includes principal and interest payments under our debt agreements assuming no additional borrowings or principal payments and includes borrowings under our previous line of credit of \$256,000.

***Off-Balance Sheet Arrangements***

We do not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

**New Accounting Pronouncements**

In September 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2011-08 ("ASU 2011-08"), *Intangibles - Goodwill and Other (Topic 350): Testing Goodwill for Impairment*. This accounting guidance is intended to simplify goodwill impairment testing, by allowing companies to perform a qualitative assessment on goodwill impairment to determine whether a quantitative assessment is necessary. This guidance is for goodwill impairment tests performed in interim and annual periods for fiscal years beginning after December 15, 2011. Early adoption is permitted. We elected to adopt this guidance early, effective the first day of our third quarter of 2011. We do not expect the adoption of this guidance to have a material impact on our financial statements.

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**ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Market risk is the risk of loss to future earnings, to fair values or to future cash flows that may result from changes in the price of a financial instrument. The value of a financial instrument may change as a result of changes in interest rates, exchange rates, commodity prices, equity prices and other market changes. Market risk is attributed to all market risk sensitive financial instruments, including long-term debt.

We had cash and cash equivalents of \$3.0 million as of December 30, 2011. This amount includes \$2.0 million invested in the Wells Fargo Money Market Mutual Fund. Although these investments are subject to variable interest rates, we do not believe we are subject to significant market risk for these short-term investments.

We do not engage in trading activities and do not participate in foreign currency transactions or utilize derivative financial instruments. As of December 30, 2011, we had \$0.3 million outstanding debt under our revolving credit facility that bears interest at variable rates.

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**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

The financial statements and related financial information, as listed under Item 15, appear in a separate section of this annual report beginning on page F-1.

**Index to Consolidated Financial Statements**

|  | <b>Page</b> |
|--|-------------|
| <u>Report of Independent Registered Public Accounting Firm Ernst &amp; Young LLP</u>   | <u>F-1</u>  |
| <u>Report of Independent Registered Public Accounting Firm KPMG LLP</u>  | <u>F-2</u>  |
| <u>Consolidated Balance Sheets as of December 30, 2011 and December 31, 2010</u>   | <u>F-3</u>  |
| <u>Consolidated Statements of Operations for each of the fiscal years in the three-year period ended December 30, 2011</u>           | <u>F-4</u>  |
| <u>Consolidated Statements of Stockholders' Equity for each of the fiscal years in the three-year period ended December 30, 2011</u> | <u>F-5</u>  |
| <u>Consolidated Statements of Cash Flows for each of the fiscal years in the three-year period ended December 30, 2011</u>           | <u>F-6</u>  |
| <u>Notes to Consolidated Financial Statements</u>  | <u>F-7</u>  |

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**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

There were no changes in and/or disagreements with accountants on accounting and financial disclosure during the year ended December 30, 2011.

**ITEM 9A. CONTROLS AND PROCEDURES**

**Evaluation of Disclosure Controls and Procedures**

We maintain disclosure controls and procedures defined in Rule 13a-15(e) under the Exchange Act, as controls and other procedures that are designed to ensure that information required to be disclosed by the issuer in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in the reports that we file or submit under the Securities Exchange Act is accumulated and communicated to our management, including our President and Chief Executive Officer, Thomas Brisbin, and our Chief Financial Officer, Kimberly Gant, as appropriate to allow timely decisions regarding required disclosure.

In connection with the preparation of this Annual Report, an evaluation was performed under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures as of December 30, 2011. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective, at a reasonable assurance level, as of December 30, 2011. No change in our internal control over financial reporting occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**Management's Report on Internal Control Over Financial Reporting**

Our management is responsible for establishing and maintaining adequate control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended). Internal control over financial reporting is a process to provide reasonable assurance regarding the reliability of our financial reporting for external purposes in accordance with accounting principles generally accepted in the United States. Because of its inherent limitations, internal control over financial reporting is not intended to provide absolute assurance that a misstatement of our financial statements would be prevented or detected. Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, assessed the effectiveness of our internal control over financial reporting as of December 30, 2011. In making this assessment, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control - Integrated Framework. Our management has concluded that, as of December 30, 2011, our internal control over financial reporting was effective based on these criteria.

**Report of Independent Registered Public Accounting Firm**

This annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to the rules of the Securities and Exchange Commission that permit the company to provide only management's report in this annual report.

**Changes in Internal Controls**

Based on our evaluation carried out in accordance with SEC Rule 15d-15(b) under the supervision and with the participation of our management, including our President and Chief Executive Officer and our Chief Financial Officer, we concluded that there were no changes during the fourth fiscal quarter of 2011 of our internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

**ITEM 9B. OTHER INFORMATION**

None.



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**PART III**

**ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT**

The information required by this item is incorporated by reference to Willdan Group, Inc.'s Proxy Statement for its 2012 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the Company's 2011 fiscal year.

We have posted our Code of Ethical Conduct on our website, [www.willdan.com](http://www.willdan.com), under the heading "Investors Corporate Governance." The Code of Ethical Conduct applies to our Chief Executive Officer and Chief Financial Officer. Upon request and free of charge, we will provide any person with a copy of the Code of Ethical Conduct. See "Item 1. Business Available Information."

**ITEM 11. EXECUTIVE COMPENSATION**

The information required by this item is incorporated by reference to Willdan Group, Inc.'s Proxy Statement for its 2012 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the Company's 2011 fiscal year.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED SHAREHOLDER MATTERS**

The information required by this item is incorporated by reference to Willdan Group, Inc.'s Proxy Statement for its 2012 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the Company's 2011 fiscal year.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

The information required by this item is incorporated by reference to Willdan Group, Inc.'s Proxy Statement for its 2012 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the Company's 2011 fiscal year.

**ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

The information required by this item is incorporated by reference to Willdan Group, Inc.'s Proxy Statement for its 2012 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the Company's 2011 fiscal year.

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**PART IV**

**ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

(a)

The following documents are filed as part of this report:

1. Financial Statements

The following financial statements of Willdan Group, Inc. and report of independent auditors are included in Item 8 of this annual report and submitted in a separate section beginning on page F-1:

|  | <b>Page</b> |
|--|-------------|
| <u>Report of Independent Registered Public Accounting Firm Ernst &amp; Young LLP</u>   | <u>F-1</u>  |
| <u>Report of Independent Registered Public Accounting Firm KPMG LLP</u>  | <u>F-2</u>  |
| <u>Consolidated Balance Sheets as of December 30, 2011 and December 31, 2010</u>   | <u>F-3</u>  |
| <u>Consolidated Statements of Operations for each of the fiscal years in the three-year period ended December 30, 2011</u>           | <u>F-4</u>  |
| <u>Consolidated Statements of Stockholders' Equity for each of the fiscal years in the three-year period ended December 30, 2011</u> | <u>F-5</u>  |
| <u>Consolidated Statements of Cash Flows for each of the fiscal years in the three-year period ended December 30, 2011</u>           | <u>F-6</u>  |
| <u>Notes to Consolidated Financial Statements</u>  | <u>F-7</u>  |

2. Financial Statements Schedules

All required schedules are omitted because they are not applicable or the required information is shown in the financial statements or the accompanying notes.

3. Exhibits

The exhibits filed as part of this annual report are listed in Item 15(b).

(b)

Exhibits.

The following exhibits are filed as a part of this report:

| <b>Exhibit Number</b> | <b>Exhibit Description</b>  |
|-----------------------|---|
| 3.1                   | Articles of Incorporation of Willdan Group, Inc., including amendments thereto(2)   |
| 3.2                   | Bylaws of Willdan Group, Inc.(2)  |
| 4.1                   | Specimen Stock Certificate for shares of the Registrant's Common Stock(2)   |
| 4.2                   | The Company agrees to furnish to the Securities and Exchange Commission upon request a copy of each instrument with respect to issues of long-term debt of Willdan Group, Inc. and its subsidiaries, the authorized principal amount of which does not exceed 10% of the consolidated assets of Willdan Group, Inc. and its subsidiaries. |
| 10.1                  | Credit Agreement, dated January 1, 2012, between Willdan Group, Inc. and Wells Fargo Bank, National Association, relating to the Revolving Line of Credit Note(1)   |
| 10.2                  | Revolving Line of Credit Note for \$5,000,000, dated January 1, 2012, by Willdan Group, Inc. in favor of Wells Fargo Bank, National Association(1)  |



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| <b>Exhibit Number</b> | <b>Exhibit Description</b>  |
|-----------------------|---|
| 10.4                  | Form of Incentive Stock Option Agreement(2)   |
| 10.5                  | Form of Non-Qualified Stock Option Agreement(2)   |
| 10.6                  | Amended and Restated Willdan Group, Inc. 2006 Employee Stock Purchase Plan(3)   |
| 10.7                  | Willdan Group, Inc. 2008 Performance Incentive Plan(4)  |
| 10.8                  | Form of Indemnification Agreement between Willdan Group, Inc. and its Directors and Officers(2)   |
| 10.9                  | Office Lease by and between Spectrum Waples Street, LLC, a California limited liability company, Spectrum Lambert Plaza, LLC, a California limited liability company and The Willdan Group of Companies dated October 15, 2004 for the principal office located at 2401 East Katella Avenue, Anaheim, California(2) |
| 10.10                 | First Amendment to Lease by and between 2401 Katella, LLC and The Willdan Group of Companies, dated February 27, 2006 for the principal office located at 2401 Katella Avenue, Anaheim, California(2)   |
| 10.11                 | Second Amendment to Lease by and between 2401 Katella, LLC and The Willdan Group of Companies dated March 6, 2006 for the principal office located at 2401 Katella Avenue, Anaheim, California(2)   |
| 10.12                 | Indemnification Agreement between Willdan Group, Inc. and Linda Heil(2)   |
| 10.13                 | Offer Letter from Willdan Group, Inc. to Daniel Chow dated October 29, 2008 and accepted November 9, 2008(5)  |
| 10.14                 | Employment Agreement, dated as of May 3, 2011 by and between Willdan Group, Inc. and Thomas D. Brisbin(6)   |
| 10.15                 | Employment Agreement, dated as of May 3, 2011 by and between Willdan Group, Inc. and Kimberly D. Gant(6)  |
| 10.16                 | Employment Agreement, dated as of May 3, 2011 by and between Willdan Group, Inc. and Marc Tipermas(6)   |
| 14.1                  | Code of Ethical Conduct of Willdan Group, Inc.(3)   |
| 21.1                  | Subsidiaries of Willdan Group, Inc.*  |
| 23.1                  | Consent of Independent Registered Public Accounting Firm Ernst & Young LLP*   |
| 23.2                  | Consent of Independent Registered Public Accounting Firm KPMG LLP*  |
| 24.1                  | Power of Attorney (included on signature page hereto)   |
| 31.1                  | Certification of Chief Executive Officer pursuant to Rule 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to § 302 of the Sarbanes-Oxley Act of 2002*  |
| 31.2                  | Certification of Chief Financial Officer pursuant to Rule 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to § 302 of the Sarbanes-Oxley Act of 2002*   |
| 32.1                  | Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002*   |

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| <b>Exhibit Number</b> | <b>Exhibit Description</b>  |
|-----------------------|---|
| 101.                  | Interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Consolidated Balance Sheets as of December 30, 2011 and December 31, 2010; (ii) the Consolidated Statements of Operations for each of the fiscal years in the three-year period ended December 30, 2011; (iii) the Consolidated Statements of Stockholders' Equity for each of the fiscal years in the three-year period ended December 30, 2011; (iv) the Consolidated Statement of Cash Flows for each of the fiscal years in the three-year period ended December 30, 2011; and (v) the Notes to the Consolidated Financial Statements. |

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\*

Filed herewith.

Indicates a management contract or compensating plan or arrangement.

- (1) Incorporated by reference to Willdan Group, Inc.'s Current Report on Form 8-K, filed with the Securities and Exchange Commission on December 27, 2011.
- (2) Incorporated by reference to Willdan Group, Inc.'s Registration Statement on Form S-1, filed with the Securities and Exchange Commission on August 9, 2006, as amended (File No. 333-136444).
- (3) Incorporated by reference to Willdan Group, Inc.'s Annual Report on Form 10-K, filed with the Securities and Exchange Commission on March 27, 2007.
- (4) Incorporated by reference to Willdan Group, Inc.'s Quarterly Report on Form 10-Q, filed with the Securities and Exchange Commission on August 12, 2010.
- (5) Incorporated by reference to Willdan Group, Inc.'s Current Report on Form 8-K, filed with the Securities and Exchange Commission on December 17, 2008.
- (6) Incorporated by reference to Willdan Group, Inc.'s Current Report on Form 8-K, filed with the Securities and Exchange Commission on May 4, 2011.

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**SIGNATURES AND CERTIFICATIONS**

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, in the City of Anaheim, State of California, on March 29, 2012.

**WILLDAN GROUP, INC.**

/s/ KIMBERLY D. GANT

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Kimberly D. Gant  
*Chief Financial Officer, Senior Vice President and Treasurer*

Date: March 29, 2012

KNOW ALL PERSONS BY THESE PRESENT, that each person whose signature appears below constitutes and appoints Kimberly D. Gant his/her attorney-in-fact, with the power of substitution, for him/her in any and all capacities, to sign any amendments to this Report on Form 10-K and to file the same, with Exhibits thereto and other documents in connection therewith with the Securities and Exchange Commission, hereby ratifying and confirming all that said attorney-in-fact, or substitute or substitutes may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

| Signature   | Title  | Date                  |
|---|--|-----------------------|
| <p>/s/ THOMAS D. BRISBIN</p> <hr/> <p>Thomas D. Brisbin</p> | <p>Director, President and Chief Executive Officer</p>   | <p>March 29, 2012</p> |
| <p>/s/ KIMBERLY D. GANT</p> <hr/> <p>Kimberly D. Gant</p>   | <p>Chief Financial Officer and Senior Vice President</p> | <p>March 29, 2012</p> |
| <p>/s/ WIN WESTFALL</p> <hr/> <p>Win Westfall</p>           | <p>Director</p>  | <p>March 29, 2012</p> |
| <p>/s/ LINDA L. HEIL</p> <hr/> <p>Linda L. Heil</p>         | <p>Director</p>  | <p>March 29, 2012</p> |
| <p>/s/ W. TRACY LENOCKER</p> <hr/> <p>W. Tracy Lenocker</p> | <p>Director</p>  | <p>March 29, 2012</p> |
| <p>/s/ KEITH W. RENKEN</p> <hr/> <p>Keith W. Renken</p>     | <p>Director</p>  | <p>March 29, 2012</p> |

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| <b>Signature</b>  | <b>Title</b> | <b>Date</b>    |
|---|--------------|----------------|
| <u>/s/ WAYNE SHELTON</u><br>Wayne Shelton                 | Director     | March 29, 2012 |
| <u>/s/ JOHN M. TOUPS</u><br>John M. Toups                 | Director     | March 29, 2012 |
| <u>/s/ RAYMOND W. HOLDSWORTH</u><br>Raymond W. Holdsworth | Director     | March 29, 2012 |
| <u>/s/ DOUGLAS J. MCEACHERN</u><br>Douglas J. McEachern   | Director     | March 29, 2012 |

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Stockholders  
Willdan Group, Inc.

We have audited the accompanying consolidated balance sheets of Willdan Group, Inc. and subsidiaries (the "Company") as of December 30, 2011 and December 31, 2010 and the related consolidated statements of operations, stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with 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. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly we express no such opinion. An audit also 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.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Willdan Group, Inc. and subsidiaries as of December 30, 2011 and December 31, 2010, and the results of their operations and their cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young LLP

Los Angeles, California  
March 29, 2012



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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Stockholders  
Willdan Group, Inc.:

We have audited the accompanying consolidated statements of operations, stockholders' equity, and cash flows of Willdan Group, Inc. and subsidiaries (the Company) for the year ended January 1, 2010. These consolidated 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 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, the consolidated financial statements referred to above present fairly, in all material respects, the results of operations of Willdan Group, Inc. and subsidiaries and their cash flows for the year ended January 1, 2010, in conformity with U.S. generally accepted accounting principles.

/s/ KPMG LLP

March 30, 2010  
Los Angeles, California

Table of Contents**WILLDAN GROUP, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

|  | December 30,<br>2011 | December 31,<br>2010 |
|--|----------------------|----------------------|
| <b>Assets</b>  |                      |                      |
| Current assets:  |                      |                      |
| Cash and cash equivalents  | \$ 3,001,000         | \$ 6,642,000         |
| Accounts receivable, net of allowance for doubtful accounts of \$421,000 and \$959,000 at December 30, 2011 and December 31, 2010, respectively                              | 16,782,000           | 14,484,000           |
| Costs and estimated earnings in excess of billings on uncompleted contracts  | 20,672,000           | 11,343,000           |
| Other receivables  | 175,000              | 176,000              |
| Prepaid expenses and other current assets  | 1,724,000            | 1,714,000            |
| <b>Total current assets</b>  | <b>42,354,000</b>    | <b>34,359,000</b>    |
| Equipment and leasehold improvements, net  | 1,217,000            | 1,496,000            |
| Goodwill   | 15,208,000           | 12,475,000           |
| Other intangible assets, net   | 49,000               | 95,000               |
| Other assets   | 383,000              | 407,000              |
| Deferred income taxes  | 5,100,000            | 622,000              |
| <b>Total assets</b>  | <b>\$ 64,311,000</b> | <b>\$ 49,454,000</b> |
| <b>Liabilities and Stockholders' Equity</b>  |                      |                      |
| Current liabilities:   |                      |                      |
| Excess of outstanding checks over bank balance   | \$ 1,777,000         | \$ 1,223,000         |
| Borrowings under line of credit  | 256,000              | 1,000,000            |
| Accounts payable   | 8,182,000            | 5,380,000            |
| Accrued liabilities  | 10,192,000           | 5,985,000            |
| Billings in excess of costs and estimated earnings on uncompleted contracts  | 752,000              | 1,041,000            |
| Current portion of notes payable   | 600,000              | 90,000               |
| Current portion of capital lease obligations   | 163,000              | 173,000              |
| Current portion of deferred income taxes   | 7,349,000            | 1,407,000            |
| <b>Total current liabilities</b>   | <b>29,271,000</b>    | <b>16,299,000</b>    |
| Notes payable, less current portion  | 77,000               | 131,000              |
| Capital lease obligations, less current portion  | 136,000              | 96,000               |
| Deferred lease obligations   | 534,000              | 766,000              |
| <b>Total liabilities</b>   | <b>30,018,000</b>    | <b>17,292,000</b>    |
| Commitments and contingencies  |                      |                      |
| Stockholders' equity:  |                      |                      |
| Preferred stock, \$0.01 par value, 10,000,000 shares authorized, no shares issued and outstanding  |                      |                      |
| Common stock, \$0.01 par value, 40,000,000 shares authorized; 7,274,000 and 7,246,000 shares issued and outstanding at December 30, 2011 and December 31, 2010, respectively | 73,000               | 72,000               |
| Additional paid-in capital   | 34,065,000           | 33,765,000           |
| Accumulated earnings (deficit)   | 155,000              | (1,675,000)          |
| <b>Total stockholders' equity</b>  | <b>34,293,000</b>    | <b>32,162,000</b>    |
| <b>Total liabilities and stockholders' equity</b>  | <b>\$ 64,311,000</b> | <b>\$ 49,454,000</b> |

See accompanying notes to consolidated financial statements.

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Table of Contents**WILLDAN GROUP, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF OPERATIONS**

|   | Fiscal Year    |               |                |
|---|----------------|---------------|----------------|
|   | 2011           | 2010          | 2009           |
| Contract revenue  | \$ 107,165,000 | \$ 77,896,000 | \$ 61,605,000  |
| Direct costs of contract revenue (exclusive of depreciation and amortization shown separately below): |                |               |                |
| Salaries and wages  | 25,714,000     | 21,607,000    | 18,130,000     |
| Subconsultant services  | 34,195,000     | 16,523,000    | 7,997,000      |
| Other direct costs  | 4,818,000      | 3,892,000     | 2,715,000      |
| Total direct costs of contract revenue  | 64,727,000     | 42,022,000    | 28,842,000     |
| General and administrative expenses:  |                |               |                |
| Salaries and wages, payroll taxes and employee benefits   | 22,594,000     | 17,582,000    | 20,325,000     |
| Facilities and facility related   | 4,875,000      | 4,290,000     | 4,430,000      |
| Stock-based compensation  | 201,000        | 235,000       | 272,000        |
| Depreciation and amortization   | 877,000        | 1,042,000     | 1,814,000      |
| Lease abandonment (recovery), net   | 2,000          | (68,000)      | 707,000        |
| Impairment of goodwill  |                |               | 2,763,000      |
| Litigation accrual (reversal)   |                |               | (1,125,000)    |
| Other   | 10,488,000     | 9,719,000     | 11,070,000     |
| Total general and administrative expenses   | 39,037,000     | 32,800,000    | 40,256,000     |
| Income (loss) from operations   | 3,401,000      | 3,074,000     | (7,493,000)    |
| Other (expense) income:   |                |               |                |
| Interest income   | 5,000          | 12,000        | 30,000         |
| Interest expense  | (77,000)       | (54,000)      | (38,000)       |
| Other, net  | 1,000          | 32,000        | (5,000)        |
| Total other (expense) income, net   | (71,000)       | (10,000)      | (13,000)       |
| Income (loss) before income taxes   | 3,330,000      | 3,064,000     | (7,506,000)    |
| Income tax expense (benefit)  | 1,500,000      | 344,000       | (1,931,000)    |
| Net income (loss)   | \$ 1,830,000   | \$ 2,720,000  | \$ (5,575,000) |
| Earnings (loss) per share:  |                |               |                |
| Basic   | \$ 0.25        | \$ 0.38       | \$ (0.78)      |
| Diluted   | \$ 0.24        | \$ 0.37       | \$ (0.78)      |
| Weighted-average shares outstanding:  |                |               |                |
| Basic   | 7,262,000      | 7,233,000     | 7,192,000      |
| Diluted   | 7,485,000      | 7,311,000     | 7,192,000      |

See accompanying notes to consolidated financial statements.



Table of Contents**WILLDAN GROUP, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**

|   | Common Stock |           | Additional    | Retained                  |               |
|---|--------------|-----------|---------------|---------------------------|---------------|
|   | Shares       | Amount    | Paid-in       | Earnings/<br>(Accumulated | Total         |
|   |              |           | Capital       | Deficit)                  |               |
| Balances at January 2, 2009   | 7,164,000    | \$ 72,000 | \$ 33,084,000 | \$ 1,180,000              | \$ 34,336,000 |
| Shares of common stock issued in connection with employee stock purchase plan   | 44,000       |           | 84,000        |                           | 84,000        |
| Stock-based compensation  |              |           | 272,000       |                           | 272,000       |
| Net loss  |              |           |               | (5,575,000)               | (5,575,000)   |
| Balances at January 1, 2010   | 7,208,000    | 72,000    | 33,440,000    | (4,395,000)               | 29,117,000    |
| Shares of common stock issued in connection with employee stock purchase plan   | 36,000       |           | 87,000        |                           | 87,000        |
| Shares of common stock issued in connection with employee stock option exercise | 2,000        |           | 3,000         |                           | 3,000         |
| Stock-based compensation  |              |           | 235,000       |                           | 235,000       |
| Net income  |              |           |               | 2,720,000                 | 2,720,000     |
| Balances at December 31, 2010   | 7,246,000    | 72,000    | 33,765,000    | (1,675,000)               | 32,162,000    |
| Shares of common stock issued in connection with employee stock purchase plan   | 25,000       | 1,000     | 92,000        |                           | 93,000        |
| Shares of common stock issued in connection with employee stock option exercise | 3,000        |           | 7,000         |                           | 7,000         |
| Stock-based compensation  |              |           | 201,000       |                           | 201,000       |
| Net income  |              |           |               | 1,830,000                 | 1,830,000     |
| Balances at December 30, 2011   | 7,274,000    | \$ 73,000 | \$ 34,065,000 | \$ 155,000                | \$ 34,293,000 |

See accompanying notes to consolidated financial statements.

Table of Contents**WILLDAN GROUP, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS**

|  | Fiscal Year         |                     |                     |
|--|---------------------|---------------------|---------------------|
|  | 2011                | 2010                | 2009                |
| <b>Cash flows from operating activities:</b>   |                     |                     |                     |
| Net income (loss)  | \$ 1,830,000        | \$ 2,720,000        | \$ (5,575,000)      |
| Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities: |                     |                     |                     |
| Non-cash revenue from subcontractor settlement   | (902,000)           |                     |                     |
| Depreciation and amortization  | 944,000             | 1,053,000           | 1,814,000           |
| Deferred income taxes  | 1,465,000           | 389,000             | (1,890,000)         |
| Goodwill impairment  |                     |                     | 2,763,000           |
| Lease abandonment expense (recovery), net  | 2,000               | (68,000)            | 707,000             |
| Loss (gain) on sale of equipment   | 2,000               | (17,000)            | 6,000               |
| Provision for doubtful accounts  | 209,000             | 20,000              | 1,829,000           |
| Stock-based compensation   | 201,000             | 235,000             | 272,000             |
| Changes in operating assets and liabilities:   |                     |                     |                     |
| Accounts receivable  | (2,507,000)         | (4,407,000)         | 936,000             |
| Costs and estimated earnings in excess of billings on uncompleted contracts                        | (8,427,000)         | (4,694,000)         | 1,632,000           |
| Income tax receivable  |                     | 51,000              | 905,000             |
| Other receivables  | 1,000               | (103,000)           | (25,000)            |
| Prepaid expenses and other current assets  | (10,000)            | (214,000)           | 284,000             |
| Other assets   | 24,000              | (89,000)            | 55,000              |
| Accounts payable   | 2,802,000           | 3,923,000           | (654,000)           |
| Accrued liabilities  | 4,206,000           | 1,476,000           | (959,000)           |
| Billings in excess of costs and estimated earnings on uncompleted contracts                        | (289,000)           | 11,000              | 326,000             |
| Deferred lease obligations   | (234,000)           | (189,000)           | (272,000)           |
| <b>Net cash (used in) provided by operating activities</b>   | <b>(683,000)</b>    | <b>97,000</b>       | <b>2,154,000</b>    |
| <b>Cash flows from investing activities:</b>   |                     |                     |                     |
| Purchase of equipment and leasehold improvements   | (395,000)           | (685,000)           | (386,000)           |
| Proceeds from sale of equipment  | 6,000               | 40,000              |                     |
| Payments related to business acquisitions  | (2,733,000)         | (2,104,000)         | (2,373,000)         |
| <b>Net cash used in investing activities</b>   | <b>(3,122,000)</b>  | <b>(2,749,000)</b>  | <b>(2,759,000)</b>  |
| <b>Cash flows from financing activities:</b>   |                     |                     |                     |
| Changes in excess of outstanding checks over bank balance  | 554,000             | 735,000             | 40,000              |
| Payments on notes payable  | (211,000)           | (17,000)            | (46,000)            |
| Proceeds from notes payable  | 667,000             | 214,000             |                     |
| Borrowings under line of credit  | 33,965,000          | 14,123,000          | 3,553,000           |
| Repayments of line of credit   | (34,709,000)        | (14,123,000)        | (2,553,000)         |
| Principal payments on capital leases   | (202,000)           | (173,000)           | (172,000)           |
| Proceeds from stock option exercise  | 7,000               | 3,000               |                     |
| Proceeds from sales of common stock under employee stock purchase plan                             | 93,000              | 87,000              | 84,000              |
| <b>Net cash provided by financing activities</b>   | <b>164,000</b>      | <b>849,000</b>      | <b>906,000</b>      |
| <b>Net (decrease) increase in cash and cash equivalents</b>  | <b>(3,641,000)</b>  | <b>(1,803,000)</b>  | <b>301,000</b>      |
| Cash and cash equivalents at beginning of the year   | 6,642,000           | 8,445,000           | 8,144,000           |
| <b>Cash and cash equivalents at end of the year</b>  | <b>\$ 3,001,000</b> | <b>\$ 6,642,000</b> | <b>\$ 8,445,000</b> |
| <b>Supplemental disclosures of cash flow information:</b>  |                     |                     |                     |
| <b>Cash paid during the period for:</b>  |                     |                     |                     |
| Interest   | \$ 77,000           | \$ 52,000           | \$ 40,000           |
| Income taxes   | 70,000              | 48,000              | 3,000               |
| <b>Supplemental disclosures of noncash investing and financing activities:</b>                     |                     |                     |                     |

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|   |    |         |    |         |    |        |
|---|----|---------|----|---------|----|--------|
| Equipment acquired under capital leases | \$ | 247,000 | \$ | 240,000 | \$ | 60,000 |
|---|----|---------|----|---------|----|--------|

See accompanying notes to consolidated financial statements

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Table of Contents**WILLDAN GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****Fiscal Years 2011, 2010 and 2009****1. ORGANIZATION AND OPERATIONS OF THE COMPANY***Nature of Business*

Willdan Group, Inc. and subsidiaries ("Willdan Group" or the "Company") is a provider of professional technical and consulting services to public agencies at all levels of government, public and private utilities and commercial and industrial firms in California and New York. The Company also has operations in Arizona, Florida, Texas, Washington and Washington, DC. The Company enables these entities to provide a wide range of specialized services without having to incur and maintain the overhead necessary to develop staffing in-house. The Company provides a broad range of complementary services including engineering and planning, energy efficiency and sustainability, economic and financial consulting, and national preparedness and interoperability. The Company's clients primarily consist of public and governmental agencies, including cities, counties, public utilities, redevelopment agencies, water districts, school districts and universities, state agencies, federal agencies, a variety of other special districts and agencies, private utilities and industry and tribal governments.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES***Principles of Consolidation*

The consolidated financial statements include the accounts of Willdan Group, Inc. and its wholly owned subsidiaries, Willdan Engineering, Willdan Energy Solutions, Public Agency Resources, Willdan Financial Services and Willdan Homeland Solutions. All significant intercompany balances and transactions have been eliminated in consolidation.

*Fiscal Years*

The Company operates and reports financial results on a fiscal year of 52 or 53 weeks ending on the Friday closest to December 31. Fiscal years 2011, 2010 and 2009 contained 52 weeks. All references to years in the notes to consolidated financial statements represent fiscal years.

*Cash, Cash Equivalents and Liquid Investments*

All highly liquid investments purchased with a remaining maturity of three months or less are considered to be cash equivalents. Outstanding checks in excess of cash on deposit have been classified as current liabilities. Cash and cash equivalents consisted of the following:

|  | <b>December 30,<br/>2011</b> | <b>December 31,<br/>2010</b> |
|--|------------------------------|------------------------------|
| Wells Fargo Stage Coach Sweep Investment Account | \$ 808,000                   | \$ 808,000                   |
| Wells Fargo Money Market Mutual Fund             | 2,000,000                    | 5,287,000                    |
| Wells Fargo Advantage Heritage Fund              | 47,000                       | 47,000                       |
| Cash on hand in business checking accounts       | 954,000                      | 500,000                      |
|  | <b>\$ 3,001,000</b>          | <b>\$ 6,642,000</b>          |

The Company from time to time may be exposed to credit risk with its bank deposits in excess of the FDIC insurance limits and with uninsured money market investments. The Company has not

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**WILLDAN GROUP, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Fiscal Years 2011, 2010 and 2009**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

***Fair Value of Financial Instruments***

As of December 30, 2011 and December 31, 2010, the carrying amounts of the Company's cash, cash equivalents, accounts receivable, costs and estimated earnings in excess of billings on uncompleted contracts, other receivables, prepaid expenses and other current assets, excess of outstanding checks over bank balance, accounts payable, accrued liabilities and billings in excess of costs and estimated earnings on uncompleted contracts, approximate their fair values because of the relatively short period of time between the origination of these instruments and their expected realization or payment. The carrying amounts of debt obligations approximate their fair values since the terms are comparable to terms currently offered by local lending institutions for loans of similar terms to companies with comparable credit risk.

***Segment Information***

Willdan Group, Inc. ("WGI") is a holding company with five wholly owned subsidiaries. The Company presents segment information externally consistent with the manner in which the Company's chief operating decision maker reviews information to assess performance and allocate resources. WGI performs administrative functions on behalf of its subsidiaries, such as treasury, legal, accounting, information systems, human resources and certain business development activities, and earns revenue that is only incidental to the activities of the enterprise. As a result, WGI does not meet the definition of an operating segment. Two of the five WGI subsidiaries are aggregated into one reportable segment as they have similar economic characteristics including the nature of services, the methods used to provide services and the type of customers. The remaining three subsidiaries each comprise separate reporting segments.

***Off-Balance Sheet Financings and Liabilities***

Other than lease commitments, legal contingencies incurred in the normal course of business, and employment contracts, the Company does not have any off-balance sheet financing arrangements or liabilities. In addition, the Company's policy is not to enter into derivative instruments, futures or forward contracts. Finally, the Company does not have any majority-owned subsidiaries or any interests in, or relationships with, any special-purpose entities that are not included in the consolidated financial statements.

***Accounting for Contracts***

The Company enters into contracts with its clients that contain three principal types of pricing provisions: fixed price, time-and-materials, and unit-based. Revenue on fixed price contracts is recognized on the percentage-of-completion method based generally on the ratio of direct costs (primarily exclusive of depreciation and amortization costs) incurred to date to estimated total direct costs at completion. Revenue on time-and-materials and unit-based contracts is recognized as the work is performed in accordance with the specific terms of the contract. Contracts that provide for multiple services or deliverables are evaluated as multiple element arrangements to determine the appropriate

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**WILLDAN GROUP, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Fiscal Years 2011, 2010 and 2009**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

unit of accounting, allocation of contract value, and method of revenue recognition for each element. Revenue for amounts that have been billed but not earned is deferred and such deferred revenue is referred to as billings in excess of costs and estimated earnings on uncompleted contracts in the accompanying consolidated balance sheets.

Adjustments to contract cost estimates are made in the periods in which the facts requiring such revisions become known. When the revised estimate indicates a loss, such loss is provided for currently in its entirety. Claims revenue is recognized only upon resolution of the claim. Change orders in dispute are evaluated as claims. Costs related to un-priced change orders are expensed when incurred and recognition of the related contract revenue is based on an evaluation of the probability of recovery of the costs. Estimated profit is recognized for un-priced change orders if realization of the expected price of the change order is probable.

Applying the percentage-of-completion method of recognizing revenue requires the Company to estimate the outcome of its long-term contracts. The Company forecasts such outcomes to the best of its knowledge and belief of current and expected conditions and its expected course of action. Differences between the Company's estimates and actual results often occur resulting in changes to reported revenue and earnings. Such changes could have a material effect on future consolidated financial statements.

Direct costs of contract revenue consist primarily of that portion of technical and nontechnical salaries and wages that has been incurred in connection with revenue producing projects. Direct costs of contract revenue also include production expenses, subconsultant services and other expenses that are incurred in connection with revenue producing projects.

Direct costs of contract revenue exclude that portion of technical and nontechnical salaries and wages related to marketing efforts, vacations, holidays and other time not spent directly generating revenue under existing contracts. Such costs are included in general and administrative expenses. Additionally, payroll taxes, bonuses and employee benefit costs for all Company personnel are included in general and administrative expenses in the accompanying consolidated statements of operations since no allocation of these costs is made to direct costs of contract revenue. No allocation of facilities costs is made to direct costs of contract revenue. Other companies may classify as direct costs of contract revenue some of the costs that the Company classifies as general and administrative costs. The Company expenses direct costs of contract revenue when incurred.

Accounts receivable are carried at original invoice amount less an estimate made for doubtful accounts based upon a review of all outstanding amounts on a quarterly basis. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Credit risk is generally minimal with governmental entities, but disputes may arise related to these receivable amounts. Accounts receivables are written off when deemed uncollectible. Recoveries of accounts receivables previously written off are recorded when received.

The value of retainage is included in accounts receivable in the accompanying consolidated financial statements. Retainage represents the billed amount that is retained by the customer, in accordance with the terms of the contract, generally until performance is substantially complete.

Table of Contents**WILLDAN GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Fiscal Years 2011, 2010 and 2009****2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)***Leases*

All of the Company's office leases are classified as operating leases and rent expense is included in facilities expense in the accompanying consolidated statements of operations. Some of the lease terms include rent concessions and rent escalation clauses, all of which are taken into account in computing minimum lease payments. Minimum lease payments are recognized on a straight-line basis over the minimum lease term. The excess of rent expense recognized over the amounts contractually due pursuant to the underlying leases is reflected as a liability in the accompanying consolidated balance sheets. The cost of improvements that the Company makes to the leased office space is capitalized as leasehold improvements. The Company is subject to non-cancellable leases for offices or portions of offices for which use has ceased. For each of these abandoned leases, the present value of the future lease payments, net of estimated sublease payments, along with any unamortized tenant improvement costs, are recognized as lease abandonment expense in the Company's consolidated statements of operations with a corresponding liability in the Company's consolidated balance sheets.

*Equipment and Leasehold Improvements*

Equipment and leasehold improvements are stated at cost less accumulated depreciation and amortization. Equipment under capital leases is stated at the present value of the minimum lease payments as of the acquisition date. Depreciation and amortization on equipment are calculated using the straight-line method over estimated useful lives of two to five years. Leasehold improvements and assets under capital leases are amortized using the straight-line method over the shorter of estimated useful lives or the term of the related lease.

Following are the estimated useful lives used to calculate depreciation and amortization:

| <b>Category</b>        | <b>Estimated Useful Life</b> |
|------------------------|------------------------------|
| Furniture and fixtures | 5 years                      |
| Computer hardware      | 2 years                      |
| Computer software      | 3 years                      |
| Automobiles and trucks | 3 years                      |
| Field equipment        | 5 years                      |

Equipment and leasehold improvements are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset.

*Goodwill*

Goodwill represents the excess of costs over fair value of the assets acquired. Goodwill, which has an indefinite useful life, is not amortized, but instead tested for impairment at least annually or more frequently if events and circumstances indicate that the asset might be impaired. Impairment losses for

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**WILLDAN GROUP, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Fiscal Years 2011, 2010 and 2009**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

reporting units are recognized to the extent that a reporting unit's carrying amount exceeds its fair value.

*Accounting for Claims Against the Company*

The Company records liabilities to claimants for probable and estimable claims on its consolidated balance sheet, which is included in accrued liabilities, and records a corresponding receivable from the insurance company for the portion of the claim that is probable of being covered by insurance, which is included in other receivables. The estimated claim amount net of the amount estimated to be recoverable from the insurance company is included in general and administrative expense.

*Stock Options*

The Company accounts for stock options under the fair value recognition provisions of the accounting standard entitled "*Compensation Stock Compensation*." This standard requires the measurement of compensation cost at the grant date, based upon the estimated fair value of the award, and requires amortization of the related expense over the employee's requisite service period.

*Income Taxes*

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences of temporary differences between the financial reporting basis and tax basis of the Company's assets and liabilities. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is recorded when it is more likely than not that all, or a portion, of the deferred tax assets may not be realized.

The Company recognizes the tax benefit from uncertain tax positions if it is more likely than not that the tax positions will be sustained on examination by the tax authorities, based on the technical merits of the position. The tax benefit is measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The Company recognizes interest and penalties related to unrecognized tax benefits in income tax expense.

*Operating Cycle*

In accordance with industry practice, amounts realizable and payable under contracts, that extend beyond one year are included in current assets and liabilities.

*Use of Estimates*

The preparation of consolidated financial statements in conformity with generally accepted accounting principles in the U.S. requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

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**WILLDAN GROUP, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Fiscal Years 2011, 2010 and 2009**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*New Accounting Pronouncements*

In September 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2011-08 ("ASU 2011-08"), *Intangibles - Goodwill and Other (Topic 350): Testing Goodwill for Impairment*. This accounting guidance is intended to simplify goodwill impairment testing, by allowing companies to perform a qualitative assessment on goodwill impairment to determine whether a quantitative assessment is necessary. This guidance is for goodwill impairment tests performed in interim and annual periods for fiscal years beginning after December 15, 2011. Early adoption is permitted. The Company elected to adopt this guidance early, effective the first day of its third quarter of 2011. The adoption of this guidance did not have a material impact on the Company's financial statements.

**3. BUSINESS COMBINATION**

On June 9, 2008, the Company acquired all of the outstanding stock of Willdan Energy Solutions, formerly known as Intergy Corporation, a California based consulting company that assists companies, institutions and agencies with planning and implementing their energy efficiency, water conservation and renewable energy strategies. The acquisition cost recorded by the Company as of December 30, 2011 was \$17.9 million, consisting of \$9.9 million in cash paid at closing, a \$0.2 million net asset value adjustment, a guaranteed payment of \$1.0 million in cash paid in June 2009, an earn-out payment of \$1.3 million paid in August 2009, an earn-out payment of \$2.1 million paid in September 2010, an earn-out payment of \$2.7 million paid in August 2011 and \$0.7 million in transaction costs. The final earn-out payment was required because Willdan Energy Solutions achieved certain financial targets over the twelve month period ending July 1, 2011. The Company has recorded \$15.2 million of goodwill associated with the acquisition through December 30, 2011.

The \$15.2 million of goodwill represents the amount paid to acquire Willdan Energy Solutions over and above the fair value of the net assets acquired, which includes the estimated fair value of the backlog in place as of the date of acquisition. The amount paid that has been classified as goodwill primarily relates to the expected future business that was not part of the backlog at the time of acquisition. The goodwill is deductible for income tax purposes over a period of 15 years.

The Company finalized its purchase price allocation during fiscal year 2009.

Table of Contents**WILLDAN GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Fiscal Years 2011, 2010 and 2009****4. GOODWILL AND OTHER INTANGIBLE ASSETS**

The changes in the carrying value of goodwill by reporting unit for the fiscal year ended December 30, 2011 were as follows:

|                            | Balance at<br>Beginning of Year | Fiscal Year 2011      |            | Balance at<br>End of Year |
|----------------------------|---------------------------------|-----------------------|------------|---------------------------|
|                            |                                 | Goodwill<br>Additions | Impairment |                           |
| <b>Reporting Unit:</b>     |                                 |                       |            |                           |
| Energy Solutions           | \$ 12,475,000                   | \$ 2,733,000          | \$         | \$ 15,208,000             |
| Financial Services         |                                 |                       |            |                           |
| Homeland Security Services |                                 |                       |            |                           |
|                            | \$ 12,475,000                   | \$ 2,733,000          | \$         | \$ 15,208,000             |

|                            | Balance at<br>Beginning of Year | Fiscal Year 2010      |            | Balance at<br>End of Year |
|----------------------------|---------------------------------|-----------------------|------------|---------------------------|
|                            |                                 | Goodwill<br>Additions | Impairment |                           |
| <b>Reporting Unit:</b>     |                                 |                       |            |                           |
| Energy Solutions           | \$ 10,371,000                   | \$ 2,104,000          | \$         | \$ 12,475,000             |
| Financial Services         |                                 |                       |            |                           |
| Homeland Security Services |                                 |                       |            |                           |
|                            | \$ 10,371,000                   | \$ 2,104,000          | \$         | \$ 12,475,000             |

|                            | Balance at<br>Beginning of Year | Fiscal Year 2009      |                | Balance at<br>End of Year |
|----------------------------|---------------------------------|-----------------------|----------------|---------------------------|
|                            |                                 | Goodwill<br>Additions | Impairment     |                           |
| <b>Reporting Unit:</b>     |                                 |                       |                |                           |
| Energy Solutions           | \$ 8,382,000                    | \$ 1,989,000          | \$             | \$ 10,371,000             |
| Financial Services         | 2,763,000                       |                       | (2,763,000)    |                           |
| Homeland Security Services |                                 |                       |                |                           |
|                            | \$ 11,145,000                   | \$ 1,989,000          | \$ (2,763,000) | \$ 10,371,000             |

The additions to goodwill during fiscal 2009 for Energy Solutions related to the \$1.3 million earn-out payment and finalization of the purchase price allocation. In fiscal 2009, the fair value of the Financial Services reporting unit did not exceed its carrying value and step two of the impairment analysis indicated that there was no implied value to this reporting unit's goodwill. Accordingly, an impairment charge of \$2.8 million was recognized. The fair value of the reporting unit is a Level 3 valuation. The valuation was based on an 80% weighting of an income approach value and a 20% weighting using a market approach value. The income approach was based on the present value of projected cash flows during the holding period and disposition of the reporting unit at the end of the final year of the assumed holding period. The market approach was based on a multiple of earnings before interest, taxes, depreciation and amortization ("EBITDA") utilizing publicly available EBITDA multiples for similar companies. The terminal sales value computed in the income approach was also based on a multiple of projected EBITDA for the last year of the assumed holding period. The





Table of Contents**WILLDAN GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Fiscal Years 2011, 2010 and 2009****4. GOODWILL AND OTHER INTANGIBLE ASSETS (Continued)**

additions to goodwill in fiscal 2010 and fiscal 2011 for Energy Solutions related to the \$2.1 million earn-out payment in September 2010 and the \$2.7 million earn-out payment in August 2011, respectively.

The goodwill balances included in the accompanying consolidated balance sheets consist of the following:

|                           | Reporting Units  |                    |                               |  | Total         |
|---------------------------|------------------|--------------------|-------------------------------|--|---------------|
|                           | Energy Solutions | Financial Services | Homeland<br>Security Services |  |               |
| <b>December 30, 2011:</b> |                  |                    |                               |  |               |
| Goodwill                  | \$ 15,208,000    | \$ 2,763,000       | \$ 148,000                    |  | \$ 18,119,000 |
| Accumulated impairment    |                  | (2,763,000)        | (148,000)                     |  | (2,911,000)   |
|                           | \$ 15,208,000    | \$                 | \$                            |  | \$ 15,208,000 |
| <b>December 31, 2010:</b> |                  |                    |                               |  |               |
| Goodwill                  | \$ 12,475,000    | \$ 2,763,000       | \$ 148,000                    |  | \$ 15,386,000 |
| Accumulated impairment    |                  | (2,763,000)        | (148,000)                     |  | (2,911,000)   |
|                           | \$ 12,475,000    | \$                 | \$                            |  | \$ 12,475,000 |
| <b>January 1, 2010:</b>   |                  |                    |                               |  |               |
| Goodwill                  | \$ 10,371,000    | \$ 2,763,000       | \$ 148,000                    |  | \$ 13,282,000 |
| Accumulated impairment    |                  | (2,763,000)        | (148,000)                     |  | (2,911,000)   |
|                           | \$ 10,371,000    | \$                 | \$                            |  | \$ 10,371,000 |

The gross amounts and accumulated amortization of the Company's acquired identifiable intangible assets with finite useful lives as of December 30, 2011 and December 31, 2010, included in intangible assets, net in the accompanying consolidated balance sheets, were as follows:

|                            | December 30, 2011 |                             | December 31, 2010 |                             | Amortization<br>Period<br>(yrs) |
|----------------------------|-------------------|-----------------------------|-------------------|-----------------------------|---------------------------------|
|                            | Gross<br>Amount   | Accumulated<br>Amortization | Gross<br>Amount   | Accumulated<br>Amortization |                                 |
| Backlog                    | \$ 920,000        | \$ 920,000                  | \$ 920,000        | \$ 920,000                  | 1                               |
| Training materials/courses | 282,000           | 233,000                     | 282,000           | 187,000                     | 5                               |
| Non-compete agreements     | 30,000            | 30,000                      | 30,000            | 30,000                      | 3                               |
|                            | \$ 1,232,000      | \$ 1,183,000                | \$ 1,232,000      | \$ 1,137,000                |                                 |

At the time of acquisition, the Company estimates the fair value of the acquired identifiable intangible assets based upon the facts and circumstances related to the particular intangible asset. Inherent in such estimates are judgments and estimates of future revenue, profitability, cash flows and appropriate discount rates for any present value calculations. The Company preliminarily estimates the value of the acquired identifiable intangible assets and then finalizes the estimated fair values during the purchase allocation period, which does not extend beyond 12 months from the date of acquisition.



Table of Contents**WILLDAN GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Fiscal Years 2011, 2010 and 2009****4. GOODWILL AND OTHER INTANGIBLE ASSETS (Continued)**

The purchase allocation for Willdan Energy Solutions was finalized during the second quarter of fiscal 2009.

For the years ended December 30, 2011, December 31, 2010 and January 1, 2010, the Company's amortization expense for acquired identifiable intangible assets with finite useful lives was \$46,000, \$54,000 and \$602,000, respectively. Estimated future amortization expense for acquired identifiable intangible assets is as follows:

|                     |           |
|---------------------|-----------|
| <b>Fiscal year:</b> |           |
| 2012                | \$ 37,000 |
| 2013                | 12,000    |
|                     | \$ 49,000 |

**5. EARNINGS PER SHARE ("EPS")**

Basic EPS is computed by dividing net income available to common stockholders by the weighted-average number of common shares outstanding. Diluted EPS is computed by dividing net income by the weighted-average number of common shares outstanding and dilutive potential common shares for the period. Potential common shares include the weighted-average dilutive effects of outstanding stock options 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  |              |                |
|---|--------------|--------------|----------------|
|   | 2011         | 2010         | 2009           |
| Net income (loss)                                 | \$ 1,830,000 | \$ 2,720,000 | \$ (5,575,000) |
| Weighted-average common shares outstanding        | 7,262,000    | 7,233,000    | 7,192,000      |
| Effect of dilutive stock options                  | 223,000      | 78,000       |                |
| Weighted-average common stock outstanding-diluted | 7,485,000    | 7,311,000    | 7,192,000      |
| <b>Earnings (loss) per share:</b>                 |              |              |                |
| Basic   | \$ 0.25      | \$ 0.38      | \$ (0.78)      |
| Diluted   | \$ 0.24      | \$ 0.37      | \$ (0.78)      |

For the fiscal year ended December 30, 2011, 304,000 options were excluded from the calculation of dilutive potential common shares, compared to 524,000 and 566,000 options, for fiscal 2010 and fiscal 2009, respectively. These options were not included in the computation of dilutive potential common shares because the assumed proceeds per share exceeded the average market price per share for the periods. Accordingly, the inclusion of these options would have been anti-dilutive. For periods in which the Company incurs net losses, dilutive potential common shares are excluded as they would be anti-dilutive.

Table of Contents**WILLDAN GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Fiscal Years 2011, 2010 and 2009****6. ACCOUNTS RECEIVABLE**

Accounts receivable consisted of the following at December 30, 2011 and December 31, 2010:

|                                 | December 30,<br>2011 | December 31,<br>2010 |
|---------------------------------|----------------------|----------------------|
| Billed                          | \$ 16,624,000        | \$ 14,895,000        |
| Unbilled                        | 20,672,000           | 11,343,000           |
| Contract retentions             | 579,000              | 548,000              |
|                                 | 37,875,000           | 26,786,000           |
| Allowance for doubtful accounts | (421,000)            | (959,000)            |
|                                 | \$ 37,454,000        | \$ 25,827,000        |

The movements in the allowance for doubtful accounts consisted of the following for fiscal years 2011, 2010 and 2009:

|   | Fiscal Year |              |              |
|---|-------------|--------------|--------------|
|   | 2011        | 2010         | 2009         |
| Balance as of the beginning of the year | \$ 959,000  | \$ 1,862,000 | \$ 662,000   |
| Provision for doubtful accounts         | 219,000     | 149,000      | 1,749,000    |
| Write-offs of uncollectible accounts    | (765,000)   | (1,059,000)  | (555,000)    |
| Recoveries of accounts written off      | 8,000       | 7,000        | 6,000        |
| Balance as of the end of the year       | \$ 421,000  | \$ 959,000   | \$ 1,862,000 |

Billed accounts receivable represent amounts billed to clients that have yet to be collected. Unbilled accounts receivable represent revenue recognized but not yet billed pursuant to contract terms or accounts billed after the period end. Substantially all unbilled receivables as of December 30, 2011 and December 31, 2010 are expected to be billed and collected within twelve months of such date. Contract retentions represent amounts invoiced to clients where payments have been withheld pending the completion of certain milestones, other contractual conditions or upon the completion of the project. These retention agreements vary from project to project and could be outstanding for several months.

Allowances for doubtful accounts have been determined through specific identification of amounts considered to be uncollectible and potential write-offs, plus a non-specific allowance for other amounts for which some potential loss has been determined to be probable based on current and past experience.

As of December 30, 2011, one client accounted for 40% of outstanding receivables, as compared to 34% of the Company's outstanding receivables as of December 31, 2010.

Table of Contents**WILLDAN GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Fiscal Years 2011, 2010 and 2009****7. EQUIPMENT AND LEASEHOLD IMPROVEMENTS**

Equipment and leasehold improvements consisted of the following at December 30, 2011 and December 31, 2010:

|   | December 30,<br>2011 | December 31,<br>2010 |
|---|----------------------|----------------------|
| Furniture and fixtures                    | \$ 3,393,000         | \$ 3,418,000         |
| Computer hardware and software            | 6,279,000            | 6,180,000            |
| Leasehold improvements                    | 787,000              | 803,000              |
| Equipment under capital leases            | 821,000              | 881,000              |
| Automobiles, trucks, and field equipment  | 543,000              | 529,000              |
|   | 11,823,000           | 11,811,000           |
| Accumulated depreciation and amortization | (10,606,000)         | (10,315,000)         |
| Equipment and leasehold improvements, net | \$ 1,217,000         | \$ 1,496,000         |

Included in accumulated depreciation and amortization is \$191,000 and \$151,000 of amortization related to equipment held under capital leases in fiscal years 2011 and 2010, respectively.

**8. ACCRUED LIABILITIES**

Accrued liabilities consisted of the following at December 30, 2011 and December 31, 2010:

|   | December 30,<br>2011 | December 31,<br>2010 |
|---|----------------------|----------------------|
| Accrued bonuses                         | \$ 944,000           | \$ 107,000           |
| Paid leave bank                         | 1,415,000            | 1,318,000            |
| Compensation and payroll taxes          | 770,000              | 684,000              |
| Accrued legal                           | 101,000              | 46,000               |
| Accrued workers' compensation insurance | 24,000               | 49,000               |
| Accrued rent                            | 320,000              | 420,000              |
| Employee withholdings                   | 234,000              | 179,000              |
| Client deposits                         | 247,000              | 157,000              |
| Unvouchered accounts payable            | 6,083,000            | 2,950,000            |
| Other                                   | 54,000               | 75,000               |
| Total accrued liabilities               | \$ 10,192,000        | \$ 5,985,000         |

**9. EQUITY PLANS**

As of December 30, 2011, the Company had two share-based compensation plans, which are described below. The Company may no longer grant awards under the 2006 Stock Incentive Plan. The compensation expense that has been recognized for stock options issued under these plans was \$201,000, \$235,000 and \$272,000 for fiscal years 2011, 2010 and 2009, respectively.

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**WILLDAN GROUP, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Fiscal Years 2011, 2010 and 2009**

**9. EQUITY PLANS (Continued)**

**2006 STOCK INCENTIVE PLAN**

In June 2006, the Company's board of directors adopted the 2006 Stock Incentive Plan ("2006 Plan") and it received stockholder approval. The Company re-submitted the 2006 Plan to its stockholders for post-IPO approval at the 2007 annual meeting of the stockholders and it was approved. The 2006 Plan will terminate ten years after the board of directors approved it and no additional awards were or will be granted under the 2006 Plan after the Company's shareholders approved the 2008 Plan (as defined below) in June 2008. The 2006 Plan had 300,000 shares of common stock reserved for issuance to the Company's directors, executives, officers, employees, consultants and advisors and currently has 206,500 shares of common stock reserved for issuance. Approximately 52,333 shares that were available for award grant purposes under the 2006 Plan have become available for grant under the 2008 Plan following shareholder approval of the 2008 Plan. Options granted under the 2006 Plan could be "non-statutory stock options" which expire no more than ten years from the date of grant or "incentive stock options" as defined in Section 422 of the Internal Revenue Code of 1986, as amended. Upon exercise of non-statutory stock options, the Company is generally entitled to a tax deduction on the exercise of the option for an amount equal to the excess over the exercise price of the fair market value of the shares at the date of exercise. The Company is generally not entitled to any tax deduction on the exercise of an incentive stock option. Option awards provide for accelerated vesting if there is a change in control (as defined in the 2006 Plan). Through December 30, 2011, options granted, net of forfeitures and expirations, under the 2006 Plan consisted of 187,500 shares and 19,000 shares for incentive stock options and non-statutory stock options, respectively.

**2008 PERFORMANCE INCENTIVE PLAN**

In March 2008, the Company's board of directors adopted the 2008 Performance Incentive Plan ("2008 Plan"), and it received stockholder approval at the 2008 annual meeting of the stockholders in June 2008. The 2008 Plan will terminate ten years after the board of directors approved it. The 2008 Plan had 486,167 shares of common stock reserved for issuance to the Company's directors, executives, officers, employees, consultants and advisors until June 4, 2010, at which time the stockholders, at the annual meeting of the stockholders, approved a 350,000 share increase to the 2008 Plan. The maximum number of shares of the Company's common stock that may be issued or transferred pursuant to awards under the 2008 Plan can also be increased by any shares subject to stock options granted under the 2006 Plan and outstanding as of June 9, 2008 which expire, or for any reason are cancelled or terminated, after June 9, 2008 without being exercised. The 2008 Plan has 888,500 shares of common stock reserved for issuance. Awards authorized by the 2008 Plan include stock options, stock appreciation rights, restricted stock, stock bonuses, stock units, performance stock, and other share-based awards. No participant may be granted an option to purchase more than 100,000 shares in any fiscal year. Options generally may not be granted with exercise prices less than fair market value at the date of grant, with vesting provisions and contractual terms determined by the compensation committee of the board of directors on a grant-by-grant basis. Options granted under the 2008 Plan may be "nonqualified stock options" or "incentive stock options" as defined in Section 422 of the Internal Revenue Code of 1986, as amended. The maximum term of each option shall be 10 years. Upon exercise of nonqualified stock options, the Company is generally entitled to a tax deduction on the exercise of the option for an amount equal to the excess over the exercise price of the fair market value of the shares at the date of exercise. The Company is generally not entitled to any tax deduction

Table of Contents**WILLDAN GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Fiscal Years 2011, 2010 and 2009****9. EQUITY PLANS (Continued)**

on the exercise of an incentive stock option. Option awards provide for accelerated vesting if there is a change in control (as defined in the 2008 Plan). Through December 30, 2011, options granted, net of forfeitures and exercises, under the 2008 Plan consisted of 568,100 shares and 137,000 shares for incentive stock options and non-statutory stock options, respectively.

The fair value of each option is calculated using the Black-Scholes option valuation model that uses the assumptions noted in the following table. Expected volatility is based upon historical volatility of "guideline companies" since the length of time the Company's shares have been publicly traded is shorter than the expected or contractual term of the options. The expected term of the option, taking into account both the contractual term of the option and the effects of employees' expected exercise and expected post-vesting termination behavior is estimated based upon the simplified method. Under this approach, the expected term is presumed to be the mid-point between the vesting date and the end of the contractual term. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant. The assumptions are as follows:

|                          | 2011          | 2010          | 2009          |
|--------------------------|---------------|---------------|---------------|
| Expected volatility      | 39% - 40%     | 39%           | 39% - 40%     |
| Expected dividends       | 0%            | 0%            | 0%            |
| Expected term (in years) | 5.75 - 6.00   | 5.75 - 6.00   | 5.75 - 6.00   |
| Risk-free rate           | 0.88% - 2.20% | 1.48% - 2.59% | 2.20% - 2.95% |

A summary of option activity under the 2006 Plan and 2008 Plan as of December 30, 2011 and changes during the fiscal years ended December 30, 2011, December 31, 2010 and January 1, 2010 is presented below. The intrinsic value of the fully-vested options is \$665,000, based on the Company's closing stock price of \$3.96 on December 30, 2011.

|                                  | Options  | Weighted-Average Exercise Price | Weighted-Average Remaining Contractual Term (Years) |
|----------------------------------|----------|---------------------------------|---|
| Outstanding at December 31, 2010 | 859,000  | \$ 3.90                         | 8.26  |
| Granted                          | 86,000   | 4.02                            | 9.44  |
| Exercised                        | (3,000)  | 1.96                            | 7.92  |
| Forfeited or expired             | (30,000) |                                 |   |
| Outstanding at December 30, 2011 | 912,000  | \$ 3.90                         | 8.26  |
| Vested at December 30, 2011      | 570,000  | \$ 4.61                         | 6.84  |
| Exercisable at December 30, 2011 | 570,000  | \$ 4.61                         | 6.84  |

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## WILLDAN GROUP, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## Fiscal Years 2011, 2010 and 2009

## 9. EQUITY PLANS (Continued)

|                                  | Options | Weighted-Average Exercise Price | Weighted-Average Remaining Contractual Term (Years) |
|----------------------------------|---------|---------------------------------|---|
| Outstanding at January 1, 2010   | 566,000 | \$ 4.54                         | 8.6   |
| Granted                          | 295,000 | 2.67                            | 9.6   |
| Exercised                        | (2,000) | 1.65                            | 8.6   |
| Forfeited or expired             |         |                                 |   |
| Outstanding at December 31, 2010 | 859,000 | \$ 3.90                         | 8.3   |
| Vested at December 31, 2010      | 356,000 | \$ 6.07                         | 7.2   |
| Exercisable at December 31, 2010 | 356,000 | \$ 6.07                         | 7.2   |

|                                | Options  | Weighted-Average Exercise Price | Weighted-Average Remaining Contractual Term (Years) |
|--------------------------------|----------|---------------------------------|---|
| Outstanding at January 2, 2009 | 303,000  | \$ 7.23                         | 8.8   |
| Granted                        | 291,000  | 1.80                            | 9.4   |
| Exercised                      |          |                                 |   |
| Forfeited or expired           | (28,000) | 5.47                            |   |
| Outstanding at January 1, 2010 | 566,000  | \$ 4.54                         | 8.6   |
| Vested at January 1, 2010      | 172,000  | \$ 8.01                         | 7.7   |
| Exercisable at January 1, 2010 | 172,000  | \$ 8.01                         | 7.7   |

A summary of the status of the Company's nonvested options and changes in nonvested options during the fiscal years ended December 30, 2011, December 31, 2010 and January 1, 2010, is presented below:

|                                | Options   | Weighted-Average Grant-Date Fair Value |
|--------------------------------|-----------|--|
| Nonvested at December 31, 2010 | 503,000   | \$ 0.96                                |
| Granted                        | 86,000    | 1.60                                   |
| Vested                         | (232,000) | 0.94                                   |
| Forfeited                      | (16,000)  | 0.95                                   |
| Nonvested at December 30, 2011 | 341,000   | 1.13                                   |





Table of Contents**WILLDAN GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Fiscal Years 2011, 2010 and 2009****9. EQUITY PLANS (Continued)**

|                                | Options   | Weighted-<br>Average<br>Grant-Date<br>Fair Value |
|--------------------------------|-----------|--|
| Nonvested at January 1, 2010   | 394,000   | \$ 1.24  |
| Granted                        | 295,000   | 1.06   |
| Vested                         | (186,000) | 1.72   |
| Forfeited                      |           |  |
| Nonvested at December 31, 2010 | 503,000   | 0.96   |

|                              | Options  | Weighted-<br>Average<br>Grant-Date<br>Fair Value |
|------------------------------|----------|--|
| Nonvested at January 2, 2009 | 218,000  | \$ 2.64  |
| Granted                      | 291,000  | 0.78   |
| Vested                       | (96,000) | 2.87   |
| Forfeited                    | (19,000) | 1.88   |
| Nonvested at January 1, 2010 | 394,000  | 1.24   |

As of December 30, 2011, there was \$274,000 of total unrecognized compensation expense related to non-vested stock options. That expense is expected to be recognized over a weighted-average period of 1.58 years. There were no options granted that were immediately vested during the fiscal years ended December 30, 2011, December 31, 2010 and January 1, 2010.

**AMENDED AND RESTATED 2006 EMPLOYEE STOCK PURCHASE PLAN**

The Company adopted its Amended and Restated 2006 Employee Stock Purchase Plan to allow eligible employees the right to purchase shares of common stock, at semi-annual intervals, with their accumulated payroll deductions. The plan received stockholder approval in June 2006. The Company re-submitted the plan to its stockholders for post-IPO approval at the 2007 annual stockholders' meeting where approval was obtained. A total of 300,000 shares of the Company's common stock have been reserved for issuance under the plan, with no more than 100,000 shares being issuable in any one calendar year.

The plan has semi-annual periods beginning on each January 1 and ending on each June 30 and beginning on each July 1 and ending on each December 31. The first offering period commenced on February 10, 2007 and ended on June 30, 2007.

Participants make contributions under the plan only by means of payroll deductions each payroll period. The accumulated contributions are applied to the purchase of shares. Shares are purchased under the plan on or as soon as practicable after, the last day of the offering period. The purchase price per share equals 95% of the fair market value of a share on the last day of such offering period.

Table of Contents**WILLDAN GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Fiscal Years 2011, 2010 and 2009****9. EQUITY PLANS (Continued)**

The Company's Amended and Restated 2006 Employee Stock Purchase Plan is a non-compensatory plan. As a result, stock-based compensation expense is not recognized in relation to this plan. As of December 30, 2011, there were 178,878 shares available for issuance under the plan.

**10. DEBT OBLIGATIONS**

Debt obligations, excluding obligations under capital leases (note 11), consist of the following:

|  | <b>2011</b> | <b>2010</b>  |
|--|-------------|--------------|
| Outstanding borrowings on line of credit   | \$ 256,000  | \$ 1,000,000 |
| Notes payable for vehicles, 36 month term, bearing interest at 1.9%, payable in monthly principal and interest installments of \$6,000 through January 2014, secured by vehicles | 147,000     | 187,000      |
| Notes payable for insurance, 9 month term, bearing interest at 1.9%, payable in monthly principal and interest installments of \$72,000 through August 2012, secured by vehicles | 501,000     |              |
| Other  | 29,000      | 34,000       |
|  | \$ 933,000  | \$ 1,221,000 |
| Less current portion   | 856,000     | 1,090,000    |
| Debt obligations, less current portion   | \$ 77,000   | \$ 131,000   |

We currently have a revolving credit agreement with Wells Fargo Bank, National Association ("Wells Fargo"), which was entered into on December 23, 2011 and became effective as of January 1, 2012. The credit agreement replaces our prior credit facility with Wells Fargo that expired on January 1, 2012. There was \$0.3 million outstanding under our prior credit facility as of December 30, 2011. We have also financed, from time to time, insurance premiums by entering into unsecured notes payable with insurance companies. During our annual insurance renewals in the fourth quarter of our fiscal year ended December 30, 2011, we elected to finance our insurance premiums for the upcoming fiscal year.

Our credit agreement with Wells Fargo provides for a \$5.0 million revolving line of credit, including a \$5.0 million standby letter of credit sub-facility, and matures on April 1, 2013. Loans made under the revolving line of credit will accrue interest at either (i) a floating rate equal to the prime rate in effect from time to time or (ii) a fixed rate of 2.25% above LIBOR, with the interest rate to be selected by us.

Borrowings under the revolving line of credit are guaranteed by all of our subsidiaries except Public Agency Resources (the "Guarantors") and secured by all of our and the Guarantors' accounts receivable and other rights to payment, general intangibles, inventory and equipment. Pursuant to the credit agreement, we also must pay a 0.25% fee on unused commitments and customary fees on any letters of credit drawn under the facility.

Table of Contents**WILLDAN GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Fiscal Years 2011, 2010 and 2009****10. DEBT OBLIGATIONS (Continued)**

The credit agreement contains customary representations and affirmative covenants, including financial covenants that require us to maintain (i) net income after taxes of at least \$250,000, measured on a rolling four quarter basis, without losses in two consecutive quarters; (ii) a maximum ratio of total funded debt (measured as the sum of all obligations for borrowed money, including subordinated debt, plus all capital lease obligations) to EBITDA of 1.75 to 1.00, measured quarterly on a rolling four quarter basis; and (iii) a minimum asset coverage ratio of 2.50 to 1.00 as of each quarter end, measured as unrestricted cash plus net-billed accounts receivables divided by amounts outstanding and issued letters of credit under the revolving line of credit.

The credit agreement also includes customary negative covenants, including (i) restrictions on the incurrence of additional indebtedness by us or the Guarantors other than purchase money indebtedness not to exceed \$2.0 million and indebtedness existing on the date of the credit agreement, (ii) restrictions on the payment of dividends on our stock and redemptions, repurchases or other acquisitions of our stock, except that we can repurchase stock with an aggregate fair market value up to \$5.0 million in any calendar year, and (iii) limitations on asset sales, mergers and acquisitions. In addition, the credit agreement includes customary events of default. Upon the occurrence of an event of default, the interest rate will be increased by 4.0%, Wells Fargo has the option to make any loans then outstanding under the credit agreement immediately due and payable, and Wells Fargo is no longer obligated to extend further credit to us under the credit agreement.

Principal maturities on notes payable as of December 30, 2011 are as follows:

|              |            |
|--------------|------------|
| Fiscal year: |            |
| 2012         | \$ 600,000 |
| 2013         | 71,000     |
| 2014         | 6,000      |
|              | \$ 677,000 |

**11. COMMITMENTS***Leases*

The Company is obligated under capital leases for certain furniture and office equipment that expire at various dates through the year 2014.

The Company also leases certain office facilities under non-cancelable operating leases that expire at various dates through the year 2015 and is committed under non-cancelable operating leases for the lease of computer equipment and automobiles through the year 2014.

Table of Contents**WILLDAN GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Fiscal Years 2011, 2010 and 2009****11. COMMITMENTS (Continued)**

Future minimum rental payments under capital and non-cancelable operating leases are summarized as follows:

|  | Capital           | Operating           |
|--|-------------------|---------------------|
| Fiscal year:   |                   |                     |
| 2012   | \$ 208,000        | \$ 3,447,000        |
| 2013   | 139,000           | 2,846,000           |
| 2014   | 51,000            | 2,244,000           |
| 2015   |                   | 725,000             |
| 2016   |                   |                     |
| <b>Total future minimum lease payments</b>                         | <b>398,000</b>    | <b>\$ 9,262,000</b> |
| Amount representing maintenance                                    | (89,000)          |                     |
| Amount representing interest (at rates ranging from 3.0% to 10.0%) | (10,000)          |                     |
| Present value of net minimum lease payments under capital leases   | 299,000           |                     |
| Less current portion   | 163,000           |                     |
|  | <b>\$ 136,000</b> |                     |

As of September 1, 2010, the Company turned over to the landlord a portion of its headquarters office space that was subleased by an entity that is owned by one of the Company's directors. Pursuant to the sublease agreement, this tenant paid the Company monthly rent of approximately \$8,500, for a total of approximately \$72,000 through August 31, 2010. The tenant had also paid the Company a proportionate share of certain operating expenses and taxes relating to the subleased space.

Rent expense and related charges for common area maintenance for all facility operating leases for fiscal years 2011, 2010 and 2009 was approximately \$3,627,000, \$3,116,000 and \$3,306,000, respectively.

During the fiscal year ended January 1, 2010, the Company closed certain of its offices or separable sections of offices. Additionally, a tenant that was subleasing an office from the Company defaulted on its lease. As a result of the office closures and the sublease default, the Company recorded lease abandonment expense, net, of \$707,000, which is included in the accompanying consolidated statement of operations for the fiscal year ended January 1, 2010. This expense includes future rental obligations and other costs associated with the leased space net of the fair value of

Table of Contents**WILLDAN GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Fiscal Years 2011, 2010 and 2009****11. COMMITMENTS (Continued)**

subleases. The following is a reconciliation of the liability for lease abandonment (recovery) expense for fiscal years 2011 and 2010:

|  | Fiscal 2011 | Fiscal 2010  |
|--|-------------|--------------|
| Liability for abandoned leases as of beginning of year       | \$ 678,000  | \$ 1,048,000 |
| Lease abandonment expense (recovery), net                    | 2,000       | (68,000)     |
| Lease payments on abandoned leases, net of sublease payments | (380,000)   | (439,000)    |
| Other  | 27,000      | 137,000      |
| Liability for abandoned leases as of the end of the year     | \$ 327,000  | \$ 678,000   |

The current portion of the liability for abandoned leases is included in accrued liabilities and the non-current portion is included in deferred lease obligations in the accompanying consolidated balance sheets.

***Employee Benefit Plans***

The Company has a qualified profit sharing plan (the Plan) pursuant to Code Section 401(a) and qualified cash or deferred arrangement pursuant to Code Section 401(k) covering substantially all employees. Employees may elect to contribute up to 50% of compensation limited to the amount allowed by tax laws. Company contributions are made solely at the discretion of the Company's board of directors. The Company made matching contributions of approximately \$219,000, \$157,000 and \$0 during fiscal years 2011, 2010 and 2009, respectively.

The Company has a discretionary bonus plan for regional managers, division managers and others as determined by the Company president. Bonuses are awarded if certain financial goals are achieved. The financial goals are not stated in the plan; rather they are judgmentally determined each year. In addition, the board of directors may declare discretionary bonuses to key employees and all employees are eligible for what the Company refers to as the "hot hand" bonus program, which pays awards for outstanding performance. Bonus expense for fiscal years 2011, 2010 and 2009 totaled approximately \$1,602,000, \$403,000 and \$421,000, respectively, of which approximately \$944,000, and \$107,000 is included in accrued liabilities at December 30, 2011 and December 31, 2010, respectively.

***Post employment health benefits***

In May 2006, the Company's board of directors approved providing lifetime health insurance coverage for Win Westfall, the Company's former chief executive officer and current chairman of the board of directors, and his spouse and for Linda Heil, the widow of the Company's former chief executive officer, Dan Heil. Mrs. Heil is also a member of the Company's board of directors. These benefits relate to past services provided to the Company. Accordingly, there is no unamortized compensation cost for the benefits.

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**WILLDAN GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Fiscal Years 2011, 2010 and 2009**

**11. COMMITMENTS (Continued)**

Included in accrued liabilities in the accompanying consolidated balance sheets related to this obligation is the present value of expected payments for health insurance coverage, \$158,000 as of December 30, 2011 and \$170,000 as of December 31, 2010.

**12. INCOME TAXES**

The provision (benefit) for income taxes is comprised of:

|                                  | Fiscal Year  |             |                |
|----------------------------------|--------------|-------------|----------------|
|                                  | 2011         | 2010        | 2009           |
| Current federal (benefit) taxes  | \$ (22,000)  | \$ (80,000) | \$             |
| Current state taxes              | 58,000       | 32,000      | 10,000         |
| Deferred federal taxes (benefit) | 1,064,000    | 94,000      | (1,564,000)    |
| Deferred state taxes (benefit)   | 400,000      | 298,000     | (377,000)      |
|                                  | \$ 1,500,000 | \$ 344,000  | \$ (1,931,000) |

The provision (benefit) for income taxes reconciles to the amounts computed by applying the statutory federal tax rate of 34% to our income (loss) before income taxes. The sources and tax effects of the differences for fiscal years 2011, 2010 and 2009 are as follows:

|   | 2011         | 2010         | 2009           |
|---|--------------|--------------|----------------|
| Computed "expected" federal income tax expense (benefit)                        | \$ 1,132,000 | \$ 1,042,000 | \$ (2,552,000) |
| Permanent differences   | 88,000       | 107,000      | 121,000        |
| Current and deferred state income tax expense (benefit), net of federal benefit | 302,000      | 217,000      | (413,000)      |
| Change in valuation allowances on deferred tax assets                           |              | (934,000)    | 934,000        |
| Other   | (22,000)     | (88,000)     | (21,000)       |
|   | \$ 1,500,000 | \$ 344,000   | \$ (1,931,000) |

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The tax effects of temporary differences that give rise to significant portions of the net deferred tax assets and liabilities are as follows:

|  | December 30,<br>2011 | December 31,<br>2010 | January 1,<br>2010 |
|--|----------------------|----------------------|--------------------|
| <b>Current deferred tax assets:</b>                      |                      |                      |                    |
| Accrued litigation judgment                              | \$                   | \$ 18,000            | \$ 54,000          |
| Accounts receivable allowance                            | 171,000              | 382,000              | 741,000            |
| Other accrued liabilities                                | 895,000              | 794,000              | 786,000            |
| Federal and state net operating losses                   |                      | 1,937,000            |                    |
|  | 1,066,000            | 3,131,000            | 1,581,000          |
| Valuation allowance                                      |                      |                      | (412,000)          |
| Net deferred tax assets                                  | 1,066,000            | 3,131,000            | 1,169,000          |
| <b>Current deferred tax liabilities:</b>                 |                      |                      |                    |
| Deferred revenue   | (8,353,000)          | (4,491,000)          | (2,623,000)        |
| Other  | (62,000)             | (47,000)             | (25,000)           |
|  | (8,415,000)          | (4,538,000)          | (2,648,000)        |
| Net current deferred tax liability                       | \$ (7,349,000)       | \$ (1,407,000)       | \$ (1,479,000)     |
| <b>Deferred tax assets, net of current portion:</b>      |                      |                      |                    |
| Federal and state net operating losses                   | \$ 5,680,000         | \$ 455,000           | \$ 914,000         |
| Equipment and leasehold improvement depreciation         |                      | 42,000               | 191,000            |
| Intangible assets  |                      | 33,000               | 803,000            |
| Other  | 72,000               | 121,000              | 93,000             |
|  | 5,752,000            | 651,000              | 2,001,000          |
| Valuation allowance                                      |                      |                      | (522,000)          |
| Net deferred tax assets                                  | 5,752,000            | 651,000              | 1,479,000          |
| <b>Deferred tax liabilities, net of current portion:</b> |                      |                      |                    |
| Goodwill amortization                                    | (460,000)            | (29,000)             | (396,000)          |
| Fixed assets   | (83,000)             |                      |                    |
| Other  | (109,000)            |                      |                    |
| Net deferred tax assets, net of current portion          | \$ 5,100,000         | \$ 622,000           | \$ 1,083,000       |

At December 30, 2011, the Company had federal and state operating loss carryovers of \$13.5 million and \$16.3 million, respectively. These carryovers expire through 2032 and 2033 for federal and state income taxes, respectively.

Management also believes that there are no material uncertain tax positions that would impact the accompanying consolidated financial statements. The Company's policy is to recognize interest and penalties related to unrecognized tax benefits in income tax expense. The Company may be subject to examination by the Internal Revenue Service for calendar years 2008 through 2011. The Company may also be subject to examination on certain state and local jurisdictions for the years 2007 through 2011.





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**WILLDAN GROUP, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Fiscal Years 2011, 2010 and 2009**

**13. SEGMENT INFORMATION**

The Company has four reporting segments: Engineering Services, Energy Efficiency Services, Public Finance Services and Homeland Security Services. The Engineering Services segment consists of Willdan Engineering and Public Agency Resources. The Engineering Services segment offers a broad range of engineering and planning services to our public and private sector clients. The Energy Efficiency Services segment, which consists of Willdan Energy Solutions, provides energy efficiency and sustainability consulting services to utilities, state agencies, municipalities, private industry and non-profit organizations. Historically, the energy efficiency and sustainability services were aggregated into the Engineering Services segment. Given the manner in which the chief operating decision maker reviews financial results and allocates resources, these services now comprise a separate reporting segment. Historical results have been separately provided. The Public Finance Services segment, which consists of Willdan Financial Services, provides expertise and support for the various financing techniques employed by public agencies to finance their operations and infrastructure along with the mandated reporting and other requirements associated with these financings. The Homeland Security Services segment, which consists of Willdan Homeland Solutions, provides national preparedness, homeland security consulting, public safety and emergency response services to cities, related municipal service agencies and other entities.

The accounting policies applied to determine the segment information are the same as those described in the summary of significant accounting policies. There were no intersegment sales for any of the fiscal years in the three-year period ended December 30, 2011. Management evaluates the performance of each segment based upon income or loss from operations before income taxes. Certain segment asset information including expenditures for long-lived assets has not been presented as it is not reported to or reviewed by the chief operating decision maker. In addition, enterprise-wide service line contract revenue is not included as it is impracticable to report this information for each group of similar services.

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## WILLDAN GROUP, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## Fiscal Years 2011, 2010 and 2009

## 13. SEGMENT INFORMATION (Continued)

Financial information with respect to the reportable segments and reconciliation to the amounts reported in the Company's consolidated financial statements follows:

|  | Engineering<br>Services | Energy<br>Efficiency<br>Services | Public<br>Finance<br>Services | Homeland<br>Security<br>Services | Unallocated<br>Corporate(2)(3) | Intersegment | Consolidated<br>Total |
|--|-------------------------|----------------------------------|-------------------------------|----------------------------------|--------------------------------|--------------|-----------------------|
| <b>Fiscal Year 2011:</b>                           |                         |                                  |                               |                                  |                                |              |                       |
| Contract revenue                                   | \$ 33,850,000           | \$ 57,731,000                    | \$ 9,687,000                  | \$ 5,897,000                     | \$                             | \$           | \$ 107,165,000        |
| Depreciation and<br>amortization                   | 372,000                 | 306,000                          | 67,000                        | 132,000                          |                                |              | 877,000               |
| Interest expense (income)                          | 93,000                  | (21,000)                         | (5,000)                       | 10,000                           |                                |              | 77,000                |
| Segment (loss) profit<br>before income tax expense | (158,000)               | 3,271,000                        | 1,116,000                     | (299,000)                        | (600,000)                      |              | 3,330,000             |
| Income tax expense<br>(benefit)                    | 7,000                   | 1,296,000                        | 469,000                       | (67,000)                         | (205,000)                      |              | 1,500,000             |
| Net (loss) income                                  | (165,000)               | 1,975,000                        | 647,000                       | (232,000)                        | (395,000)                      |              | 1,830,000             |
| Segment assets(1)                                  | 9,667,000               | 39,416,000                       | 4,008,000                     | 2,010,000                        | 32,339,000                     | (23,129,000) | 64,311,000            |
| <b>Fiscal Year 2010:</b>                           |                         |                                  |                               |                                  |                                |              |                       |
| Contract revenue                                   | 33,012,000              | 29,211,000                       | 10,364,000                    | 5,309,000                        |                                |              | 77,896,000            |
| Depreciation and<br>amortization                   | 597,000                 | 179,000                          | 152,000                       | 114,000                          |                                |              | 1,042,000             |
| Interest expense (income)                          | 18,000                  | 59,000                           | (20,000)                      | (3,000)                          |                                |              | 54,000                |
| Segment (loss) profit<br>before income tax expense | (31,000)                | 2,158,000                        | 698,000                       | 360,000                          | (121,000)                      |              | 3,064,000             |
| Income tax (benefit)<br>expense                    | (224,000)               | 397,000                          | 120,000                       | 58,000                           | (7,000)                        |              | 344,000               |
| Net income (loss)                                  | 193,000                 | 1,761,000                        | 578,000                       | 302,000                          | (114,000)(1)                   |              | 2,720,000             |
| Segment assets(1)                                  | 8,266,000               | 26,651,000                       | 4,029,000                     | 1,957,000                        | 28,947,000                     | (20,396,000) | 49,454,000            |
| <b>Fiscal Year 2009:</b>                           |                         |                                  |                               |                                  |                                |              |                       |
| Contract revenue                                   | 33,797,000              | 12,490,000                       | 11,792,000                    | 3,526,000                        |                                |              | 61,605,000            |
| Depreciation and<br>amortization                   | 886,000                 | 605,000                          | 219,000                       | 104,000                          |                                |              | 1,814,000             |
| Interest expense                                   | 33,000                  | (8,000)                          | 6,000                         | 7,000                            |                                |              | 38,000                |
| Segment loss (profit)<br>before income tax expense | (6,304,000)             | 643,000                          | (1,747,000)                   | (13,000)                         | (85,000)                       |              | (7,506,000)           |
| Income tax (benefit)<br>expense                    | (1,651,000)             | 182,000                          | (442,000)                     | 3,000                            | (23,000)                       |              | (1,931,000)           |
| Net loss   | (4,653,000)             | 461,000                          | (1,305,000)                   | (16,000)                         | (62,000)(1)                    |              | (5,575,000)           |
| Segment assets(1)                                  | 9,005,000               | 14,541,000                       | 3,774,000                     | 1,784,000                        | 29,520,000                     | (18,292,000) | 40,332,000            |

(1) Segment assets represent segment assets, net of intercompany receivables.

(2) The following sets forth the amounts included in the net loss that was Unallocated Corporate for fiscal years 2011, 2010 and 2009:

|                       | 2011         | 2010         | 2009        |
|-----------------------|--------------|--------------|-------------|
| Unallocated net loss: |              |              |             |
| Income tax benefit    | \$ 205,000   | \$ 7,000     | \$ 23,000   |
| Other                 | (600,000)    | (121,000)    | (85,000)    |
|                       | \$ (395,000) | \$ (114,000) | \$ (62,000) |

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(3)

The following sets forth the assets that are included in Unallocated Corporate as of December 30, 2011, December 31, 2010 and January 1, 2010.

|   | 2011           | 2010           | 2009           |
|---|----------------|----------------|----------------|
| <b>Assets:</b>                            |                |                |                |
| Cash and cash equivalents                 | \$ 2,378,000   | \$ 6,169,000   | \$ 8,207,000   |
| Prepaid expenses                          | 1,268,000      | 1,211,000      | 1,258,000      |
| Intercompany receivables                  | 117,937,000    | 114,703,000    | 111,466,000    |
| Income tax receivable                     |                |                | 51,000         |
| Other receivables                         | 41,000         | 75,000         | 67,000         |
| Equipment and leasehold improvements, net | 329,000        | 380,000        | 458,000        |
| Investments in subsidiaries               | 23,130,000     | 20,396,000     | 18,293,000     |
| Other assets                              | 5,194,000      | 716,000        | 1,187,000      |
|   | \$ 150,277,000 | \$ 143,650,000 | \$ 140,987,000 |

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**WILLDAN GROUP, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Fiscal Years 2011, 2010 and 2009**

**14. CONTINGENCIES**

*Claims and Lawsuits*

The Company is subject to claims and lawsuits from time to time, including those alleging professional errors or omissions that arise in the ordinary course of business against firms that operate in the engineering and consulting professions. The Company carries professional liability insurance, subject to certain deductibles and policy limits, for such claims as they arise and may from time to time establish reserves for litigation that is considered probable of a loss.

In accordance with accounting standards regarding loss contingencies, the Company accrues an undiscounted liability for those contingencies where the incurrence of a loss is probable and the amount can be reasonably estimated, and discloses the amount accrued and an estimate of any reasonably possible loss in excess of the amount accrued, if such disclosure is necessary for the Company's financial statements not to be misleading. The Company does not accrue liabilities when the likelihood that the liability has been incurred is probable but the amount cannot be reasonably estimated, or when the liability is believed to be only reasonably possible or remote.

Because litigation outcomes are inherently unpredictable, the Company's evaluation of legal proceedings often involves a series of complex assessments by management about future events and can rely heavily on estimates and assumptions. If the assessments indicate that loss contingencies that could be material to any one of the Company's financial statements are not probable, but are reasonably possible, or are probable, but cannot be estimated, then the Company will disclose the nature of the loss contingencies, together with an estimate of the possible loss or a statement that such loss is not reasonably estimable. While the consequences of certain unresolved proceedings are not presently determinable, and a reasonable estimate of the probable and reasonably possible loss or range of loss in excess of amounts accrued for such proceedings cannot be made, an adverse outcome from such proceedings could have a material adverse effect on the Company's earnings in any given reporting period. However, in the opinion of the Company's management, after consulting with legal counsel, and taking into account insurance coverage, the ultimate liability related to current outstanding claims and lawsuits is not expected to have a material adverse effect on the Company's financial statements.

*French v. Willdan Engineering, Superior Court of California, Riverside County*

In January 1991, the Company was originally retained by the City of Calimesa, California to review and process development plans. The Company has provided plan review continuously since that date under various contracts with the city. As the city receives applications from developers for project approvals, the city forwards the project plans to the Company for processing. The Company processes the plans and the city pays the Company for its services. In August 2008, a suit was filed by a city employee alleging that the city processed development applications without first collecting fees from developers to cover the costs of processing. The suit further alleges that even though the Company performed the work requested by the city, the city should not have paid the Company for its work in advance of collecting the developers' fees. The complaint was amended by the plaintiff in May 2010 to provide additional details and the Company filed an answer to the complaint. The plaintiff seeks to recover for the city amounts paid to the Company for processing project plans for which the developer fees have not been paid. The City of Calimesa has not requested any refunds from the Company or joined in the litigation, and the city continues to retain the Company's services. On January 11, 2012, this suit proceeded to trial where the Company prevailed.

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The tables below reflect selected quarterly information for the fiscal years ended December 30, 2011 and December 31, 2010.

|   | Fiscal Three Months Ended |                 |                       |                      |
|---|---------------------------|-----------------|-----------------------|----------------------|
|   | April 1,<br>2011          | July 1,<br>2011 | September 30,<br>2011 | December 30,<br>2011 |
| (in thousands except per share amounts) |                           |                 |                       |                      |
| Contract revenue                        | \$ 22,742                 | \$ 25,812       | \$ 28,605             | \$ 30,006            |
| (Loss) income from operations           | (280)                     | 954             | 2,380                 | 347                  |
| Income tax expense                      |                           | 199             | 203                   | 1,098                |
| Net (loss) income                       | (291)                     | 735             | 2,165                 | (779)                |
| Earnings per share:                     |                           |                 |                       |                      |
| Basic                                   | \$ (0.04)                 | \$ 0.10         | \$ 0.30               | \$ (0.11)            |
| Diluted                                 | \$ (0.04)                 | \$ 0.10         | \$ 0.29               | \$ (0.11)            |
| Weighted-average shares outstanding:    |                           |                 |                       |                      |
| Basic                                   | 7,251                     | 7,257           | 7,267                 | 7,273                |
| Diluted                                 | 7,251                     | 7,471           | 7,468                 | 7,273                |

|  | Fiscal Three Months Ended |                 |                    |                      |
|--|---------------------------|-----------------|--------------------|----------------------|
|  | April 2,<br>2010          | July 2,<br>2010 | October 1,<br>2010 | December 31,<br>2010 |
| (in thousands except per share amounts)    |                           |                 |                    |                      |
| Contract revenue                           | \$ 16,951                 | \$ 20,367       | \$ 20,706          | \$ 19,872            |
| Income from operations                     | 385                       | 1,265           | 1,394              | 30                   |
| Income tax expense (benefit)               |                           |                 | 595                | (251)                |
| Net income                                 | 392                       | 1,258           | 788                | 282                  |
| Earnings per share:                        |                           |                 |                    |                      |
| Basic and diluted                          | \$ 0.05                   | \$ 0.17         | \$ 0.11            | \$ 0.04              |
| Weighted-average shares outstanding: Basic | 7,223                     | 7,229           | 7,236              | 7,245                |
| Diluted                                    | 7,230                     | 7,252           | 7,318              | 7,380                |

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