

Willdan Group, Inc.  
Form 10-K  
March 25, 2014

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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 27, 2013.**

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:

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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

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 \$22.1 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 24, 2014, 7,401,784 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 2014 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, Illinois, Washington and Washington, DC. As of December 27, 2013, we had a staff of 534 which includes licensed engineers and other professionals. 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. We also provide services to public and private utilities that service major metropolitan communities and commercial and industrial firms, particularly in connection with 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 Arizona. We provide services to approximately 57% of the 482 cities and approximately 76% 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 profitable in fiscal years 2013 and 2011 but our profitability in fiscal year 2012 was severely impacted by a goodwill impairment charge related to 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, Willdan Infrastructure and Public Agency Resources ("PARs"). Willdan Engineering provides civil engineering-related and city planning services, geotechnical and other engineering consulting services to our clients. Willdan Infrastructure, which was launched in fiscal year 2013, provides engineering services to larger rail, port, water, mining and other civil engineering projects. PARs primarily provides staffing to Willdan Engineering. Contract revenue for the Engineering Services segment represented approximately 41% and 36% of our overall consolidated contract revenue for fiscal years 2013 and 2012, respectively.

*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. This segment is currently our largest segment



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based on contract revenue, representing approximately 42% and 49% of our consolidated contract revenue for fiscal years 2013 and 2012, respectively.

*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. Contract revenue for the Public Finance Services segment represented approximately 12% and 11% of our consolidated contract revenue for fiscal years 2013 and 2012, respectively.

*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. Contract revenue for our Homeland Security Services segment represented approximately 5% and 4% of our consolidated contract revenue for fiscal years 2013 and 2012, respectively.

**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 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 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 energy, 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,

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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 must 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 and Superstorm Sandy 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 2013, under the Department of Homeland Security Grant Program ("HSGP"), the federal government provided approximately \$968 million to the states, which in turn disbursed these funds to local law enforcement and other agencies. The federal Department of Homeland Security ("DHS"), designated 25 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 five metropolitan areas in California and the Phoenix, Arizona metropolitan area.

**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.

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We are organized to profitably manage numerous small to mid-size contracts at the same time. Our contracts can range from \$1,000 to over \$5,000,000 in contract revenue. Our project contracts typically have a duration of less than 12 months, although we have city services contracts that have been in effect for over 30 years. At December 27, 2013, we had approximately 1,782 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 years indicated, the approximate percentage of our consolidated contract revenue attributable to each segment:

|                            | Fiscal Year |      |      |
|----------------------------|-------------|------|------|
|                            | 2013        | 2012 | 2011 |
| Engineering Services       | 41%         | 36%  | 32%  |
| Energy Efficiency Services | 42%         | 49%  | 54%  |
| Public Finance Services    | 12%         | 11%  | 9%   |
| Homeland Security Services | 5%          | 4%   | 5%   |

See Note 13 "Segment Information" 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 related services that we offer under this umbrella 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.

*City Engineering.* We specialize in providing engineering services tailored to the unique needs of municipalities. City engineering services 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 service 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.



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*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 Americans with Disabilities Act 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 (including National Environmental Policy Act, California Environmental Quality Act and Environmental Impact Report compliance and document preparation), mitigation monitoring programs and third party environmental review. We also provide urban planning and design services focused on 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

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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, 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 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:

*County of Mariposa, California.* We were selected by the County of Mariposa, a community of more than 17,000 people located just south of Sacramento, California, to improve traffic safety on county roadways by replacing and widening certain bridges to ensure compliance with current

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federal guidelines. The County secured approximately \$6 million in federal funding for the replacement of the three bridges for which we were awarded contracts Indian Gulch Road Bridge; Old Toll Road Bridge; White Rock Road Bridge and will be providing a range of services, including land surveying and mapping, assistance with right-of-way appraisal and acquisition, and optional construction management.

*County of Riverside, California.* We continue to provide a range of on-call city engineering and associated public works observation services to the County of Riverside, California. Over the past 12 years, we have been selected to provide a variety of services, including the inspection of various types of public works projects throughout the county, and the execution of projects such as storm drain construction and installation, tract housing, cash contracts, traffic signal installation, and storm damage assessment. Current projects include the Harrison and 66<sup>th</sup> Street improvement projects, the \$15 million Highway 79 widening project and various other capital improvement projects.

*County of Glenn, California.* We were selected by the County of Glenn to provide professional services for a number of bridge projects, including the bridge over Walker Creek. As part of the County's toll credit program, we developed a replacement concept for the existing low water crossing: a multi-span, slab bridge on pile extensions that will provide a crossing that is accessible year round and will pass standard design for a 100-year storm event without overtopping the bridge or roadway. We successfully lobbied Caltrans Local Assistance to include an additional 1,000-ft of roadway approach work beyond what is typically funded through the Local Highway Bridge Program. We are currently developing the final Plan, Specifications and Estimates ("PS&E") package and are scheduled to deliver the final submittal in early 2014. Additionally, we are preparing an advanced planning study and developing a final PS&E package for the replacement of the existing structurally deficient, one lane, eight-span, 500-ft long bridge over Stony Creek.

*City of Norwalk, California.* We have been retained by the City of Norwalk to provide professional traffic engineering services that include planning, organizing, supervising, and performing a variety of field and office professional civil and traffic engineering work; planning, designing, and reviewing construction of community development projects; supervising or performing technical studies; serving as project engineer for major capital traffic and transportation improvement projects; coordinating traffic signal timing and maintenance with Public Services staff; overseeing operation of the city's traffic management center; and performing related duties as required.

*City of Long Beach, California.* For over ten years, we have provided a range of on-call services to the City of Long Beach. These on-call services involve the inspection of capital improvement projects, permitting, and other projects that include inspecting asphalt overlays, sidewalks, curbs and gutters, traffic signals, bike lanes, water lines, and other public works projects throughout the City. Each year, we manage and inspect \$20 million to \$40 million worth of publicly funded projects in the City. In addition, we currently provide construction management services to the City for a range of projects, including the construction of a temporary Olympic-caliber, above-ground swimming pool being built in the parking lot of the city of Long Beach's Belmont pool complex. The City recently closed the indoor Belmont pool complex due to building deficiencies and has begun planning and designing a replacement complex. For the next few years, while the new, permanent complex is being designed and constructed, the above-ground pool that we construct will be used to accommodate the City's large public swimming program. Additionally, we are renovating the City's athletic facilities located within the County of Los Angeles' Hamilton Bowl storm water retention basin. The renovated facility will include a new underground low-flow drain system connected to a new low-flow pump station. A state-of-the-art, lighted, synthetic surface track and field facility is also being constructed. In

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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.

*Compton Creek and Dominguez Channel, California.* For over ten years, we have provided services to the L.A. County Department of Public Works. Most recently, as a result of increased flood risks identified by the Los Angeles County Flood Control District ("LAFCD"), we are preparing a study analyzing flood risk mitigation alternatives along Compton Creek and Dominguez Channel. The study will identify, analyze, and rank alternative solutions to address the hydraulic deficiencies discovered by the LAFCD. In addition, the study will also analyze how such mitigation alternatives can incorporate multi-use benefit components that improve water conservation address the needs of LAFCD and other watershed stakeholders. In addition to the flood risk mitigation study, we were also contracted to provide engineering services related to a potential sediment placement site in La Tuna Canyon. The project's ultimate goal is to provide storage for approximately nine million cubic yards of fill material. The conceptual grading phase, will determine the feasibility of the site and identifying any major constraints to completing the grading for the project.

*City of Newport Beach, California.* We were retained by the City of Newport Beach to provide geotechnical and material testing, and inspection services for the Corona Del Mar transmission main pipeline improvement project. This project calls for the installation of 5,300 linear feet of a steel pipe transmission main extending from the existing main in Pacific View Drive to the existing main at the intersection of East Coast Highway and MacArthur Blvd. We are providing geotechnical engineering and field testing during trench excavation, pipe bedding placement, trench backfill, street reconstruction, inspection of steel assembly, review and inspection of welding procedure and welding operation, review and inspection of reinforced concrete construction, and inspection of pipe mortar joints for cracks and photo documentation of all joints, inside and out. We have provided similar services for the City since 2010.

*Town of Tusayan, Arizona.* We were selected to provide a full range of development services for the town of Tusayan, Arizona, a gateway community that was incorporated in 2010, including building and safety, planning and town engineering. As the gateway to the Grand Canyon, Tusayan has focused on providing housing and associated services for the service industry and to develop additional attractions and accommodations for the approximately two million people that visit the Grand Canyon each year. Municipal construction projects over the last three years have included construction of multiple apartment buildings for staff housing, community parks, road way improvements for the entry into the community, new homes for property owners, improvements to the communities utilities, water and wastewater systems, remodeling of many of the 1,300 hotel rooms, proposing and adopting the communities first building code, preparing a general development plan for the community and working with the town to develop engineering standards.

***Energy Efficiency Services***

In fiscal year 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 experienced engineers and staff develop efficient and cost-effective approaches within all phases of projects. WES energy efficiency services include comprehensive surveys, program design, benchmarking analysis, and metering.

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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, 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, and Green House Gas ("GHG") reduction strategies.

*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.

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

*Consolidated Edison Company of New York.* We serve as Consolidated Edison's program manager and implementer for its Small Business Direct Install ("SBDI") Program in New York City. 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 moving a high volume of projects from survey to retrofit; tracking, analyzing, and reporting on project status and program data; and completing installation through self-performance or in cooperation with small group of contractors. We operate the program in Bronx, Brooklyn, and Queens, with the goal of 146 million kilowatt hours ("kWh") in energy savings.

*New York State Energy Research & Development Authority ("NYSERDA").* Under the State of New York's Industrial and Process Efficiency ("IPE") Program and its Existing Facilities Program ("EFP"), we serve as the exclusive energy efficiency contractor for data centers, and are one of two selected providers for the Buildings Outreach contract, respectively. Under the IPE Program, we are tasked with managing NYSEDA's entire program process, from customer outreach to application to post-installation review, and stimulating energy efficiency investment in the data center sector. We have completed the first year of a three year contract, with savings goals for data centers of 540,000 megawatt hours ("MWh"). Under the Buildings Outreach project, our collective savings goal (in partnership with another contractor) is 174,000 MWh and 116,700 dekatherms ("Dth").

*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. These three programs are scheduled to deliver total approximate energy savings of 39.8 million kWh, 3,364 kW demand, and 220,000 therms (1 Therm equals 100,000 BTU) through the end of 2014.

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*Southern California Edison ("SCE") and San Diego Gas & Electric ("SDG&E") Lodging Energy Efficiency Program ("LEEP").* We serve as program administrator for LEEP, which provides customized energy-saving solutions for lodging customers, including full-service development, management, and implementation of energy-savings projects. The program is scheduled to deliver total approximate energy savings of 25.8 million kWh, 150,000 therms, and 5,000 kW demand through the end of 2014.

*Puget Sound Energy ("PSE") Direct Install Program.* We serve as program administrator for PSE Direct Install Program, which offers incentives for small-sized businesses to make energy efficiency upgrades. Typical upgrades include lighting, refrigeration, electric water heating, occupancy sensors, and LED signs. We completed the initial contract in December 2013, producing energy savings of 11 million kWh and 30,000 therms, exceeding contract goals. A new contract began in January 2014 with the goal of delivering total approximate energy savings of 16 million kWh and 20,000 therms.

**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.

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

Fee and rate studies, such as cost allocation studies and user fee analysis;

Utility rate analysis for water, wastewater and stormwater;

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Fiscal and economic impact analysis;

Strategic economic development and redevelopment plans;

Real estate and market analysis associated with planning efforts, and development fee studies;

Special district formation, which involves the feasibility determinations, design, development and initiation of community facilities districts, school facilities improvement districts, tax increment financing districts, assessment districts, landscape and lighting districts, benefit assessment districts, business improvement districts, and fire suppression assessments;

Proposition 218 studies, assessment balloting, and re-engineering;

Other special projects, including facility financing plans, formation of new public entities, annexations and incorporations; reassessment engineering and financial analysis for bond offerings or refundings; development and financial projections; and 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.

*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 650 issuers in 40 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:

*Lancaster, California.* We were hired, along with another consulting firm, to provide evaluate the operational and financial feasibility of becoming a Community Choice Aggregator ("CCA"), to identify and understand the impacts of becoming a CCA, and to advise and guide the City through the required implementation process. Becoming a CCA will allow the City to become the electric power provider for customers within its jurisdiction, utilizing traditional sources of electricity, along with renewable generation resources such as wind and solar, to supply electric power to its constituents and to also sell excess power, as a wholesale electricity market participant. The project is in line with the City's objective of aggressively promoting alternative energy policies and programs that promote the development of green energy related business and economic activity in the City. The feasibility study encompassed a comprehensive analysis of the load requirements for city electric customers, development of projections for future electricity demand and the cost of electricity, and the completion of a financial analysis that demonstrates the business case feasibility for becoming a CCA. We completed the initial feasibility analysis in the fall of 2013, and work on the implementation strategy is ongoing.

*County of San Diego.* For the past five years, we have served the County of San Diego as a special tax consultant, providing Community Facilities District ("CFD") formation and administration services. In this respect, we have also provided policy and technical guidance. We began working on the formation of the Horse Creek Ridge CFD 2013-01 in the unincorporated area of Pala, near Fallbrook, in early 2013. The purpose of this district is to create a revenue stream for the maintenance of open space areas, public trails, pathways and equestrian staging areas, landscaped areas, and park and recreation facilities, as well as the operation and maintenance of storm drain facilities, and provision of fire services. We are working with the

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County, the County's Flood Control Agency, the North County Fire Protection District, the developer and the developer's consultant to understand the needs of each key stakeholder, and create a CFD that addresses those needs.

*Port of Hueneme, Oxnard Harbor District, California.* We were selected to provide technical assistance and coordinate with district staff for the Port Side Power New Markets' transaction. In this capacity, we assisted in the solicitation of the New Markets Tax Credit ("NMTC") allocation from qualified Community Development Entities ("CDEs") facilitated the transaction and acted as point of contact for the district with respect to the Port of Hueneme Shore-Side Power Project ("the Project"); prepared and delivered all required and requested documentation to ensure the closing of the NMTC transaction. CDEs are financial institutions that have a primary mission of community development for a target market. The Port Renovation, Inc. completed the Project, a ground-up construction of 1,400 linear feet of a wharf electrification system that provides shore-side power for fresh-fruit cargo vessels. The Project will result in a reduction of mono-nitrogen oxides vessel emissions from 263 tons per year to 53 tons per year and particulate matter emissions from 43 tons per year to 9 tons per year. The Port of Hueneme serves a niche market of importing fresh fruit and produce into Southern California. We served as the Port Renovation's New Markets Tax Credit Financial Advisor, and secured allocation from Wells Fargo Community Development and The Clearinghouse Community Development Financial Institution. In total, the Project benefited from over \$3.4 million in NMTC equity.

*New Haven, Connecticut.* We provided the City of New Haven with an economic impact analysis for the redevelopment of the site of the former New Haven Coliseum. The project involved building an economic impact model which included an estimate of the direct, indirect and induced impacts (employment and economic activity) of the projects construction and ongoing operations. Our report documented the estimated impacts of the project, along with an explanation of all calculations and assumptions. We estimated the hotel, property and sales tax expected to be generated and calculated the amount that could be financed given a range of assumptions about the availability of funding. We presented our final report at a meeting with the Board of Aldermen.

*Fort Lauderdale, Florida.* We were contracted by the City of Fort Lauderdale to develop a Citywide Economic Development Strategic Plan. The City's goal is to sustain, expand and diversify its economic base in order to provide for a high quality of life for all residents. As the consultant, we are developing an implementation plan and funding strategy to promote targeted industries that could be potential key economic generators, increase the City's tax base and create higher paying jobs.

*Sarasota County, Florida.* We are working with Sarasota County, as a subcontractor, in the development of a solid waste master plan. Our tasks include providing a baseline understanding of the current solid waste system, its facilities, programs and financial condition. This information will then be compared to established goals and objectives as well as industry best management practices to identify necessary infrastructure improvements and potential new policies and programs. Additionally, we are involved in visioning workshops with a selection of key stakeholders. These workshops are used to develop and refine goals, objectives and performance criteria and to review findings from earlier tasks and seek feedback and consensus. In working with the county, we will develop five long-range land use, development, and operational scenarios for the county. Each scenario will be evaluated on its ability to meet established goals and objectives as well as on their respective financial return on investment, or cost/benefits, to the program.



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***Homeland Security Services***

In fiscal year 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 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, the State Emergency Management System 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 NIMS and Incident Command System 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 Transit Security Grant Program funds for this approved training. The program is one in a number of comprehensive measures authorized by congress to directly support transportation infrastructure security activities.

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

*New York Mass Transit Authority Training Program ("NY MTA").* In 2012, we were contracted to develop and deliver NY MTA's Phase III Advanced Security and Emergency Response training courses for NY MTA employees. The NY MTA is the largest public transportation provider in the western hemisphere, serving approximately 14.4 million people. The program covers several NY MTA agencies and course development will include topical material focused on like Behavioral Recognition, Counter Terrorism, Evacuation, Emergency Command and Control, Critical Incident Management, Crisis Communications and Leadership. To date, over 65% of the 36,000 NY MTA students have completed Phase III training and planning is underway for Phase IV.

*Amtrak Security Exercise Program.* In 2013, we were awarded a one year contract to design, develop, and deliver preparedness exercises for Amtrak stations across the United States. The purpose of the Amtrak Security Exercise Program is to evaluate the plans, policies, and procedures Amtrak will use to respond to a natural or man-caused event involving Amtrak stations, trains, or property. This contract adds to our expanding portfolio of professional transportation security services, which now includes work at the national level.

*Alameda County-Bay Area UASI Training Services.* We were selected to provide the Alameda County-Bay Area Urban Area Security Initiative ("Bay Area UASI") with a wide range of training courses taught by subject matter experts and/or recognized professionals in the fields of law enforcement, fire, emergency medical services, emergency management, and public health. The Bay Area UASI consists of 12 counties, including three major cities, with a total population of seven and a half million residents. During 2013, we provided instruction to participants from all 12 Bay Area counties on a range of topics, including, underwater hazard devices, improvised explosive device electronics, maritime interdiction, and situational awareness for Emergency Operations Centers. Certain courses were specifically designed to prepare local law enforcement personnel for participation in security operations relating to the 2013 America's Cup held in San Francisco Bay.

**Competitive Strengths**

We provide a wide range of privatized services to the public sector, 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 62% of the cities and approximately 76% 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 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

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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.

*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, Florida, Chicago, Washington, D.C., 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 40 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 35 years of experience in the engineering and consulting industry, and an average of 8 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 primary clients are public agencies serving communities of 10,000 to 300,000 people and public and private utilities. In fiscal year 2013, we served over 839 distinct clients. For fiscal year 2013, we had two clients, the Consolidated Edison Company of New York and the City of Elk Grove that accounted for 16% and 12%, respectively, 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 year 2013, services provided to clients in California accounted for approximately 68% of our contract revenue and services provided to clients in New York accounted for approximately 22% of our contract revenue.

*Consolidated Edison SBDI Program.* In July 2012, Willdan Energy Solutions entered into an Agreement for a Small Business Direct Install Program with Consolidated Edison Company of New York. The agreement continues our partnership with Consolidated Edison to develop Consolidated Edison's Small Business Direct Install Program, which began in 2009. The initial term of this agreement extends through June 2014. The maximum amount we can receive under the agreement is approximately \$39 million through 2015 and we are not guaranteed to receive any minimum amount of revenue.

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**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.

*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 |             |
|--------------------|-------------|-------------|
|                    | 2013        | 2012        |
| Time and materials | 29%         | 33%         |
| Unit based         | 39%         | 48%         |
| Fixed price        | 31%         | 17%         |
| Monthly retainer   | 1%          | 1%          |
| <b>Total</b>       | <b>100%</b> | <b>100%</b> |

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.

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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 49 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 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 our Energy Efficiency Services segment, 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 Lockheed-Martin, EnerPath, 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, BLX Group, Arbitrage Compliance Specialists, Raftelis Financial Consultants, Inc., FCS Group and the NBS Government Finance Group. We believe the Homeland Security Services segment competes primarily with Leidos (formerly Science Applications International Corporation or SAIC) and IEM, 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 27, 2013, we had approximately 371 full-time employees and 163 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

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strong client relationships by offering them challenging assignments in a stable work environment. We believe that our employee relations are good.

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

|   | As of Fiscal<br>Year End |      |      |
|---|--------------------------|------|------|
|   | 2013                     | 2012 | 2011 |
| Engineering Services                            | 294                      | 282  | 292  |
| Energy Efficiency Services                      | 142                      | 135  | 132  |
| Public Finance Services                         | 53                       | 51   | 51   |
| Homeland Security Services                      | 10                       | 10   | 19   |
| Holding Company Employees (Willdan Group, Inc.) | 35                       | 56   | 68   |
| <br>  |                          |      |      |
| Total   | 534                      | 534  | 562  |

At December 27, 2013, we contracted with approximately 150 former and current public safety officers to conduct homeland security services training courses. These instructors are classified as subcontractors and not employees.

**Intellectual Property**

The Willdan, Willdan Group, Inc., Willdan Engineering, Willdan Infrastructure, 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 under the heading "Investors Investor Relations" and our Code of Ethical Conduct under the heading "Investors Corporate Governance." 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 2013, 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. While economic conditions began to improve from fiscal year 2010 through fiscal year 2013, 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 further 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.*

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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, financial condition and results of operations. During fiscal year 2013, approximately 68% of our contract revenue was derived from services rendered to public agencies, utilities, and private industry in



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California. California experienced an economic downturn in fiscal year 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 borrowing ability under our revolving line of credit 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. In addition, we may not have access to the funds available under our revolving line of credit if we breach any of the covenants under the credit agreement. We have breached certain covenants under our credit facility with Wells Fargo in recent years and were required to obtain the consent of Wells Fargo in order to borrow under that facility. If we breach covenants under our new revolving credit agreement, BMO Harris, as lender, could increase our interest rate, make the loans outstanding under the credit agreement immediately due and payable and/or terminate its commitments to us under the agreement. Additionally, in the event that we need to seek a waiver for a covenant breach, such waiver could also result in modifications to the terms of the credit agreement that are not favorable to us.

If 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, including hiring additional personnel, developing new or enhancing existing service lines, expanding our business geographically, enhancing our operating infrastructure, acquiring complementary businesses, or otherwise responding to competitive pressures. We cannot assure you that additional financing will be available to us on favorable terms, or at all. Furthermore, 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. If adequate funds are not available or are not available on acceptable terms, if and when needed, our ability to fund our operations, meet obligations in the normal course of business, 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 16% of our consolidated contract revenue in fiscal year 2013 and 21% in fiscal year 2012. Prior to July 2012, this revenue primarily related to a contract we entered into in fiscal year 2009 with Consolidated

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Edison, which has terminated. We entered into a new contract with Consolidated Edison in July 2012, but this contract is for fewer services than the 2009 contract with Consolidated Edison. Our top five customers collectively accounted for approximately 41% of our revenue in fiscal year 2013. 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 2013, approximately 71% 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 effect 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 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.

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***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 2013, approximately 31% 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;

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.***

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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 effect on our business, financial condition and results of operations.

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***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. 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 41% and 36% of our contract revenue for fiscal years 2013 and 2012, respectively, include many larger consulting firms such as 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. Our energy efficiency and sustainability consulting services, which represented approximately 42% and 49% of our contract revenue for fiscal years 2013 and 2012, respectively, competes with larger energy efficiency consulting firms such as Lockheed-Martin, EnerPath, 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

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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 often rely on subcontractors. The quality of our service and our ability to perform under some of our contracts would be adversely affected if qualified subcontractors are unavailable for us to engage.***

Under some of our contracts, we rely on the efforts and skills of subcontractors for the performance of some of the tasks. Subcontractor services and other direct costs comprised approximately 29% of our contract revenue in fiscal year 2013. Our use of subcontractors has decreased in recent years primarily because our subsidiary Willdan Energy Solutions has reduced its utilization of subcontractors. Our subsidiary Willdan Energy Solutions generally utilizes a higher percentage of subcontractors than our other subsidiaries. The absence of qualified subcontractors 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 subcontractors arising from, among other things, the quality and timeliness of work performed by the subcontractor or client concerns about the subcontractor.

***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 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.



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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. For example, during fiscal year 2012, we recorded an impairment charge of \$15.2 million related to goodwill associated with our acquisition of Intergy Corp in 2008. 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, our compliance costs may increase further and make some activities more time-consuming and costly.

***The price of our common stock has fluctuated significantly in the past year and may continue to be volatile, which may make it difficult for you to resell your common stock when you want or at prices you find attractive.***

The price of our common stock is volatile and may fluctuate significantly. For example, during our fiscal year ended December 27, 2013, the price of our stock ranged from a high of \$5.50 per share to a low of \$2.01 per share. We cannot assure you as to the prices at which our common stock will trade or that an active trading market in our common stock will be sustained in the future. In addition to the matters discussed in other risk factors included herein, some of the reasons for fluctuations in our stock price could include:

- our operating and financial performance and prospects;
- the depth and liquidity of the market for our common stock;
- investor perception of us and the industry in which we operate;
- the level, or lack thereof, of research coverage of our common stock;
- general financial, domestic, international, economic and other market conditions;
- proposed acquisitions by us or our competitors;
- the hiring or departure of key personnel; and
- adverse judgments or settlements obligating us to pay damages.

In addition, public stock markets have experienced, and may in the future experience, extreme price and trading volume volatility. This volatility has significantly affected the market prices of securities of many companies, including our peer companies. These broad market fluctuations may adversely affect the market price of our common stock.

***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 17, 2014, our directors and executive officers beneficially own 976,792 shares of common stock, or approximately 13.2% of our outstanding common stock. In addition, Jeremy Zhu, individually and as managing director of Wedbush Opportunity Capital LLC, Edward Wedbush, individually and as the Chairman and a stockholder of Wedbush Inc., beneficially own 1,084,730 and 1,052,184 shares of common stock, respectively, or



approximately 14.7% and 14.2%, respectively, 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 31,000 square feet of office space that we lease at 2401 East Katella Avenue, Anaheim, California. In addition, we lease office space in 24 other locations nationwide, principally in California and New York. In total, our facilities contain approximately 130,000 square feet of office space and are subject to leases that expire through October 2016. We rent a small portion of this space on a month-to-month basis. We believe that our existing facilities are adequate to meet current requirements and that suitable additional or substitute space will be available as needed to accommodate any expansion of operations and for additional offices.

**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.

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

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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.

**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 2013 and 2012. These reported prices reflect inter-dealer prices without adjustments for retail markups, markdowns, or commissions.

|                         | 2013    |         | 2012    |         |
|-------------------------|---------|---------|---------|---------|
|                         | High    | Low     | High    | Low     |
| 1st Quarter             | \$ 2.30 | \$ 2.01 | \$ 4.10 | \$ 3.51 |
| 2 <sup>nd</sup> Quarter | \$ 3.70 | \$ 2.18 | \$ 3.70 | \$ 1.42 |
| 3 <sup>rd</sup> Quarter | \$ 3.75 | \$ 2.76 | \$ 1.79 | \$ 1.16 |
| 4 <sup>th</sup> Quarter | \$ 5.50 | \$ 3.53 | \$ 2.25 | \$ 1.49 |

On March 17, 2014, the closing sales price per share of our common stock, as reported on the Nasdaq Global Market, was \$4.50.

*Stockholders*

As of March 17, 2014, there were 134 stockholders of record of our common stock.

*Dividends*

We did not declare or pay cash dividends on our common stock in fiscal years 2013 and 2012. 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 |             |            |           |            |
|---|-------------|-------------|------------|-----------|------------|
|   | 2013        | 2012        | 2011       | 2010      | 2009       |
| (in thousands except per share amounts)   |             |             |            |           |            |
| <b>Consolidated Statement of Operations Data:</b>   |             |             |            |           |            |
| Contract revenue  | \$ 85,510   | \$ 93,443   | \$ 107,165 | \$ 77,896 | \$ 61,605  |
| Direct costs of contract revenue (exclusive of depreciation and amortization shown separately below): |             |             |            |           |            |
| Salaries and wages  | 24,098      | 23,218      | 25,714     | 21,607    | 18,130     |
| Subcontractor services and other direct costs   | 24,831      | 35,741      | 39,013     | 20,415    | 10,712     |
| Total direct costs of contract revenue  | 48,929      | 58,959      | 64,727     | 42,022    | 28,842     |
| General and administrative expenses:  |             |             |            |           |            |
| Salaries and wages, payroll taxes, employee benefits  | 20,555      | 22,421      | 22,594     | 17,582    | 20,325     |
| Facilities and facility related   | 4,654       | 4,871       | 4,875      | 4,290     | 4,430      |
| Stock-based compensation  | 150         | 227         | 201        | 235       | 272        |
| Depreciation and amortization   | 517         | 671         | 877        | 1,042     | 1,814      |
| Lease abandonment (recovery), net   | 30          | 26          | 2          | (68)      | 707        |
| Impairment of goodwill  |             | 15,208      |            |           | 2,763      |
| Litigation accrual (reversal)   |             |             |            |           | (1,125)    |
| Other   | 8,067       | 10,315      | 10,488     | 9,719     | 11,070     |
| Total general and administrative expenses   | 33,973      | 53,739      | 39,037     | 32,800    | 40,256     |
| Income (loss) from operations   | 2,608       | (19,255)    | 3,401      | 3,074     | (7,493)    |
| Other income (expense):   |             |             |            |           |            |
| Interest income   | 10          | 6           | 5          | 12        | 30         |
| Interest expense  | (94)        | (106)       | (77)       | (54)      | (38)       |
| Other, net  | 238         | (28)        | 1          | 32        | (5)        |
| Total other income (expense), net   | 154         | (128)       | (71)       | (10)      | (13)       |
| Income (loss) before income tax expense   | 2,762       | (19,383)    | 3,330      | 3,064     | (7,506)    |
| Income tax expense (benefit)  | 132         | (2,083)     | 1,500      | 344       | (1,931)    |
| Net income (loss)   | \$ 2,630    | \$ (17,300) | \$ 1,830   | \$ 2,720  | \$ (5,575) |

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Earnings (loss) per common share:

|       |    |      |    |        |    |      |    |      |    |        |
|-------|----|------|----|--------|----|------|----|------|----|--------|
| Basic | \$ | 0.36 | \$ | (2.37) | \$ | 0.25 | \$ | 0.38 | \$ | (0.78) |
|-------|----|------|----|--------|----|------|----|------|----|--------|

|         |    |      |    |        |    |      |    |      |    |        |
|---------|----|------|----|--------|----|------|----|------|----|--------|
| Diluted | \$ | 0.35 | \$ | (2.37) | \$ | 0.24 | \$ | 0.37 | \$ | (0.78) |
|---------|----|------|----|--------|----|------|----|------|----|--------|

|   |       |       |       |       |       |
|---|-------|-------|-------|-------|-------|
| Weighted average common shares outstanding: Basic | 7,355 | 7,310 | 7,262 | 7,233 | 7,192 |
| Diluted   | 7,495 | 7,310 | 7,485 | 7,311 | 7,192 |

**Other Operating Data (unaudited):**

|                                      |    |       |    |         |    |       |    |       |    |         |
|--------------------------------------|----|-------|----|---------|----|-------|----|-------|----|---------|
| Adjusted EBITDA (1)                  | \$ | 3,455 | \$ | (3,294) | \$ | 4,350 | \$ | 4,074 | \$ | (3,333) |
| Employee headcount at period end (2) |    | 534   |    | 534     |    | 562   |    | 540   |    | 466     |

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|  | Fiscal Year Ended    |                      |                      |                      |                    |
|--|----------------------|----------------------|----------------------|----------------------|--------------------|
|  | December 27,<br>2013 | December 28,<br>2012 | December 30,<br>2011 | December 31,<br>2010 | January 1,<br>2010 |
| <b>Consolidated Balance Sheet Data:</b>              |                      |                      |                      |                      |                    |
| Cash and cash equivalents, including restricted cash | \$ 8,134             | \$ 10,006            | \$ 3,001             | \$ 6,642             | \$ 8,445           |
| Working capital                                      | 15,706               | 13,099               | 13,083               | 18,060               | 16,704             |
| Total assets   | 38,237               | 41,977               | 64,311               | 49,454               | 40,332             |
| Total indebtedness                                   | 731                  | 3,904                | 1,232                | 1,490                | 1,230              |
| Total stockholders' equity                           | 20,213               | 17,351               | 34,293               | 32,162               | 29,117             |

(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 and other non-recurring income and expense items occurring in such period. 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 the impact of certain non-recurring income and expense items from our operational results, 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 |             |          |          |            |
|--------------------------------------|-------------|-------------|----------|----------|------------|
|                                      | 2013        | 2012        | 2011     | 2010     | 2009       |
| Net income (loss)                    | \$ 2,630    | \$ (17,300) | \$ 1,830 | \$ 2,720 | \$ (5,575) |
| Interest income                      | (10)        | (6)         | (5)      | (12)     | (30)       |
| Interest expense                     | 94          | 106         | 77       | 54       | 38         |
| Income tax expense (benefit)         | 132         | (2,083)     | 1,500    | 344      | (1,931)    |
| Lease abandonment expense (recovery) | 30          | 26          | 2        | (68)     | 707        |
| Impairment of goodwill               |             | 15,208      |          |          | 2,763      |
| Depreciation and amortization        | 585         | 737         | 944      | 1,053    | 1,814      |
| (Gain) loss on sale of assets        | (6)         | 18          | 2        | (17)     | 6          |
| Litigation reversal                  |             |             |          |          | (1,125)    |
| Adjusted EBITDA                      | \$ 3,455    | \$ (3,294)  | \$ 4,350 | \$ 4,074 | \$ (3,333) |

(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 27, 2013, we had a staff of 534 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. Since fiscal 2008, 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 Arizona. We provide services to approximately 62% of the 482 cities and approximately 76% 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, Willdan Infrastructure 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. Contract revenue for the Engineering Services segment represented approximately 41% and 36% of our overall consolidated contract revenue for fiscal years 2013 and 2012, respectively.

*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. This segment is currently our largest segment based on contract revenue, representing approximately 42% and 49% of our consolidated contract revenue for fiscal years 2013 and 2012, respectively.

*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. Contract revenue for the Public Finance Services segment represented



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approximately 12% and 11% of our consolidated contract revenue for fiscal years 2013 and 2012, respectively.

*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. Contract revenue for our Homeland Security Services segment represented approximately 5% and 4% of our consolidated contract revenue for fiscal years 2013 and 2012, respectively.

While we were profitable in fiscal year 2013 and fiscal year 2011, our profitability in fiscal year 2012 was severely impacted by a goodwill impairment charge related to our Energy Efficiency Services segment.

**Recent Developments**

We amended our revolving line of credit with Wells Fargo on March 20, 2014. The Wells Fargo credit facility was scheduled to mature on April 1, 2014. On March 20, 2014, we amended the facility by reducing the revolving line of credit from \$5.0 million to \$75,905 and extending its maturity to June 1, 2014. We amended the Wells Fargo credit facility in connection with entering into a new \$7.5 million revolving credit facility with BMO Harris Bank, N.A. on March 24, 2014. The new BMO Harris revolving credit facility matures on March 24, 2016. For further information on our new revolving credit facility, see "Liquidity and Capital Resources Outstanding Indebtedness" elsewhere in this report.

**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 29% 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, 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 subcontractor 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 provision for billed or unbilled receivables, 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***

We enter into contracts with 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

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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 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. Service-related contracts, including operations and maintenance services and a variety of technical assistance services, are accounted for over the period of performance, in proportion to the costs of performance.

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 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 our goodwill at least annually for possible impairment. 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 a goodwill impairment charge of \$15.2 million related to our Energy Solutions reporting unit during fiscal year 2012. Following this impairment charge, none of our reporting units had any goodwill remaining. We did not recognize any goodwill impairment charges in fiscal years 2013 or 2011.

We test our goodwill for impairment at the level of our reporting units, which are components of our operating segments. 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 allows companies to perform a qualitative assessment on goodwill impairment to determine whether a quantitative assessment is necessary. The guidance is for goodwill impairment tests performed in interim and annual periods for fiscal years beginning after December 15, 2011. 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.

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

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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, any 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. During the second quarter of 2012, we determined that a quantitative assessment of our goodwill was warranted for the Energy Solutions reporting unit. This assessment indicated that the estimated fair value of such reporting unit was less than its carrying value. For this testing, 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. We determined that all of the remaining goodwill for the Energy Solutions reporting unit was impaired and recognized an impairment charge of \$15.2 million in fiscal year 2012.

***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 |         |        |
|--|-------------|---------|--------|
|  | 2013        | 2012    | 2011   |
| <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   | 28.2        | 24.8    | 24.0   |
| Subcontractor services and other direct costs  | 29.0        | 38.2    | 36.4   |
| Total direct costs of contract revenue   | 57.2        | 63.1    | 60.4   |
| General and administrative expenses:   |             |         |        |
| Salaries and wages, payroll taxes, employee benefits   | 24.0        | 24.0    | 21.1   |
| Facilities and facility related  | 5.4         | 5.2     | 4.5    |
| Stock-based compensation   | 0.2         | 0.2     | 0.2    |
| Depreciation and amortization  | 0.6         | 0.7     | 0.8    |
| Impairment of goodwill   |             | 16.3    |        |
| Other  | 9.4         | 11.0    | 9.8    |
| Total general and administrative expenses  | 39.7        | 57.5    | 36.4   |
| Income (loss) from operations  | 3.0         | (20.6)  | 3.2    |
| Other income (expense):  |             |         |        |
| Interest income  |             |         |        |
| Interest expense   | 0.1         | (0.1)   | (0.1)  |
| Other, net   | 0.3         |         |        |
| Total other income (expense), net  | 0.4         | (0.1)   | (0.1)  |
| Income (loss) before income taxes  | 3.2         | (20.7)  | 3.1    |
| Income tax expense (benefit)   | 0.1         | (2.2)   | 1.4    |
| Net income (loss)  | 3.1%        | (18.5)% | 1.7%   |

***Fiscal Year 2013 Compared to Fiscal Year 2012***



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*Contract revenue.* Our contract revenue was \$85.5 million for fiscal year 2013, with \$35.2 million attributable to the Engineering Services segment, \$36.0 million attributable to the Energy Efficiency Services segment, \$9.8 million attributable to the Public Finance Services segment, and \$4.4 million attributable to the Homeland Security Services segment. Consolidated contract revenue decreased \$7.9 million, or 8.5%, to \$85.5 million for fiscal year 2013 from \$93.4 million for fiscal year 2012. This decrease was due primarily to a decrease of \$9.5 million, or 20.9%, in contract revenue for the Energy Efficiency Services segment. Contract revenue for the Energy Efficiency Services segment decreased primarily because of decreased energy efficiency services in the state of New York, where we are providing fewer services than we did in the prior year period. Contract revenue for the Engineering Services segment increased by \$1.2 million, or 3.5%, to \$35.2 million for fiscal year 2013 from \$34.0 million for fiscal year 2012. Contract revenue for the Engineering Services segment increased primarily due to greater demand for our city engineering services in California and our building and safety, construction management and geotechnical services. Contract revenue in the Homeland Security Services segment increased by \$0.3 million, or 7.8%, to \$4.4 million for fiscal year 2013 from \$4.1 million for fiscal year 2012. Revenue in the Homeland Security Services segment increased due to

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higher levels of activity in the traditional planning, training and exercise consulting services business. Contract revenue for our Public Finance Services segment remained flat at \$9.8 million for fiscal year 2013, as compared to fiscal year 2012.

*Direct costs of contract revenue.* Direct costs of contract revenue were \$48.9 million for fiscal year 2013, with \$19.0 million attributable to the Engineering Services segment, \$23.1 million attributable to the Energy Efficiency Services segment, \$4.0 million attributable to the Public Finance Services segment, and \$2.8 million attributable to the Homeland Security Services segment. Overall, direct costs of contract revenue decreased by \$10.0 million, or 17.0%, to \$48.9 million for fiscal year 2013 from \$59.0 million for fiscal year 2012. This decrease is primarily attributable to a decrease in direct costs within our Energy Efficiency Services segment of \$11.5 million, or 33.2%. This decrease was partially offset by increases of \$0.6 million, or 18.7%, \$0.6 million or 25.3% and \$0.3 million or 1.5%, respectively, in our Public Finance Services, Homeland Security Services and Engineering Services segments. Direct costs of contract revenue as a percentage of contract revenue for fiscal year 2013 decreased to 57.2% from 63.1% for fiscal year 2012.

Direct costs decreased primarily as a result of a decrease in subcontractor services (used primarily by our Energy Efficiency Services segment) and other direct costs of \$10.9 million, partially offset by an increase in salaries and wages of \$0.9 million. Salaries and wages increased to 28.2% of contract revenue for fiscal year 2013 from 24.8% for fiscal year 2012 and subcontractor services and other direct costs decreased to 29.0% of contract revenue for fiscal year 2013 from 38.2% of contract revenue for fiscal year 2012. Salaries and wages categorized as direct costs of contract revenue increased as a result of increased chargeability of labor. Subcontractor services decreased primarily because of decreased use of subcontractor services to perform certain energy efficiency, sustainability and renewable energy services of our subsidiary Willdan Energy Solutions, which generally utilizes a higher percentage of subcontractors than our other subsidiaries.

*General and administrative expenses.* General and administrative expenses decreased by \$19.8 million, or 36.6%, to \$34.0 million for fiscal year 2013 from \$53.7 million for fiscal year 2012. This decrease resulted from, in part, decreases of \$17.6 million and \$1.0 million in the general and administrative expenses of the Energy Efficiency Services and the Engineering Services segments, respectively. General and administrative expenses for our Public Finance Services and Homeland Security Services segments also decreased by \$0.2 million and \$0.9 million, respectively. General and administrative expenses as a percentage of contract revenue decreased to 39.7% for fiscal year 2013 from 57.5% for fiscal year 2012.

Of the \$19.8 million decrease in general and administrative expenses, approximately \$15.2 million was related to a goodwill impairment charge we recognized relating to our Energy Efficiency Services segment in fiscal year 2012 and we had no impairment charges in fiscal year 2013. See "Note. 4 Goodwill and Other Intangible Assets." Salaries and wages, payroll taxes and employee benefits also decreased by \$1.9 million, primarily as a result of increased chargeability of labor. As discussed above under "Components of Income and Expense Direct Costs of Contract Revenue," we only allocate that portion of salaries and wages related to time spent directly generating revenue to direct costs of contract revenue. Other general and administrative expenses decreased by \$2.3 million this decrease is primarily attributable to decreases in other expenses, marketing expenses, professional service fees, and accounting, legal and recruiting expenses. The remaining \$0.4 million decrease relates to decreases in facilities and facility related expenses, and depreciation and amortization expenses each of \$0.2 million.

*Income (loss) from operations.* As a result of the above factors, our operating income was \$2.6 million for fiscal year 2013 as compared to an operating loss of \$19.3 million for fiscal year 2012. Income from operations, as a percentage of contract revenue, was 3.0% for fiscal year 2013, while loss from operations, as a percentage of contract revenue, was 20.6% for fiscal year 2012.

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*Other income (expense).* Other income was \$154,000 for fiscal year 2013 as compared to other expense of \$128,000 for fiscal year 2012. The increase is primarily the result of income from the sale of a subsidiary asset and lower interest expense due to decreased borrowings under the Wells Fargo line of credit.

*Income tax expense (benefit).* We recorded an income tax expense of \$132,000 for fiscal year 2013, as compared to an income tax benefit of \$2.1 million for fiscal year 2012. The income tax expense is attributable to higher pre-tax income in fiscal year 2013. For further discussion of our income tax provision, see Note 12 " Income Taxes" of notes to our consolidated financial statements.

*Net (loss) income.* As a result of the above factors, our net income was \$2.6 million for fiscal year 2013, as compared to a net loss of \$17.3 million for fiscal year 2012.

***Fiscal Year 2012 Compared to Fiscal Year 2011***

*Contract revenue.* Our contract revenue was \$93.4 million for fiscal year 2012, with \$34.0 million attributable to the Engineering Services segment, \$45.5 million attributable to the Energy Efficiency Services segment, \$9.8 million attributable to the Public Finance Services segment, and \$4.1 million attributable to the Homeland Security Services segment. Consolidated contract revenue decreased \$13.7 million, or 12.8%, to \$93.4 million for fiscal year 2012 from \$107.2 million in the fiscal year ended December 30, 2011. This decrease was due primarily to a decrease of \$12.2 million, or 21.1%, in contract revenue for the Energy Efficiency Services segment. Contract revenue for the Engineering Services segment increased by \$0.2 million, or 0.5%, to \$34.0 million for fiscal year 2012 from \$33.9 million for the fiscal year ended December 30, 2011. Contract revenue in the Homeland Security Services segment decreased by \$1.8 million, or 30.7%, to \$4.1 million for fiscal year 2012 from \$5.9 million for the fiscal year ended December 30, 2011. Contract revenue for our Public Finance Services segment increased by \$0.1 million, or 1.0%, to \$9.8 million for fiscal year 2012 from \$9.7 million for the fiscal year ended December 30, 2011.

Contract revenue for the Energy Efficiency Services segment decreased primarily as a result of a decrease in the direct installation of energy efficiency measures from the energy efficiency audits in New York and California and delays in the renewal of contracts for such services in those states. Revenue in the Homeland Security Services segment decreased due to lower levels of activity in the traditional planning, training and exercise consulting services business. 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.

*Direct costs of contract revenue.* Direct costs of contract revenue were \$59.0 million for fiscal year 2012, with \$18.8 million attributable to the Engineering Services segment, \$34.6 million attributable to the Energy Efficiency Services segment, \$3.4 million attributable to the Public Finance Services segment, and \$2.2 million attributable to the Homeland Security Services segment. Overall, direct costs of contract revenue decreased by \$5.8 million, or 8.9%, to \$59.0 million for fiscal year 2012 from \$64.7 million for the fiscal year ended December 30, 2011. This decrease is primarily attributable to a decrease in direct costs within our Energy Efficiency Services segment of \$6.4 million, or 15.7%, as a result of delays in the renewal of contracts for the provision of these services. Direct costs of contract revenue also decreased by \$0.8 million, or 26.3%, in our Homeland Solutions Services segment. These decreases were partially offset by increases of \$1.1 million, or 6.0%, and \$0.4 million, or 12.8%, respectively, in our Engineering Services and Public Finance Services segments. Direct costs of contract revenue as a percentage of contract revenue for fiscal year 2012 increased to 63.1% from 60.4% for the fiscal year ended December 30, 2011.

Direct costs decreased primarily as a result of decreases in salaries and wages and subcontractor services and other direct costs of \$2.5 million and \$3.3 million, respectively. Salaries and wages

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categorized as direct costs of contract revenue decreased as a result of decreased chargeability of labor and decreased headcount. Salaries and wages as a percentage of contract revenue remained relatively constant in the 2012 period as compared to the 2011 period. Subcontractor services and other direct costs increased to 38.2% of contract revenue for fiscal year 2012 from 36.4% of contract revenue for the fiscal year ended December 30, 2011. Subcontractor costs declined because of a reduction in activity within our Energy Efficiency Services segment as a result of delays in the renewal of contracts for the provision of energy efficiency related projects.

*General and administrative expenses.* General and administrative expenses increased by \$14.7 million, or 37.7%, to \$53.7 million for fiscal year 2012 from \$39.0 million for the fiscal year ended December 30, 2011. This was due primarily to an increase of \$16.8 million in the general and administrative expenses of the Energy Efficiency Services segment, partially offset by decreases of \$0.3 million, \$0.1 million and \$1.0 million in the general and administrative expenses of the Engineering Services, Public Finance Services and Homeland Security Services segments, respectively. Unallocated corporate expenses decreased by \$0.7 million. General and administrative expenses as a percentage of contract revenue increased to 57.5% for fiscal year 2012 from 36.4% for the fiscal year ended December 30, 2011.

The increase in general and administrative expenses primarily resulted from a \$15.2 million goodwill impairment charge we recognized relating to our Energy Efficiency Services segment. See " Components of Income and Expense Goodwill." General and administrative expenses for fiscal year 2012 also included decreases of \$0.2 million from salaries and wages, payroll taxes and employee benefits, \$0.2 million as a result of a decrease in depreciation and amortization charges, and \$0.1 million from other general and administrative expenses.

*(Loss) income from operations.* As a result of the above factors, our operating loss was \$19.3 million for fiscal year 2012 as compared to operating income of \$3.4 million for the fiscal year ended December 30, 2011. Loss from operations, as a percentage of contract revenue, was 20.6% for fiscal year 2012, while income from operations, as a percentage of contract revenue, was 3.2% for the fiscal year ended December 30, 2011.

*Other (expense) income.* Other expense was \$128,000 for fiscal year 2012 as compared to other expense of \$71,000 for the fiscal year ended December 30, 2011. The increase is primarily the result of higher interest expense due to increased borrowings under our line of credit.

*Income tax (benefit) expense.* We recorded an income tax benefit of \$2.1 million for fiscal year 2012, as compared to an income tax expense of \$1.5 million for the fiscal year ended December 30, 2011. The income tax benefit is attributable to the \$15.2 million of goodwill impairment included in our pretax loss for fiscal year 2012, offset by a valuation allowance of \$5.5 million due to the uncertainty of realization of net deferred tax assets after the reduction of deferred tax liabilities associated with the goodwill impairment. The effective tax rates for fiscal year 2012 differ from the U.S. tax statutory rate of 35% primarily due to state income tax rates, permanent items that are not deductible for U.S. tax purposes, and the establishment of the valuation allowance during fiscal year 2012. For further discussion of our income tax provision, see Note 12 " Income Taxes" of notes to our consolidated financial statements.

*Net (loss) income.* As a result of the above factors, our net loss was \$17.3 million for fiscal year 2012, compared to net income of \$1.8 million for the fiscal year ended December 30, 2011.

**Liquidity and Capital Resources**

As of December 27, 2013, we had \$8.1 million of cash and cash equivalents, including restricted cash. Our primary source of liquidity is cash generated from operations. We also have a revolving line of credit with BMO Harris Bank, N.A., which matures on March 24, 2016. While we believe that our

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cash and cash equivalents on hand, cash generated by operating activities and available borrowings under our revolving line of credit will be sufficient to finance our operating activities for at least the next 12 months, if we do experience a cash flow shortage, we may have difficulty obtaining additional funds on favorable terms, if at all, in order to meet obligations as they come due in the normal course of business.

***Cash Flows from Operating Activities***

Cash flows provided by operating activities were \$1.2 million for fiscal year 2013, as compared to cash flows provided by operating activities of \$5.3 million in fiscal year 2012 and cash flows used in operating activities of \$0.7 million for fiscal year 2011. Our cash flows provided by operating activities for fiscal year 2013 resulted from a decrease in accounts payable and an increase in costs and estimated earnings in excess of billing on uncompleted contracts, partially offset by a decrease in accounts receivable and an increase in accrued liabilities. Our cash flows provided by operating activities for fiscal year 2012 were higher than for fiscal year 2011 despite lower contract revenue due primarily to decreases in costs and estimated earnings in excess of billings on uncompleted contracts and accounts receivable, and an increase in billings in excess of costs and estimated earnings on uncompleted contracts. In fiscal year 2012, these items were partially offset by decreases in accrued liabilities and accounts payable. Our cash flows used in operating activities for 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 activities were also reduced by non-cash revenue of \$0.9 million from a subcontractor settlement for fiscal year 2011.

***Cash Flows from Investing Activities***

Cash flows used in investing activities were \$0.3 million for each of fiscal years 2013 and 2012. Cash flows used in investing activities were \$3.1 million for fiscal year 2011. There were no payments related to business acquisitions in fiscal years 2013 or 2012, compared to \$2.7 million for fiscal year 2011. These payments were made in accordance with the provisions of the stock purchase agreement for the 2008 purchase of Willdan Energy Solutions. Aside from payments for business acquisitions, our cash used in investing activities primarily related to the purchase of equipment and leasehold improvements.

***Cash Flows from Financing Activities***

Cash flows used in financing activities were \$2.8 million for fiscal year 2013, as compared to cash flows provided by financing activities of \$2.1 million and \$0.2 million for fiscal years 2012 and 2011, respectively. The net cash flows used in financing activities for fiscal year 2013 increased by \$4.9 million from fiscal year 2012 primarily due to a decrease in net borrowings under our line of credit during fiscal year 2013. The net cash flows provided by financing activities in fiscal year 2012 were primarily attributable to borrowings under our revolving line of credit, partially offset by repayments of our revolving line of credit and changes in the excess of outstanding checks over bank balance. The net cash flows provided by financing activities in fiscal 2011 were 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.

***Outstanding Indebtedness***

On March 20, 2014, we amended our credit agreement with Wells Fargo Bank N.A. to reduce the size of the facility from \$5.0 million to \$75,905 and extended its maturity from April 1, 2014 to June 1, 2014. There were no outstanding borrowings under this agreement as of December 27, 2013 and we were in compliance with each of our covenants under the Wells Fargo credit agreement as of

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December 27, 2013. We amended the Wells Fargo credit facility in connection with entering into a new credit facility with BMO Harris Bank, N.A. ("BMO"). We have 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 27, 2013, we elected to finance our insurance premiums for the upcoming fiscal year.

We currently have a revolving credit agreement with BMO Harris Bank, N.A. ("BMO"), which was entered into on March 24, 2014 and became effective as of March 24, 2014. Our credit agreement with BMO provides for a \$7.5 million revolving line of credit, including a \$5.0 million standby letter of credit sub-facility and a \$2.5 million secured term loan, and matures on March 24, 2016. Loans made under the revolving line of credit will accrue interest at either (i) a floating rate equal to 0.75% above the base rate in effect from time to time or (ii) a floating rate equal to 1.75% 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 (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 fee of up to 0.3% 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) a maximum total leverage ratio, measured as total funded debt (measured as the sum of all obligations for borrowed money, including subordinated debt, plus all capital lease obligations) plus capital leases plus financial letters of credit divided by a trailing twelve month EBITDA (as defined in the credit agreement) measured on a rolling basis) of not more than 2.00; (ii) a minimum fixed charge coverage ratio (measured as the sum of EBITDA plus rent expense less unfinanced capital expenditures divided by the sum of rent expense plus principal payments plus cash taxes plus cash interest plus restricted payments plus distributions) of not less than 1.25; and (iii) a minimum tangible net worth of at least 85% of actual tangible net worth for the last financial statements received prior to the closing date of the agreement, with step ups in an amount equal to 50% of net income (if positive) for each fiscal quarter ending thereafter (no add-back for losses).

The credit agreement also includes customary negative covenants, including (i) restrictions on the incurrence of additional indebtedness by us or the Guarantors other than indebtedness existing on the date of the credit agreement, (ii) restrictions on the total consideration for all permitted acquisitions (including potential future earn-out obligations) shall not exceed \$2.5 million during the term of the agreement and the total consideration for any individual permitted acquisition shall not exceed \$750,000 without BMO's consent, 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 may be increased by 2.0%, BMO has the option to make any loans then outstanding under the credit agreement immediately due and payable, and BMO is no longer obligated to extend further credit to us under the credit agreement.

Loans made under the Wells Fargo credit facility during fiscal year 2013 accrued interest at a floating rate of LIBOR plus 2.25%. We also were required to pay a 0.25% fee on unused commitments and customary fees on any letters of credit drawn under the facility. There were no outstanding borrowings under the Wells Fargo credit facility as of December 27, 2013 and we were in compliance with each of our covenants under the Wells Fargo credit agreement as of December 27, 2013.

***Contractual Obligations***

We have certain cash obligations and other commitments which will impact our short- and long-term liquidity. At December 27, 2013, such obligations and commitments consisted of long-term

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debt, operating leases and capital leases. The following table sets forth our contractual obligations as of December 27, 2013:

| <b>Contractual Obligations</b>         | <b>Total</b>     | <b>Less than<br/>1 Year</b> | <b>1 - 3 Years</b> | <b>3 - 5<br/>Years</b> | <b>More<br/>than<br/>5 Years</b> |
|--|------------------|-----------------------------|--------------------|------------------------|----------------------------------|
| Long term debt(1)                      | \$ 517,000       | \$ 517,000                  | \$                 | \$                     | \$                               |
| Operating leases                       | 3,989,000        | 2,848,000                   | 1,141,000          |                        |                                  |
| Capital leases                         | 269,000          | 159,000                     | 110,000            |                        |                                  |
| <br>Total contractual cash obligations | <br>\$ 4,775,000 | <br>\$ 3,524,000            | <br>\$ 1,251,000   | <br>\$                 | <br>\$                           |

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- (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 line of credit.

***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 July 2013, the FASB issued guidance that requires entities to present an unrecognized tax benefit, or a portion of an unrecognized tax benefit, as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward when settlement in this manner is available under the tax law and we intend to use the deferred tax asset for that purpose. The amendments in this update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 2013. We are currently evaluating the impact the adoption of this standard will have on our consolidated financial statements.

**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 \$8.1 million as of December 27, 2013. This amount includes \$5.0 million invested in the Wells Fargo Collateral Investment account, \$1.1 million invested in the Wells Fargo Stage Coach Sweep Investment Account and \$1.0 million invested in the Wells Fargo Money Market Mutual Fund. The balance of \$1.0 million represents cash on hand in business checking accounts. 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 27, 2013, we had no outstanding debt under the Wells Fargo revolving credit facility.

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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</u>   | <u>F-1</u>  |
| <u>Consolidated Balance Sheets as of December 27, 2013 and December 28, 2012</u>   | <u>F-2</u>  |
| <u>Consolidated Statements of Operations for each of the fiscal years in the three-year period ended December 27, 2013</u>           | <u>F-3</u>  |
| <u>Consolidated Statements of Stockholders' Equity for each of the fiscal years in the three-year period ended December 27, 2013</u> | <u>F-4</u>  |
| <u>Consolidated Statements of Cash Flows for each of the fiscal years in the three-year period ended December 27, 2013</u>           | <u>F-5</u>  |
| <u>Notes to Consolidated Financial Statements</u>  | <u>F-6</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 27, 2013.

**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, Stacy McLaughlin, 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 27, 2013. 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 27, 2013. 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 27, 2013. 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 (1992 Framework). Our management has concluded that, as of December 27, 2013, 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.

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**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 2013 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 2014 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the Company's 2013 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 2014 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the Company's 2013 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 2014 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the Company's 2013 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 2014 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the Company's 2013 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 2014 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the Company's 2013 fiscal year.

Table of Contents**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</u>   | <u>F-1</u>  |
| <u>Consolidated Balance Sheets as of December 27, 2013 and December 28, 2012</u>   | <u>F-2</u>  |
| <u>Consolidated Statements of Operations for each of the fiscal years in the three-year period ended December 27, 2013</u>           | <u>F-3</u>  |
| <u>Consolidated Statements of Stockholders' Equity for each of the fiscal years in the three-year period ended December 27, 2013</u> | <u>F-4</u>  |
| <u>Consolidated Statements of Cash Flows for each of the fiscal years in the three-year period ended December 27, 2013</u>           | <u>F-5</u>  |
| <u>Notes to Consolidated Financial Statements</u>  | <u>F-6</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<br/>Number</b> | <b>Exhibit Description</b>  |
|---------------------------|---|
| 3.1                       | Articles of Incorporation of Willdan Group, Inc., including amendments thereto(1)   |
| 3.2                       | Amended and Restated Bylaws of Willdan Group, Inc.(2)   |
| 4.1                       | Specimen Stock Certificate for shares of the Registrant's Common Stock(1)   |
| 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 March 24, 2014, between Willdan Group, Inc. and BMO Harris Bank, National Association   |
| 10.2*                     | Form of Delayed Draw Term Note for \$2,500,000, dated as of March 24, 2014, by Willdan Group, Inc. in favor of BMO Harris Bank, N.A. (included as Exhibit C-1 to the Credit Agreement with BMO Harris Bank, N.A., filed as Exhibit 10.1)  |

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10.3\* Revolving Line of Credit Note for \$7,500,000, dated as of March 24, 2014, by Willdan Group, Inc. in favor of BMO Harris Bank, National Association (included as Exhibit C-2 to the Credit Agreement with BMO Harris Bank, N.A., filed as Exhibit 10.1)

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| <b>Exhibit Number</b> | <b>Exhibit Description</b>  |
|-----------------------|---|
| 10.4*^                | Security Agreement, dated as of March 24, 2014, between Willdan Group, Inc. and BMO Harris Bank, National Association   |
| 10.5                  | Willdan Group, Inc. 2006 Stock Incentive Plan(1)  |
| 10.6                  | Form of Incentive Stock Option Agreement(1)   |
| 10.7                  | Form of Non-Qualified Stock Option Agreement(1)   |
| 10.8                  | Amended and Restated Willdan Group, Inc. 2006 Employee Stock Purchase Plan(4)   |
| 10.9                  | Form of Indemnification Agreement between Willdan Group, Inc. and its Directors and Officers(1)   |
| 10.10                 | Offer Letter from Willdan Group, Inc. to Daniel Chow dated October 29, 2008 and accepted November 9, 2008(5)  |
| 10.11                 | Employment Agreement, dated as of May 3, 2011 by and between Willdan Group, Inc. and Thomas D. Brisbin(6)   |
| 10.12                 | Employment Agreement, dated as of May 3, 2011 by and between Willdan Group, Inc. and Marc Tipermas(6)   |
| 10.13                 | Willdan Group, Inc. 2008 Performance Incentive Plan(7)  |
| 10.14                 | Agreement for Small Business Direct Install Program, dated July 2, 2012, between Consolidated Edison Company of New York, Inc. and Willdan Energy Solutions (portions of this exhibit have been omitted pursuant to a request for confidential treatment)(8)  |
| 14.1                  | Code of Ethical Conduct of Willdan Group, Inc.(4)   |
| 21.1*                 | Subsidiaries of Willdan Group, Inc.   |
| 23.1*                 | Consent of Independent Registered Public Accounting Firm  |
| 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  |
| 101                   | Interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Consolidated Balance Sheets as of December 27, 2013 and December 28, 2012; (ii) the Consolidated Statements of Operations for each of the fiscal years in the three-year period ended December 27, 2013; (iii) the Consolidated Statements of Stockholders' Equity for each of the fiscal years in the three-year period ended December 27, 2013; (iv) the Consolidated Statement of Cash Flows for each of the fiscal years in the three-year period ended December 27, 2013; and (v) the Notes to the Consolidated Financial Statements. |

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Filed herewith.

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Indicates that certain information contained herein has been omitted and confidentially submitted separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

Indicates a management contract or compensating plan or arrangement.

- (1) 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).
- (2) Incorporated by reference to Willdan Group, Inc.'s Quarterly Report on Form 10-Q, filed with the Securities and Exchange Commission on August 13, 2009.
- (3) 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.
- (4) 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.
- (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.
- (7) Incorporated by reference to Willdan Group, Inc.'s Proxy Statement for its 2012 Annual Meeting of Stockholders, filed with the Securities and Exchange Commission on April 18, 2012.
- (8) Incorporated by reference to Willdan Group, Inc.'s Quarterly Report on Form 10-Q, filed with the Securities and Exchange Commission on November 8, 2011.

Table of Contents**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 25, 2014.

**WILLDAN GROUP, INC.**

/s/ STACY B. MCLAUGHLIN

Stacy B. McLaughlin  
*Chief Financial Officer and Vice President*  
 Date: March 25, 2014

KNOW ALL PERSONS BY THESE PRESENT, that each person whose signature appears below constitutes and appoints Stacy McLaughlin 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.

| <b>Signature</b>  | <b>Title</b>   | <b>Date</b>    |
|---|--|----------------|
| <u>/s/ THOMAS D. BRISBIN</u><br>Thomas D. Brisbin         | Director, President and Chief Executive Officer<br>(chief executive officer)                         | March 25, 2014 |
| <u>/s/ STACY B. MCLAUGHLIN</u><br>Stacy B. McLaughlin     | Chief Financial Officer and Vice President (chief<br>financial officer and chief accounting officer) | March 25, 2014 |
| <u>/s/ WIN WESTFALL</u><br>Win Westfall                   | Director   | March 25, 2014 |
| <u>/s/ KEITH W. RENKEN</u><br>Keith W. Renken             | Director   | March 25, 2014 |
| <u>/s/ JOHN M. TOUPS</u><br>John M. Toups                 | Director   | March 25, 2014 |
| <u>/s/ RAYMOND W. HOLDSWORTH</u><br>Raymond W. Holdsworth | Director   | March 25, 2014 |
| <u>/s/ DOUGLAS J. MCEACHERN</u><br>Douglas J. McEachern   | Director   | March 25, 2014 |





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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 27, 2013 and December 28, 2012, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 27, 2013. 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 financial statements referred to above present fairly, in all material respects, the consolidated financial position of Willdan Group, Inc. and subsidiaries as of December 27, 2013 and December 28, 2012, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 27, 2013, in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young LLP

Los Angeles, California  
March 25, 2014

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

|   | December 27,<br>2013 | December 28,<br>2012 |
|---|----------------------|----------------------|
| <b>Assets</b>   |                      |                      |
| Current assets:   |                      |                      |
| Cash and cash equivalents, including restricted cash of \$5,000,000 at December 27, 2013  | \$ 8,134,000         | \$ 10,006,000        |
| Accounts receivable, net of allowance for doubtful accounts of \$385,000 and \$303,000 at December 27, 2013 and December 28, 2012, respectively | 13,167,000           | 15,484,000           |
| Costs and estimated earnings in excess of billings on uncompleted contracts   | 9,635,000            | 9,860,000            |
| Other receivables   | 212,000              | 95,000               |
| Prepaid expenses and other current assets   | 2,377,000            | 1,782,000            |
| <br>  |                      |                      |
| Total current assets  | 33,525,000           | 37,227,000           |
| Equipment and leasehold improvements, net   | 691,000              | 979,000              |
| Other intangible assets, net  |                      | 12,000               |
| Other assets  | 333,000              | 307,000              |
| Deferred income taxes, net of current portion   | 3,688,000            | 3,452,000            |
| <br>  |                      |                      |
| Total assets  | \$ 38,237,000        | \$ 41,977,000        |
| <br><b>Liabilities and Stockholders' Equity</b>   |                      |                      |
| Current liabilities:  |                      |                      |
| Excess of outstanding checks over bank balance  | \$ 1,473,000         | \$ 1,188,000         |
| Borrowings under line of credit   |                      | 3,000,000            |
| Accounts payable  | 3,957,000            | 6,983,000            |
| Accrued liabilities   | 5,808,000            | 5,306,000            |
| Billings in excess of costs and estimated earnings on uncompleted contracts   | 2,247,000            | 3,419,000            |
| Current portion of notes payable  | 517,000              | 628,000              |
| Current portion of capital lease obligations  | 129,000              | 152,000              |
| Current portion of deferred income taxes  | 3,688,000            | 3,452,000            |
| <br>  |                      |                      |
| Total current liabilities   | 17,819,000           | 24,128,000           |
| Capital lease obligations, less current portion   | 85,000               | 124,000              |
| Deferred lease obligations  | 120,000              | 374,000              |
| <br>  |                      |                      |
| Total liabilities   | 18,024,000           | 24,626,000           |
| <br>  |                      |                      |
| Commitments and contingencies   |                      |                      |
| Stockholders' equity:   |                      |                      |
| Preferred stock, \$0.01 par value, 10,000,000 shares authorized, no shares issued and outstanding   | 74,000               | 73,000               |

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|  |               |               |
|--|---------------|---------------|
| Common stock, \$0.01 par value, 40,000,000 shares authorized; 7,375,000 and 7,335,000 shares issued and outstanding at December 27, 2013 and December 28, 2012, respectively |               |               |
| Additional paid-in capital   | 34,654,000    | 34,423,000    |
| Accumulated deficit  | (14,515,000)  | (17,145,000)  |
| <br>   |               |               |
| Total stockholders' equity   | 20,213,000    | 17,351,000    |
| <br>   |               |               |
| Total liabilities and stockholders' equity   | \$ 38,237,000 | \$ 41,977,000 |

See accompanying notes to consolidated financial statements.

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

|   | Fiscal Year         |                        |                     |
|---|---------------------|------------------------|---------------------|
|   | 2013                | 2012                   | 2011                |
| Contract revenue  | \$ 85,510,000       | \$ 93,443,000          | \$ 107,165,000      |
| Direct costs of contract revenue (exclusive of depreciation and amortization shown separately below): |                     |                        |                     |
| Salaries and wages  | 24,098,000          | 23,218,000             | 25,714,000          |
| Subcontractor services and other direct costs   | 24,831,000          | 35,741,000             | 39,013,000          |
| <b>Total direct costs of contract revenue</b>   | <b>48,929,000</b>   | <b>58,959,000</b>      | <b>64,727,000</b>   |
| General and administrative expenses:  |                     |                        |                     |
| Salaries and wages, payroll taxes and employee benefits   | 20,555,000          | 22,421,000             | 22,594,000          |
| Facilities and facility related   | 4,654,000           | 4,871,000              | 4,875,000           |
| Stock-based compensation  | 150,000             | 227,000                | 201,000             |
| Depreciation and amortization   | 517,000             | 671,000                | 877,000             |
| Lease abandonment, net  | 30,000              | 26,000                 | 2,000               |
| Impairment of goodwill  |                     | 15,208,000             |                     |
| Other   | 8,067,000           | 10,315,000             | 10,488,000          |
| <b>Total general and administrative expenses</b>  | <b>33,973,000</b>   | <b>53,739,000</b>      | <b>39,037,000</b>   |
| <b>Income (loss) from operations</b>  | <b>2,608,000</b>    | <b>(19,255,000)</b>    | <b>3,401,000</b>    |
| Other income (expense):   |                     |                        |                     |
| Interest income   | 10,000              | 6,000                  | 5,000               |
| Interest expense  | (94,000)            | (106,000)              | (77,000)            |
| Other, net  | 238,000             | (28,000)               | 1,000               |
| <b>Total other income (expense), net</b>  | <b>154,000</b>      | <b>(128,000)</b>       | <b>(71,000)</b>     |
| <b>Income (loss) before income taxes</b>  | <b>2,762,000</b>    | <b>(19,383,000)</b>    | <b>3,330,000</b>    |
| Income tax expense (benefit)  | 132,000             | (2,083,000)            | 1,500,000           |
| <b>Net income (loss)</b>  | <b>\$ 2,630,000</b> | <b>\$ (17,300,000)</b> | <b>\$ 1,830,000</b> |

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Earnings (loss) per share:

|       |    |      |    |        |    |      |
|-------|----|------|----|--------|----|------|
| Basic | \$ | 0.36 | \$ | (2.37) | \$ | 0.25 |
|-------|----|------|----|--------|----|------|

|         |    |      |    |        |    |      |
|---------|----|------|----|--------|----|------|
| Diluted | \$ | 0.35 | \$ | (2.37) | \$ | 0.24 |
|---------|----|------|----|--------|----|------|

Weighted-average shares outstanding:

|       |           |           |           |
|-------|-----------|-----------|-----------|
| Basic | 7,355,000 | 7,310,000 | 7,262,000 |
|-------|-----------|-----------|-----------|

|         |           |           |           |
|---------|-----------|-----------|-----------|
| Diluted | 7,495,000 | 7,310,000 | 7,485,000 |
|---------|-----------|-----------|-----------|

See accompanying notes to consolidated financial statements.

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

|  | Common Stock |           | Additional<br>Paid-in<br>Capital | Retained<br>Earnings/<br>(Accumulated<br>Deficit) | Total         |
|--|--------------|-----------|----------------------------------|---|---------------|
|  | Shares       | Amount    |                                  |   |               |
| 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<br>employee stock purchase plan   | 25,000       | 1,000     | 92,000                           |   | 93,000        |
| Shares of common stock issued in connection with<br>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    |
| Shares of common stock issued in connection with<br>employee stock purchase plan   | 56,000       |           | 120,000                          |   | 120,000       |
| Shares of common stock issued in connection with<br>employee stock option exercise | 5,000        |           | 11,000                           |   | 11,000        |
| Stock-based compensation   |              |           | 227,000                          |   | 227,000       |
| Net loss   |              |           |                                  | (17,300,000)                                      | (17,300,000)  |
| Balances at December 28, 2012  | 7,335,000    | 73,000    | 34,423,000                       | (17,145,000)                                      | 17,351,000    |
| Shares of common stock issued in connection with<br>employee stock purchase plan   | 31,000       | 1,000     | 72,000                           |   | 73,000        |
| Shares of common stock issued in connection with<br>employee stock option exercise | 9,000        |           | 9,000                            |   | 9,000         |
| Stock-based compensation   |              |           | 150,000                          |   | 150,000       |
| Net income   |              |           |                                  | 2,630,000   | 2,630,000     |
| Balances at December 27, 2013  | 7,375,000    | \$ 74,000 | \$ 34,654,000                    | \$ (14,515,000)                                   | \$ 20,213,000 |

See accompanying notes to consolidated financial statements.

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

|  | Fiscal Year  |                 |              |
|--|--------------|-----------------|--------------|
|  | 2013         | 2012            | 2011         |
| <b>Cash flows from operating activities:</b>   |              |                 |              |
| Net income (loss)  | \$ 2,630,000 | \$ (17,300,000) | \$ 1,830,000 |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: |              |                 |              |
| Non-cash revenue from subcontractor settlement   |              |                 | (902,000)    |
| Depreciation and amortization  | 585,000      | 737,000         | 944,000      |
| Deferred income taxes  |              | (2,249,000)     | 1,465,000    |
| Goodwill impairment  |              | 15,208,000      |              |
| Lease abandonment expense, net   | 30,000       | 26,000          | 2,000        |
| (Gain) loss on sale of equipment   | (6,000)      | 18,000          | 2,000        |
| Provision for doubtful accounts  | 101,000      | 673,000         | 209,000      |
| Stock-based compensation   | 150,000      | 227,000         | 201,000      |
| Changes in operating assets and liabilities:   |              |                 |              |
| Accounts receivable  | 2,216,000    | 625,000         | (2,507,000)  |
| Costs and estimated earnings in excess of billings on uncompleted contracts                        | 225,000      | 10,812,000      | (8,427,000)  |
| Other receivables  | (117,000)    | 80,000          | 1,000        |
| Prepaid expenses and other current assets  | (595,000)    | (58,000)        | (10,000)     |
| Other assets   | (26,000)     | 76,000          | 24,000       |
| Accounts payable   | (3,026,000)  | (1,199,000)     | 2,802,000    |
| Accrued liabilities  | 502,000      | (4,886,000)     | 4,206,000    |
| Billings in excess of costs and estimated earnings on uncompleted contracts                        | (1,172,000)  | 2,667,000       | (289,000)    |
| Deferred lease obligations   | (284,000)    | (186,000)       | (234,000)    |
| <br>   |              |                 |              |
| Net cash provided by (used in) operating activities  | 1,213,000    | 5,271,000       | (683,000)    |
| <br>   |              |                 |              |
| <b>Cash flows from investing activities:</b>   |              |                 |              |
| Purchase of equipment and leasehold improvements   | (306,000)    | (359,000)       | (395,000)    |
| Proceeds from sale of equipment  | 27,000       | 20,000          | 6,000        |
| Payments related to business acquisitions  |              |                 | (2,733,000)  |
| <br>   |              |                 |              |
| Net cash used in investing activities  | (279,000)    | (339,000)       | (3,122,000)  |
| <br>   |              |                 |              |
| <b>Cash flows from financing activities:</b>   |              |                 |              |
| Changes in excess of outstanding checks over bank balance  | 285,000      | (589,000)       | 554,000      |
| Payments on notes payable  | (621,000)    | (663,000)       | (211,000)    |
| Proceeds from notes payable  | 510,000      | 614,000         | 667,000      |
| Borrowings under line of credit  |              | 11,663,000      | 33,965,000   |
| Repayments of line of credit   | (3,000,000)  | (8,919,000)     | (34,709,000) |
| Principal payments on capital leases   | (62,000)     | (164,000)       | (202,000)    |
| Proceeds from stock option exercise  | 9,000        | 11,000          | 7,000        |
| Proceeds from sales of common stock under employee stock purchase plan                             | 73,000       | 120,000         | 93,000       |



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|  |              |               |              |
|--|--------------|---------------|--------------|
| Net cash (used in) provided by financing activities                            | (2,806,000)  | 2,073,000     | 164,000      |
| Net (decrease) increase in cash and cash equivalents                           | (1,872,000)  | 7,005,000     | (3,641,000)  |
| Cash and cash equivalents, including restricted cash, at beginning of the year | 10,006,000   | 3,001,000     | 6,642,000    |
| Cash and cash equivalents, including restricted cash, at end of the year       | \$ 8,134,000 | \$ 10,006,000 | \$ 3,001,000 |

Supplemental disclosures of cash flow information:

Cash paid during the period for:

|              |            |            |           |
|--------------|------------|------------|-----------|
| Interest     | \$ 100,000 | \$ 106,000 | \$ 77,000 |
| Income taxes | 324,000    | 139,000    | 139,000   |

Supplemental disclosures of noncash investing and financing activities:

|   |           |            |            |
|---|-----------|------------|------------|
| Equipment acquired under capital leases | \$ 87,000 | \$ 151,000 | \$ 247,000 |
|---|-----------|------------|------------|

See accompanying notes to consolidated financial statements

Table of Contents**WILLDAN GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****Fiscal Years 2013, 2012 and 2011****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, D.C. 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, with consideration of business days. Our fiscal year ended December 27, 2013 contained 52 weeks. Fiscal years 2012 and 2011 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, including restricted cash consisted of the following:

|  | December 27,<br>2013 | December 28,<br>2012 |
|--|----------------------|----------------------|
| Wells Fargo Stage Coach Sweep Investment Account | \$ 1,103,000         | \$ 8,484,000         |
| Wells Fargo Money Market Mutual Fund             | 1,002,000            | 1,001,000            |
| Wells Fargo Advantage Heritage Fund              | 48,000               | 48,000               |
| Wells Fargo Collateral Investment Account        | 5,003,000            |                      |
| Cash on hand in business checking accounts       | 978,000              | 473,000              |
|  | \$ 8,134,000         | \$ 10,006,000        |

The Company's balance of \$5.0 million in the Wells Fargo Collateral Investment Account represents restricted cash. The Company from time to time may be exposed to credit risk with its bank



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**WILLDAN GROUP, INC. AND SUBSIDIARIES**

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

**Fiscal Years 2013, 2012 and 2011**

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

deposits in excess of the FDIC insurance limits and with uninsured money market investments. The Company has not 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 27, 2013 and December 28, 2012, the carrying amounts of the Company's cash, cash equivalents, including restricted cash, 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 six 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. Three of the six 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. See Note 13.

***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

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**WILLDAN GROUP, INC. AND SUBSIDIARIES**

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

**Fiscal Years 2013, 2012 and 2011**

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

services or deliverables are evaluated as multiple element arrangements to determine the appropriate 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. Service-related contracts, including operations and maintenance services and a variety of technical assistance services, are accounted for over the period of performance, in proportion to the costs of performance.

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, subcontractor 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.

Included in revenue and costs are all reimbursable costs for which the Company has the risk or on which the fee was based at the time of bid or negotiation. No revenue or cost is recorded for costs in which the Company acts solely in the capacity of an agent and has no risks associated with such costs.

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

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**WILLDAN GROUP, INC. AND SUBSIDIARIES**

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

**Fiscal Years 2013, 2012 and 2011**

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

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.

***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 the Company's employees and the portion of salaries and wages not allocated to direct costs of contract revenue for those employees who provide the Company's 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 provision for billed or unbilled receivables, professional services, legal and accounting, computer costs, travel and entertainment and marketing costs. The Company expenses general and administrative costs when incurred.

***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.

Table of Contents**WILLDAN GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Fiscal Years 2013, 2012 and 2011****2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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 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.

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**WILLDAN GROUP, INC. AND SUBSIDIARIES**

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

**Fiscal Years 2013, 2012 and 2011**

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

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.

*New Accounting Pronouncements*

In July 2013, the FASB issued guidance that requires entities to present an unrecognized tax benefit, or a portion of an unrecognized tax benefit, as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward when settlement in this manner is available under the tax law and the Company intends to use the deferred tax asset for that purpose. The amendments in this update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 2013. The Company is currently evaluating the impact the adoption of this standard will have on its consolidated 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 27, 2013 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 earn-out payments were required because Willdan Energy Solutions achieved certain financial targets over the relevant periods. The Company recorded \$15.2 million of goodwill in connection with the acquisition, and as of December 28, 2012, this entire goodwill amount has been written off (See Note 4).



Table of Contents**WILLDAN GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Fiscal Years 2013, 2012 and 2011****4. GOODWILL AND OTHER INTANGIBLE ASSETS**

As of December 27, 2013, the Company had no goodwill.

The changes in the carrying value of goodwill by reporting unit for the fiscal years ended December 28, 2012 were as follows:

|                            | Balance at<br>Beginning of Year | Fiscal Year 2012      |                 | Balance at<br>End of Year |
|----------------------------|---------------------------------|-----------------------|-----------------|---------------------------|
|                            |                                 | Goodwill<br>Additions | Impairment      |                           |
| <b>Reporting Unit:</b>     |                                 |                       |                 |                           |
| Energy Solutions           | \$ 15,208,000                   | \$                    | \$ (15,208,000) | \$                        |
| Financial Services         |                                 |                       |                 |                           |
| Homeland Security Services |                                 |                       |                 |                           |
|                            | \$ 15,208,000                   | \$                    | \$ (15,208,000) | \$                        |

|                            | 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             |

The additions to goodwill in fiscal 2011 for Energy Solutions related to the \$2.7 million earn-out payment in August 2011. As of December 30, 2011, the Company had \$15.2 million of goodwill, all of which related to the Energy Solutions reporting unit, which comprises the Energy Efficiency Services reporting segment. In fiscal 2012, the Company had \$15.2 million of goodwill, all of which related to the Energy Solutions reporting unit, which comprises the Energy Efficiency Services reporting segment. During the second quarter of 2012, the Company determined that a quantitative assessment of its goodwill was warranted for the Energy Solutions reporting unit. This assessment indicated that the estimated fair value of the Energy Solutions reporting unit was less than its carrying value. The Company further determined that all of the remaining goodwill for the Energy Solutions reporting unit was impaired and recognized an impairment charge of \$15.2 million. 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.



Table of Contents**WILLDAN GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Fiscal Years 2013, 2012 and 2011****4. GOODWILL AND OTHER INTANGIBLE ASSETS (Continued)**

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

|                        | Reporting Units  |                    |                            | Total         |
|------------------------|------------------|--------------------|----------------------------|---------------|
|                        | Energy Solutions | Financial Services | Homeland Security Services |               |
| December 28, 2012:     |                  |                    |                            |               |
| Goodwill               | \$ 15,208,000    | \$ 2,763,000       | \$ 148,000                 | \$ 18,119,000 |
| Accumulated impairment | (15,208,000)     | (2,763,000)        | (148,000)                  | (18,119,000)  |
|                        | \$               | \$                 | \$                         | \$            |
| December 30, 2011:     |                  |                    |                            |               |
| 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 |

The gross amounts and accumulated amortization of the Company's acquired identifiable intangible assets with finite useful lives as of December 27, 2013 and December 28, 2012, included in intangible assets, net in the accompanying consolidated balance sheets, were as follows:

|                            | December 27, 2013 |                          | December 28, 2012 |                          | Amortization Period (yrs) |
|----------------------------|-------------------|--------------------------|-------------------|--------------------------|---------------------------|
|                            | Gross Amount      | Accumulated Amortization | Gross Amount      | Accumulated Amortization |                           |
| Backlog                    | \$ 920,000        | \$ 920,000               | \$ 920,000        | \$ 920,000               | 1                         |
| Training materials/courses | 282,000           | 282,000                  | 282,000           | 270,000                  | 5                         |
| Non-compete agreements     | 30,000            | 30,000                   | 30,000            | 30,000                   | 3                         |
|                            | \$ 1,232,000      | \$ 1,232,000             | \$ 1,232,000      | \$ 1,220,000             |                           |

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

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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.

For the years ended December 27, 2013, December 28, 2012 and December 30, 2011, the Company's amortization expense for acquired identifiable intangible assets with finite useful lives was \$12,000, \$37,000 and \$46,000, respectively. There is no estimated future amortization expense for acquired identifiable intangible assets.

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

Basic EPS is computed by dividing net income (loss) available to common stockholders by the weighted-average number of common shares outstanding. Diluted EPS is computed by dividing net income (loss) by the weighted-average number of common shares outstanding and dilutive potential

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Table of Contents**WILLDAN GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Fiscal Years 2013, 2012 and 2011****5. EARNINGS PER SHARE ("EPS") (Continued)**

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  |                 |              |
|--|--------------|-----------------|--------------|
|  | 2013         | 2012            | 2011         |
| Net income (loss)  | \$ 2,630,000 | \$ (17,300,000) | \$ 1,830,000 |
| Weighted-average common shares outstanding                     | 7,355,000    | 7,310,000       | 7,262,000    |
| Effect of dilutive stock options and unvested restricted stock | 140,000      |                 | 223,000      |
| Weighted-average common stock outstanding-diluted              | 7,495,000    | 7,310,000       | 7,485,000    |
| <b>Earnings (loss) per share:</b>                              |              |                 |              |
| Basic  | \$ 0.36      | \$ (2.37)       | \$ 0.25      |
| Diluted  | \$ 0.35      | \$ (2.37)       | \$ 0.24      |

For the fiscal year ended December 27, 2013, 459,000 options were excluded from the calculation of dilutive potential common shares, compared to 654,000 and 304,000 options, for fiscal 2012 and fiscal 2011, 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 2013 period. 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.

**6. ACCOUNTS RECEIVABLE**

Accounts receivable consisted of the following at December 27, 2013 and December 28, 2012:

| December 27,<br>2013 | December 28,<br>2012 |
|----------------------|----------------------|
|----------------------|----------------------|

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|                                 |               |               |
|---------------------------------|---------------|---------------|
| Billed                          | \$ 12,879,000 | \$ 15,145,000 |
| Unbilled                        | 9,635,000     | 9,860,000     |
| Contract retentions             | 673,000       | 642,000       |
|                                 | 23,187,000    | 25,647,000    |
| Allowance for doubtful accounts | (385,000)     | (303,000)     |
|                                 | \$ 22,802,000 | \$ 25,344,000 |

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Table of Contents**WILLDAN GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Fiscal Years 2013, 2012 and 2011****6. ACCOUNTS RECEIVABLE (Continued)**

The movements in the allowance for doubtful accounts consisted of the following for fiscal years 2013, 2012 and 2011:

|  | Fiscal Year       |                   |                   |
|--|-------------------|-------------------|-------------------|
|  | 2013              | 2012              | 2011              |
| Balance as of the beginning of the year  | \$ 303,000        | \$ 421,000        | \$ 959,000        |
| Provision for doubtful accounts          | 189,000           | 220,000           | 219,000           |
| Write-offs of uncollectible accounts     | (107,000)         | (341,000)         | (765,000)         |
| Recoveries of accounts written off       |                   | 3,000             | 8,000             |
| <b>Balance as of the end of the year</b> | <b>\$ 385,000</b> | <b>\$ 303,000</b> | <b>\$ 421,000</b> |

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 27, 2013 and December 28, 2012 are or were 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 27, 2013, one client accounted for 26% of outstanding receivables, as compared to 34% of the Company's outstanding receivables as of December 28, 2012.

**7. EQUIPMENT AND LEASEHOLD IMPROVEMENTS**

Equipment and leasehold improvements consisted of the following at December 27, 2013 and December 28, 2012:

|  | December 27,<br>2013 | December 28,<br>2012 |
|--|----------------------|----------------------|
| Furniture and fixtures                           | \$ 3,039,000         | \$ 3,163,000         |
| Computer hardware and software                   | 6,338,000            | 6,299,000            |
| Leasehold improvements                           | 776,000              | 769,000              |
| Equipment under capital leases                   | 831,000              | 808,000              |
| Automobiles, trucks, and field equipment         | 533,000              | 495,000              |
|  | 11,517,000           | 11,534,000           |
| <b>Accumulated depreciation and amortization</b> | <b>(10,826,000)</b>  | <b>(10,555,000)</b>  |

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|   |    |         |    |         |
|---|----|---------|----|---------|
| Equipment and leasehold improvements, net | \$ | 691,000 | \$ | 979,000 |
|---|----|---------|----|---------|

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Table of Contents**WILLDAN GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Fiscal Years 2013, 2012 and 2011****7. EQUIPMENT AND LEASEHOLD IMPROVEMENTS (Continued)**

Included in accumulated depreciation and amortization is \$152,000 and \$172,000 of amortization expense related to equipment held under capital leases in fiscal years 2013 and 2012, respectively.

**8. ACCRUED LIABILITIES**

Accrued liabilities consisted of the following at December 27, 2013 and December 28, 2012:

|   | <b>December 27,<br/>2013</b> | <b>December 28,<br/>2012</b> |
|---|------------------------------|------------------------------|
| Accrued bonuses                         | \$ 31,000                    | \$ 52,000                    |
| Paid leave bank                         | 1,243,000                    | 1,288,000                    |
| Compensation and payroll taxes          | 749,000                      | 729,000                      |
| Accrued legal                           | 356,000                      | 338,000                      |
| Accrued workers' compensation insurance | 141,000                      | 209,000                      |
| Accrued rent                            | 367,000                      | 356,000                      |
| Employee withholdings                   | 343,000                      | 215,000                      |
| Client deposits                         | 232,000                      | 88,000                       |
| Unvouchered accounts payable            | 2,282,000                    | 1,800,000                    |
| Other                                   | 64,000                       | 231,000                      |
| <b>Total accrued liabilities</b>        | <b>\$ 5,808,000</b>          | <b>\$ 5,306,000</b>          |

**9. EQUITY PLANS**

As of December 28, 2012, 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 \$150,000, \$227,000 and \$201,000 for fiscal years 2013, 2012 and 2011, respectively.

**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 193,500 shares of common stock reserved for issuance. Approximately 70,333 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



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**WILLDAN GROUP, INC. AND SUBSIDIARIES**

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

**Fiscal Years 2013, 2012 and 2011**

**9. EQUITY PLANS (Continued)**

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 27, 2013, options granted, net of forfeitures and expirations, under the 2006 Plan consisted of 187,500 shares and 6,000 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. At the 2010 and 2012 annual meetings of the stockholders, the stockholders approved 350,000 and 500,000 share increases, respectively, 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 currently has 1,406,500 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 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 27, 2013, options granted, net of forfeitures and exercises, under the 2008 Plan consisted of 408,833 shares, 376,000 shares and 25,000 shares for incentive stock options, non-statutory stock options and restricted stock grants, 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

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## WILLDAN GROUP, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## Fiscal Years 2013, 2012 and 2011

## 9. EQUITY PLANS (Continued)

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:

|                          | 2013          | 2012          | 2011          |
|--------------------------|---------------|---------------|---------------|
| Expected volatility      | 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           | 1.31% - 1.36% | 0.65% - 1.09% | 0.88% - 2.20% |

The Company's restricted stock awards are valued based on the closing price of the Company's common stock on the date of grant and typically vest over a two year period.

*Summary of Stock Option Activity*

A summary of option activity under the 2006 Plan and 2008 Plan as of December 27, 2013 and changes during the fiscal years ended December 27, 2013, December 28, 2012 and December 30, 2011 is presented below. The intrinsic value of the fully-vested options is \$219,000, based on the Company's closing stock price of \$4.91 on December 27, 2013.

|                                  | Options   | Weighted-Average Exercise Price | Weighted-Average Remaining Contractual Term (Years) |
|----------------------------------|-----------|---------------------------------|---|
| Outstanding at December 28, 2012 | 992,000   | \$ 3.86                         | 6.95  |
| Granted                          | 100,000   | 3.62                            | 2.44  |
| Exercised                        | (9,000)   | 1.65                            | 5.67  |
| Forfeited or expired             | (105,000) |                                 |   |
| Outstanding at December 27, 2013 | 978,000   | \$ 3.95                         | 3.35  |
| Vested at December 27, 2013      | 796,000   | \$ 4.04                         | 7.90  |
| Exercisable at December 27, 2013 | 796,000   | \$ 4.04                         | 7.90  |

## Options

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|                                  |           | <b>Weighted-<br/>Average<br/>Exercise<br/>Price</b> | <b>Weighted-<br/>Average<br/>Remaining<br/>Contractual<br/>Term (Years)</b> |
|----------------------------------|-----------|---|---|
| Outstanding at December 30, 2011 | 912,000   | \$ 3.94   | 7.47  |
| Granted                          | 202,000   | 3.30  | 9.34  |
| Exercised                        | (5,000)   | 1.81  | 6.73  |
| Forfeited or expired             | (117,000) |   |   |
| <br>                             |           |   |   |
| Outstanding at December 28, 2012 | 992,000   | \$ 3.86   | 6.95  |
| <br>                             |           |   |   |
| Vested at December 28, 2012      | 700,000   | \$ 4.09   | 6.19  |
| <br>                             |           |   |   |
| Exercisable at December 28, 2012 | 700,000   | \$ 4.09   | 6.19  |

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## WILLDAN GROUP, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## Fiscal Years 2013, 2012 and 2011

## 9. EQUITY PLANS (Continued)

|                                  | Options  | Weighted-<br>Average<br>Exercise<br>Price | Weighted-<br>Average<br>Remaining<br>Contractual<br>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  | \$ 3.94                                   | 7.47   |
| Vested at December 30, 2011      | 570,000  | \$ 4.61                                   | 6.84   |
| Exercisable at December 30, 2011 | 570,000  | \$ 4.61                                   | 6.84   |

A summary of the status of the Company's nonvested options and changes in nonvested options during the fiscal years ended December 27, 2013, December 28, 2012 and December 30, 2011, is presented below:

|                                | Options   | Weighted-<br>Average<br>Grant-Date<br>Fair Value |
|--------------------------------|-----------|--|
| Nonvested at December 28, 2012 | 293,000   | \$ 1.28  |
| Granted                        | 100,000   | 3.62   |
| Vested                         | (143,000) | 3.17   |
| Forfeited                      | (43,000)  | 3.33   |
| Nonvested at December 27, 2013 | 207,000   | 3.55   |

|                                | <b>Options</b> | <b>Weighted-<br/>Average<br/>Grant-Date<br/>Fair Value</b> |
|--------------------------------|----------------|--|
| Nonvested at December 30, 2011 | 341,000        | \$ 1.13  |
| Granted                        | 202,000        | 1.27   |
| Vested                         | (212,000)      | 1.07   |
| Forfeited                      | (38,000)       | 1.10   |
| <br>                           |                |  |
| Nonvested at December 28, 2012 | 293,000        | 1.28   |

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

***Summary of Restricted Stock Activity***

A summary of restricted stock activity under the 2008 Plan as of December 27, 2013 and changes during the fiscal years ended December 27, 2013, is presented below. The intrinsic value of the fully-vested options is \$49,000, based on the Company's grant date price of \$2.96.

|                                  | <b>Restricted<br/>Stock</b> | <b>Weighted-<br/>Average<br/>Grant Date<br/>Fair Value</b> |
|----------------------------------|-----------------------------|--|
| Outstanding at December 28, 2012 |                             | \$   |
| Granted                          | 25,000                      | 2.96   |
| Vested                           |                             |  |
| Forfeited                        |                             |  |
| <br>                             |                             |  |
| Outstanding at December 27, 2013 | 25,000                      | \$ 2.96  |

As of December 27, 2013, there was \$200,000 and \$52,000 of total unrecognized compensation expense related to non-vested stock options and restricted stock grants, respectively. That expense is expected to be recognized over a weighted-average period of 1.42 years. There were no options or restricted stock granted that were immediately vested during the fiscal years ended December 27, 2013, December 28, 2012 and December 30, 2011.

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



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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.

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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.

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 27, 2013, there were 92,473 shares available for issuance under the plan.

**10. DEBT OBLIGATIONS**

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

|  | <b>2013</b> | <b>2012</b>  |
|--|-------------|--------------|
| Outstanding borrowings on line of credit   | \$          | \$ 3,000,000 |
| 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 | 7,000       | 78,000       |
| Notes payable for insurance, 9 month term, bearing interest at 1.9%, payable in monthly principal and interest installments of \$28,000 through August 2014                      | 462,000     | 508,000      |
| Other  | 48,000      | 42,000       |
|  | 517,000     | 3,628,000    |
| Less current portion   | 517,000     | 3,628,000    |
| Debt obligations, less current portion   | \$          | \$           |

During fiscal year 2013, the Company had a revolving credit agreement with Wells Fargo Bank, N.A, which was entered into on December 23, 2011 and became effective as of January 1, 2012. Loans made under the revolving line of credit accrued interest at a floating rate of LIBOR plus 2.25%. The Company was also required to pay a 0.25% fee on unused commitments and customary fees on any letters of credit drawn under the facility. There were no outstanding borrowings under the Wells Fargo credit facility as of December 27, 2013 and the Company was in compliance with each of its covenants under the Wells Fargo credit agreement as of December 27, 2013.

The Wells Fargo revolving line of credit was scheduled to mature on April 1, 2014, but, on March 20, 2014, the Company reduced the size of the facility from \$5.0 million to \$75,905 and extended its maturity until June 1, 2014. The Company amended the Wells Fargo credit facility in connection with entering into a new credit facility with BMO.

The Company also has a \$7.5 million revolving credit agreement with BMO Harris Bank, N.A. ("BMO"), which was entered into on March 24, 2014 and became effective as of March 24, 2014. The Company has also financed, from time to time, insurance premiums by entering into unsecured notes payable with insurance companies. During the Company's annual insurance renewals in the fourth quarter of the fiscal year ended December 27, 2013, the Company elected to finance our insurance premiums for the upcoming fiscal year.



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**WILLDAN GROUP, INC. AND SUBSIDIARIES**

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

**Fiscal Years 2013, 2012 and 2011**

**10. DEBT OBLIGATIONS (Continued)**

The Company's credit agreement with BMO provides for a \$7.5 million revolving line of credit, including a \$5.0 million standby letter of credit sub-facility and a \$2.5 million secured term loan, and matures on March 24, 2016. Loans made under the revolving line of credit will accrue interest at either (i) a floating rate equal to 0.75% above the base rate in effect from time to time or (ii) a floating rate of 1.75% above LIBOR, with the interest rate to be selected by the Company.

Borrowings under the revolving line of credit are guaranteed by all of the Company's subsidiaries and secured by all of the Company's and the Guarantors' accounts receivable and other rights to payment, general intangibles, inventory and equipment. Pursuant to the credit agreement, the Company also must pay a fee of up to 0.3% 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) a maximum total leverage ratio, measured as total funded debt (measured as the sum of all obligations for borrowed money, including subordinated debt, plus all capital lease obligations) plus capital leases plus financial letters of credit divided by a trailing twelve month EBITDA, measured on a rolling basis) of not more than 2.00; (ii) a minimum fixed charge coverage ratio (measured as the sum of EBITDA plus rent expense less unfinanced capital expenditures divided by the sum of rent expense plus principal payments plus cash taxes plus cash interest plus restricted payments plus distributions) of not less than 1.25; and (iii) a minimum tangible net worth of at least 85% of actual tangible net worth for the last financial statements received prior to the closing date of the agreement, with step ups in an amount equal to 50% of net income (if positive) for each fiscal quarter ending thereafter (no add-back for losses).

The credit agreement also includes customary negative covenants, including (i) restrictions on the incurrence of additional indebtedness by us or the Guarantors other than indebtedness existing on the date of the credit agreement, (ii) restrictions on the total consideration for all permitted acquisitions (including potential future earn-out obligations) shall not exceed \$2.5 million during the term of the agreement and the total consideration for any individual permitted acquisition shall not exceed \$750,000 without BMO's consent, 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 may be increased by 2.0%, BMO has the option to make any loans then outstanding under the credit agreement immediately due and payable, and BMO is no longer obligated to extend further credit to the Company under the credit agreement.

Principal maturities on notes payable as of December 27, 2013 are as follows:

|              |            |
|--------------|------------|
| Fiscal year: |            |
| 2014         | \$ 517,000 |
|              | \$ 517,000 |

Table of Contents**WILLDAN GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Fiscal Years 2013, 2012 and 2011****11. COMMITMENTS***Leases*

The Company is obligated under capital leases for certain furniture and office equipment that expire at various dates through the year 2016.

The Company also leases certain office facilities under non-cancelable operating leases that expire at various dates through the year 2016 and is committed under non-cancelable operating leases for the lease of automobiles through the year 2014.

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

|   | <b>Capital</b> | <b>Operating</b> |
|---|----------------|------------------|
| Fiscal year:  |                |                  |
| 2014  | \$ 159,000     | \$ 2,848,000     |
| 2015  | 86,000         | 1,017,000        |
| 2016  | 24,000         | 124,000          |
| Thereafter  |                |                  |
| <br>  |                |                  |
| Total future minimum lease payments                                 | 269,000        | \$ 3,989,000     |
| <br>  |                |                  |
| Amount representing maintenance                                     | (48,000)       |                  |
| Amount representing interest (at rates ranging from 3.25% to 3.75%) | (7,000)        |                  |
| <br>  |                |                  |
| Present value of net minimum lease payments under capital leases    | 214,000        |                  |
| Less current portion  | 129,000        |                  |
| <br>  |                |                  |
|   | \$ 85,000      |                  |

During the fiscal year ended December 27, 2013, the Company moved certain offices to new locations and closed certain virtual offices. As a result of the office closures and relocations, the Company recorded lease abandonment expense, net, of \$30,000. This expense includes future rental obligations and other costs associated with the leased space net of the fair value of subleases.

Rent expense and related charges for common area maintenance for all facility operating leases for fiscal years 2013, 2012 and 2011 was approximately \$3,405,000, \$3,615,000 and \$3,627,000, respectively.

Table of Contents**WILLDAN GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Fiscal Years 2013, 2012 and 2011****11. COMMITMENTS (Continued)**

The following is a reconciliation of the liability for lease abandonment expense for fiscal years 2013 and 2012:

|  | Fiscal 2013 | Fiscal 2012 |
|--|-------------|-------------|
| Liability for abandoned leases as of the beginning of year   | \$ 162,000  | \$ 327,000  |
| Lease abandonment expense, net                               | 30,000      | 26,000      |
| Lease payments on abandoned leases, net of sublease payments | (189,000)   | (238,000)   |
| Other  | 119,000     | 47,000      |
| <br>   |             |             |
| Liability for abandoned leases as of the end of the year     | \$ 122,000  | \$ 162,000  |

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 \$507,000, \$248,000 and \$219,000 during fiscal years 2013, 2012 and 2011, 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. The Company's compensation committee of the board of directors determines the compensation of the president. Bonus expense for fiscal years 2013, 2012 and 2011 totaled approximately \$262,000, \$258,000 and \$1,602,000, respectively, of which approximately \$31,000 and \$52,000 is included in accrued liabilities at December 27, 2013 and December 28, 2012, 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. These benefits relate to past services provided to the Company. Accordingly, there is no unamortized compensation cost for the benefits.

Table of Contents**WILLDAN GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Fiscal Years 2013, 2012 and 2011****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, \$137,000 as of December 27, 2013 and \$143,000 as of December 28, 2012.

**12. INCOME TAXES**

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

|                                  | Fiscal Year |                |              |
|----------------------------------|-------------|----------------|--------------|
|                                  | 2013        | 2012           | 2011         |
| Current federal taxes (benefit)  | \$ 88,000   | \$ 88,000      | \$ (22,000)  |
| Current state taxes              | 44,000      | 77,000         | 58,000       |
| Deferred federal taxes (benefit) |             | (1,830,000)    | 1,064,000    |
| Deferred state taxes (benefit)   |             | (418,000)      | 400,000      |
|                                  | \$ 132,000  | \$ (2,083,000) | \$ 1,500,000 |

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 2013, 2012 and 2011 are as follows:

|   | 2013       | 2012           | 2011         |
|---|------------|----------------|--------------|
| Computed "expected" federal income tax expense (benefit)                        | \$ 940,000 | \$ (6,590,000) | \$ 1,132,000 |
| Permanent differences   | 93,000     | 93,000         | 88,000       |
| Current and deferred state income tax (benefit) expense, net of federal benefit | (19,000)   | (1,081,000)    | 302,000      |
| Change in valuation allowances on deferred tax assets                           | (897,000)  | 5,473,000      |              |
| Other   | 15,000     | 22,000         | (22,000)     |
|   | \$ 132,000 | \$ (2,083,000) | \$ 1,500,000 |

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## WILLDAN GROUP, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## Fiscal Years 2013, 2012 and 2011

## 12. INCOME TAXES (Continued)

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

|   | December 27,<br>2013 | December 28,<br>2012 | December 30,<br>2011 |
|---|----------------------|----------------------|----------------------|
| Current deferred tax assets:                      |                      |                      |                      |
| Accounts receivable allowance                     | \$ 156,000           | \$ 119,000           | \$ 171,000           |
| Other accrued liabilities                         | 764,000              | 866,000              | 895,000              |
|   | 920,000              | 985,000              | 1,066,000            |
| Valuation allowance                               | (483,000)            | (570,000)            |                      |
| Net deferred tax assets                           | 437,000              | 415,000              | 1,066,000            |
| Current deferred tax liabilities:                 |                      |                      |                      |
| Deferred revenue                                  | (4,125,000)          | (3,867,000)          | (8,353,000)          |
| Other   |                      |                      | (62,000)             |
|   | (4,125,000)          | (3,867,000)          | (8,415,000)          |
| Net current deferred tax liability                | \$ (3,688,000)       | \$ (3,452,000)       | \$ (7,349,000)       |
| Deferred tax assets, net of current portion:      |                      |                      |                      |
| Federal and state net operating losses            | \$ 3,157,000         | \$ 3,370,000         | \$ 5,680,000         |
| Intangible assets                                 | 4,571,000            | 4,962,000            |                      |
| Other   | 64,000               | 143,000              | 72,000               |
|   | 7,792,000            | 8,475,000            | 5,752,000            |
| Valuation allowance                               | (4,093,000)          | (4,903,000)          |                      |
| Net deferred tax assets                           | 3,699,000            | 3,572,000            | 5,752,000            |
| Deferred tax liabilities, net of current portion: |                      |                      |                      |
| Goodwill amortization                             |                      |                      | (460,000)            |
| Fixed assets                                      | (11,000)             | (67,000)             | (83,000)             |
| Other   | 0                    | (53,000)             | (109,000)            |



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|                                     |    |           |    |           |    |           |
|-------------------------------------|----|-----------|----|-----------|----|-----------|
| Net non-current deferred tax assets | \$ | 3,688,000 | \$ | 3,452,000 | \$ | 5,100,000 |
|-------------------------------------|----|-----------|----|-----------|----|-----------|

At December 27, 2013, the Company had federal and state operating loss carryovers of \$6.8 million and \$9.8 million, respectively. These carryovers expire through 2031 for federal and state income taxes.

The Company files income tax returns in the U.S. federal and various state jurisdictions. Management 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 2010 through 2013. The Company may also be subject to examination on certain state and local jurisdictions for the years 2009 through 2013.

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**WILLDAN GROUP, INC. AND SUBSIDIARIES**

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

**Fiscal Years 2013, 2012 and 2011**

**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, Willdan Infrastructure 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. Prior to December 30, 2011, 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. Segment information for the comparable prior year period has been restated to conform to the Company's current segment presentation of four operating segments. 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 in any of the three fiscal years ended December 27, 2013. 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 2013, 2012 and 2011

## 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 2013:</b>                           |                         |                                  |                               |                                  |                                |              |                       |
| Contract revenue                                   | \$ 35,217,000           | \$ 36,041,000                    | \$ 9,845,000                  | \$ 4,407,000                     | \$                             | \$           | \$ 85,510,000         |
| Depreciation and<br>amortization                   | 214,000                 | 223,000                          | 41,000                        | 39,000                           |                                |              | 517,000               |
| Interest (income) expense                          | (68,000)                | (25,000)                         | (3,000)                       | 2,000                            |                                |              | (94,000)              |
| Segment profit before<br>income tax expense        | 1,125,000               | 710,000                          | 535,000                       | 392,000                          |                                |              | 2,762,000             |
| Income tax expense                                 | 53,000                  | 45,000                           | 17,000                        | 17,000                           |                                |              | 132,000               |
| Net income   | 1,072,000               | 665,000                          | 518,000                       | 375,000                          |                                |              | 2,630,000             |
| Segment assets(1)                                  | 10,436,000              | 10,305,000                       | 3,528,000                     | 1,406,000                        | 35,692,000                     | (23,130,000) | 38,237,000            |
| <b>Fiscal Year 2012:</b>                           |                         |                                  |                               |                                  |                                |              |                       |
| Contract revenue                                   | \$ 34,026,000           | \$ 45,549,000                    | \$ 9,780,000                  | \$ 4,088,000                     | \$                             | \$           | \$ 93,443,000         |
| Depreciation and<br>amortization                   | 256,000                 | 262,000                          | 53,000                        | 100,000                          |                                |              | 671,000               |
| Interest expense (income)                          | 50,000                  | 52,000                           | 1,000                         | 3,000                            |                                |              | 106,000               |
| Segment (loss) profit before<br>income tax expense | (726,000)               | (19,314,000)                     | 930,000                       | (273,000)                        |                                |              | (19,383,000)          |
| Income tax (benefit)<br>expense                    | (115,000)               | (2,211,000)                      | 344,000                       | (101,000)                        |                                |              | (2,083,000)           |
| Net (loss) income                                  | (611,000)               | (17,103,000)                     | 586,000                       | (172,000)                        |                                |              | (17,300,000)          |
| Segment assets(1)                                  | 9,237,000               | 13,256,000                       | 3,411,000                     | 1,371,000                        | 37,831,000                     | (23,129,000) | 41,977,000            |
| <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 before<br>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            |

(1) Segment assets are presented net of intercompany receivables.

(2) The following sets forth the amounts included in the net loss that was Unallocated Corporate for fiscal years 2013, 2012 and 2011:

|                       | 2013 | 2012 | 2011         |
|-----------------------|------|------|--------------|
| Unallocated net loss: |      |      |              |
| Income tax benefit    | \$   | \$   | \$ 205,000   |
| Other                 |      |      | (600,000)    |
|                       | \$   | \$   | \$ (395,000) |



Table of Contents**WILLDAN GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Fiscal Years 2013, 2012 and 2011****13. SEGMENT INFORMATION (Continued)**

(3)

The following sets forth the assets that are included in Unallocated Corporate as of December 27, 2013, December 28, 2012 and December 30, 2011.

|  | 2013                  | 2012                  | 2011                  |
|--|-----------------------|-----------------------|-----------------------|
| <b>Assets:</b>                                       |                       |                       |                       |
| Cash and cash equivalents, including restricted cash | \$ 7,341,000          | \$ 9,881,000          | \$ 2,378,000          |
| Prepaid expenses                                     | 1,206,000             | 1,041,000             | 1,268,000             |
| Intercompany receivables                             | 114,800,000           | 113,615,000           | 117,937,000           |
| Other receivables                                    | 73,000                | 49,000                | 41,000                |
| Equipment and leasehold improvements, net            | 177,000               | 194,000               | 329,000               |
| Investments in subsidiaries                          | 23,130,000            | 23,130,000            | 23,130,000            |
| Other  | 3,765,000             | 3,536,000             | 5,194,000             |
|  | <b>\$ 150,492,000</b> | <b>\$ 151,446,000</b> | <b>\$ 150,277,000</b> |

**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.

Table of Contents**WILLDAN GROUP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Fiscal Years 2013, 2012 and 2011****15. SUBSEQUENT EVENTS**

The Company currently has a revolving credit agreement with BMO Harris Bank, N.A. ("BMO"), which was entered into on March 24, 2014 and became effective as of March 24, 2014. The credit agreement replaces the Company's prior credit facility with Wells Fargo Bank, N.A. See Note 10.

**16. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)**

The tables below reflect selected quarterly information for the fiscal years ended December 27, 2013 and December 28, 2012.

|                                      | Fiscal Three Months Ended               |                  |                       |                      |
|--------------------------------------|---|------------------|-----------------------|----------------------|
|                                      | March 29,<br>2013                       | June 28,<br>2013 | September 27,<br>2013 | December 27,<br>2013 |
|                                      | (in thousands except per share amounts) |                  |                       |                      |
| Contract revenue                     | \$ 21,385                               | \$ 20,496        | \$ 21,167             | \$ 22,462            |
| Income from operations               | 457                                     | 718              | 882                   | 551                  |
| Income tax expense (benefit)         | 49                                      | (8)              | 44                    | 47                   |
| Net income                           | 399                                     | 688              | 842                   | 701                  |
| Earnings per share:                  |   |                  |                       |                      |
| Basic                                | \$ 0.05                                 | \$ 0.09          | \$ 0.11               | \$ 0.10              |
| Diluted                              | \$ 0.05                                 | \$ 0.09          | \$ 0.11               | \$ 0.09              |
| Weighted-average shares outstanding: |   |                  |                       |                      |
| Basic                                | 7,335                                   | 7,353            | 7,359                 | 7,375                |
| Diluted                              | 7,382                                   | 7,401            | 7,526                 | 7,520                |

|                                      | Fiscal Three Months Ended               |                  |                       |                      |
|--------------------------------------|---|------------------|-----------------------|----------------------|
|                                      | March 30,<br>2012                       | June 29,<br>2012 | September 28,<br>2012 | December 28,<br>2012 |
|                                      | (in thousands except per share amounts) |                  |                       |                      |
| Contract revenue                     | \$ 25,468                               | \$ 23,481        | \$ 21,547             | \$ 22,947            |
| (Loss) income from operations        | (2,317)                                 | (19,583)         | 1,420                 | 1,225                |
| Income tax (benefit) expense         | (927)                                   | (2,657)          | 593                   | 908                  |
| Net (loss) income                    | (1,411)                                 | (16,976)         | 787                   | 300                  |
| (Loss) earnings per share:           |   |                  |                       |                      |
| Basic and diluted                    | \$ (0.19)                               | \$ (2.33)        | \$ 0.11               | \$ 0.04              |
| Weighted-average shares outstanding: |   |                  |                       |                      |
| Basic                                | 7,291                                   | 7,297            | 7,315                 | 7,335                |
| Diluted                              | 7,291                                   | 7,297            | 7,315                 | 7,343                |

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