

Willdan Group, Inc.
Form 10-K
March 31, 2015

Use these links to rapidly review the document

[TABLE OF CONTENTS](#)

[ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA](#)

[PART IV](#)

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 January 2, 2015.

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	14-1951112
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
2401 East Katella Avenue, Suite 300, Anaheim, California 92806	
(Address of principal executive offices) (Zip Code)	

(800) 424-9144
(Registrant's telephone number, including area code)

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

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

NASDAQ Global Market
(Name of exchange)

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

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

Edgar Filing: Willdan Group, Inc. - Form 10-K

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 \$39.0 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 30, 2015, 7,795,248 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 2015 Annual Meeting to be filed on or prior to 120 days after the end of our fiscal year.

Table of Contents

TABLE OF CONTENTS

	Page
<u>PART I</u>	
<u>ITEM 1. BUSINESS</u>	<u>1</u>
<u>ITEM 1A. RISK FACTORS</u>	<u>19</u>
<u>ITEM 1B. UNRESOLVED STAFF COMMENTS</u>	<u>31</u>
<u>ITEM 2. PROPERTIES</u>	<u>31</u>
<u>ITEM 3. LEGAL PROCEEDINGS</u>	<u>32</u>
<u>ITEM 4. MINE SAFETY DISCLOSURES</u>	<u>32</u>
<u>PART II</u>	
<u>ITEM 5. MARKET FOR THE REGISTRANT'S COMMON STOCK, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES</u>	<u>33</u>
<u>ITEM 6. SELECTED FINANCIAL DATA</u>	<u>34</u>
<u>ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	<u>36</u>
<u>ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	<u>50</u>
<u>ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA</u>	<u>51</u>
<u>ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE</u>	<u>52</u>
<u>ITEM 9A. CONTROLS AND PROCEDURES</u>	<u>52</u>
<u>ITEM 9B. OTHER INFORMATION</u>	<u>53</u>
<u>PART III</u>	
<u>ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT</u>	<u>54</u>
<u>ITEM 11. EXECUTIVE COMPENSATION</u>	<u>54</u>
<u>ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED SHAREHOLDER MATTERS</u>	<u>54</u>
<u>ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS</u>	<u>54</u>
<u>ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES</u>	<u>54</u>
<u>PART IV</u>	
<u>ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES</u>	<u>55</u>

Table of Contents

PART I

ITEM 1. BUSINESS

Overview

We are a provider of professional technical and consulting services to utilities, private industry, and public agencies at all levels of government. Nationwide, we enable our clients to realize cost and energy savings by providing a wide range of specialized services, including comprehensive energy efficiency solutions, 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:

Energy Efficiency and Sustainability;

Engineering and Planning;

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, Kansas, Oregon, Texas, Washington and Washington, DC. As of January 2, 2015, we had a staff of 637, 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, and projects for the private sector. 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 71% of the 482 cities and approximately 89% 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 primarily in California and New York. We also have business with utilities in Texas, Illinois, Ohio and Washington State.

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:

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 49% and 42% of our consolidated contract revenue for fiscal years 2014 and 2013, respectively.

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 38% and 41% of our overall consolidated contract revenue for fiscal years 2014 and 2013, 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

Table of Contents

agencies. Contract revenue for the Public Finance Services segment represented approximately 10% and 12% of our consolidated contract revenue for fiscal years 2014 and 2013, 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 3% and 5% of our consolidated contract revenue for fiscal years 2014 and 2013, respectively.

Our Markets

We provide energy efficiency, engineering and planning, 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:

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

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

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;

Demand by constituents for a wider variety of services;

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.

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, including audits, program design, benchmark analysis, metering and partnerships provides government agencies, utilities and private firms with the ability to realize long-term savings.

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.

Table of Contents

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 revenue is the primary source of public agency funding, certain states, including California, impose property tax and spending limits that curtail the generation of such 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 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. Such events place 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.

Our Services

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

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 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 January 2, 2015, we had approximately 1,909 open projects.

We offer services in four segments: Energy Efficiency Services, Engineering 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

Table of Contents

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		
	2014	2013	2012
Energy Efficiency Services	49%	42%	49%
Engineering Services	38%	41%	36%
Public Finance Services	10%	12%	11%
Homeland Security Services	3%	5%	4%

See Note 12 "Segment Information" for additional segment information.

Energy Efficiency Services

In fiscal year 2008, we acquired our subsidiary, Willdan Energy Solutions ("WES"), formerly known as Intergy. WES is an energy efficiency consulting firm that provides specialized, innovative, comprehensive energy solutions nationwide to businesses, utilities, state agencies, municipalities, and non-profit organizations. Our experienced engineers and staff help our clients realize cost and energy savings by tailoring efficient and cost-effective solutions to assist them in maximizing their energy spend. WES' energy efficiency services include comprehensive surveys, program design, master planning, benchmarking analysis, installation, alternative financing, and measurement and verification services.

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.

Program Design and Implementation. We assist utilities and governmental clients with the design, development and implementation of energy efficiency plans and programs. These plans include energy efficiency design, outreach implementation, water conservation, renewable, and Green House Gas ("GHG") reduction strategies.

Direct Customer Support. We assist clients (including utilities, schools and private companies) in developing and managing facilities and infrastructures through a holistic, practical approach to facility management. Our services cover audits, local compliance, operations and maintenance review, renewable energy planning, master plans, infrastructure analysis, Leadership in Energy and Environmental Design (LEED) certification for buildings, and energy spend and GHG reduction strategies.

Representative Projects. The following are examples of typical ongoing projects 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 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 initially operated the

Table of Contents

program in the Bronx, Brooklyn, and Queens areas and, in July 2014, we were awarded an expanded contract to add the Manhattan, Staten Island and Westchester County areas to our scope of services. In August 2014, we started a significant effort to reduce a load pocket (an area of intensive power use) in Brooklyn and Queens with a goal of achieving an electric demand reduction of 9 million watts by May 2015. In 2014, across the SBDI program, we achieved a reduction of 93 million kilowatt hours.

New York State Energy Research & Development Authority ("NYSERDA"). We serve as NYSERDA's Commercial and Industrial Outreach Contractor for its Existing Facilities Program, Flexible Technical Assistance Services Program, and Industrial and Process Efficiency Data Center Program. Additionally, WES is an Outreach Contractor for two joint initiatives that NYSERDA has with Consolidated Edison: the Demand Management Program and the Data Center Efficiency Program. As an Outreach Contractor, we provide targeted, statewide marketing and customer outreach services that include the performing market research, developing market partnerships, conducting direct outreach, calculating energy savings, and assisting with customer project development and implementation. Contract goals are set forth to successfully usher utility customer energy efficiency projects through the programs at a value of 510,000 megawatt-hours ("MWh"), 233,400 dekatherms ("Dth"), and 24.26 peak megawatts ("MW").

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 implementer for HEEP, which offers energy efficiency services for hospitals and healthcare-related 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. In 2014, these programs delivered total approximate energy savings of 24 million kWh, 1,717 kW, and 358,000 therms (1 Therm equals 100,000 BTU).

Southern California Edison ("SCE") and San Diego Gas & Electric ("SDG&E") Lodging Energy Efficiency Program ("LEEP"). We serve as the program implementer for LEEP, which provides customized energy-saving solutions for lodging facilities including full-service development, management, and implementation support of energy-savings projects. In 2014, the program delivered total approximate energy savings of 23 million kWh, 108,000 therms, and 3,400 kW of peak demand reduction.

Puget Sound Energy ("PSE") Direct Install Program. We serve as the program administrator for the 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, which exceeded contract goals. A new 2-year contract began in January 2014 with the express goal of delivering total approximate energy savings of 16 million kWh and 20,000 therms. We are currently ahead of this savings target, reporting 8.6 million kWh of energy savings in 2014 alone.

American Electric Power Ohio ("AEP Ohio") Data Center Efficiency Program. We implement AEP Ohio's Data Center Efficiency Program, which includes program design, energy efficiency consulting and engineering, and incentive processing. The program offers incentives to data center operators, owners and customers for making energy efficiency upgrades in their current facilities or implementing them in the construction of new facilities. We also create program literature, case studies, and marketing material specific to the data center industry in the central

Table of Contents

Ohio region. In 2014, we delivered over 14 million kWh in energy savings from nearly 50 projects for AEP Ohio. During the 2014 program year, Willdan, AEP Ohio and one program customer received the Uptime Institute's 2014 Brill award for Efficient IT, an international award selected from hundreds of entries.

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.

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.

Table of Contents

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 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.

Table of Contents

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 Orange, California. We have been retained to evaluate the County's Road Fee Programs to determine how land use changes affect the programs, how Construction Price Index rates have changed since the programs were established, and if changes or improvements are needed. Three Road Fee Programs - Santiago Canyon Improvements, South County Road Improvements, and Coastal Area Road and Traffic Signal Improvements - are involved in our evaluation. These fee programs were initiated to ensure timely construction of needed public infrastructure to match land development growth within the respective communities. Hundreds of millions of dollars are involved and the Board of Supervisors retained our services to ensure that adequate funding is available within the current fee structure. Our evaluation includes providing engineering feasibility studies for new improvements and reviewing costs of existing projects that are programmed but awaiting additional program fee collections to fund construction. We are also evaluating surplus program funds to determine potential methods of equitably distributing the surplus. Our Engineering Services and Public Finance Services segments are involved in the Road Fee Program evaluation.

City of Henderson. We were retained by the City to provide professional civil engineering plan review and staff augmentation services. The services include onsite assistance at the public counter, review of drainage studies and grading plans, review of offsite improvement plans; review of additional documents as requested by Public Works, meeting with applicants and the applicants' engineers to address review comments as requested by Public Works, and performing

Edgar Filing: Willdan Group, Inc. - Form 10-K

Table of Contents

site visits to observe site conditions as related to documents being reviewed. Document review will be conducted both onsite at the City of Henderson Public Works and offsite at our offices.

County of Mariposa, California. As part of a \$1.9 million contract with the County, we are providing project management, traffic staging, roadway and bridge engineering, utility coordination, and geotechnical engineering services to the County for replacement of Tip Top Road Bridge. This single-span, 21-foot long by 16-foot wide bridge was originally constructed in 1945 and has been classified as Functionally Obsolete by Caltrans. The new single-span, 25-foot long by 24-foot 10-inch wide replacement bridge will accommodate two lanes of traffic.

City of South Gate, California. We were selected to provide engineering services for roughly \$15.4 million of improvements to the Firestone Boulevard Regional Corridor from Alameda Street to Hunt Avenue, a project for which we secured \$15 million in funding. Funding is intended to convert the existing four-lane road to a six-lane road during peak hours to accommodate additional vehicle traffic created by improvements to Interstate 710 and to complete a gap of six-lane road on Firestone Boulevard. The project will be designed as a Complete Street and integrate with the City's general plan desire to create a themed, high-density urban corridor of walkable mixed-used development. To the maximum extent practical, the design will emphasize sustainability, including but not limited to, in pavement technologies, air quality, storm water treatment, water conservation, green-street technologies, and complete streets.

City of Winters, California. We were selected by the city of Winters to provide professional services to assist their staff in managing state and federally funded projects. In January 2015, the City approved a three-year contract to provide project management, including coordination with Caltrans Local Assistance, consultant selection and contract oversight, document preparation and review, funding programming, design, utility, right-of-way and construction phase coordination, and schedule and budget monitoring. The City has issued the first task order to assist with the bidding and award process for the Railroad Avenue and Dry Creek bridge replacement.

County of Sacramento, California. In January 2014, we were retained by the County of Sacramento with a three-year, \$2 million renewable contract to provide comprehensive planning services involving three main service areas: current planning, long-range and special projects, and environmental review. Currently, there are six full-time planners assigned to the County's Department of Community Development. In conjunction with this contract, we are preparing a draft environmental impact report for the Barrett Ranch East project: a proposed development consisting of mixed low- and medium-density residential homes, commercial shopping center and parks, and open spaces on the largest undeveloped property (128.1 acres) remaining within the Antelope community. In October 2014, we were additionally selected by the County for a four-year further contract to provide on-call improvement plan review, permit support, and land surveying services.

US Navy, California. We partnered with another firm for a design-build project to replace/repair 3.3 miles of sewer pipeline and 80 manholes within the Marine Corps Recruit Depot base facilities in San Diego. In this capacity, we were responsible for field survey, geotechnical investigation, CCTV investigation, design of sewer replacement/repair facilities and affected surface replacement, and submittals for approval prior to construction. Engineering during construction will also be provided. We again partnered with the firm to provide design and construction of the U.S. Navy's Naval Weapons Station Small Arms Range in Seal Beach. The range is comprised of two small-caliber ranges and three shotgun ranges. The design-build team will design and construct modifications to two small-caliber-gun ranges with a vertical baffling system and a wooden brow for bullet and bullet fragment containment. These upgrades involve installing new granular bullet traps, replacing vertical baffle systems, replacing sidewall

Table of Contents

protection systems, modifying concrete slab-on-grade, removing a timber divider wall, removing timber retaining wall, installing reinforced concrete retaining wall, replacing lighting, and relocating the target retrieval system. We are providing geotechnical engineering, foundation, retaining wall, structural baffles design; and hydrology/hydraulics services.

City of Davis, California. We are providing a full range of development review services including inspection and material testing for a 100 acre, mixed use subdivision. The project consists of two major phases with 6 smaller sub-phases within each major phase (12 phases total). We are tasked with attending client and developer coordination meetings; process reviews for grading plans, improvement plans, storm drain pump station, joint trench plans, agricultural water well (for landscape irrigation), off-site improvements, map reviews, bond estimates and other related services. The estimated cost of all public improvements is \$26 million.

Ridgecrest, California. We are under contract with the City of Ridgecrest to provide over \$0.5 million of design, bidding assistance, and construction engineering services for this federally-funded street reconstruction project on China Lake Boulevard a four-lane principal arterial street. Our services include utility notices and coordination, geotechnical investigation, environmental clearances, plans, specifications, and estimate preparation, bidding assistance, engineering support during project bidding and construction, and construction management, inspection, labor compliance, quality assurance materials testing, and federal funding administration.

City of Phoenix, Arizona. Following a competitive bid process, we were awarded two contracts with the City of Phoenix one for plan review and the other for inspection. Plan review services include building, plumbing, mechanical, electrical, energy, and fire code compliance for permit issuance purposes. Under the second contract, we will provide field inspections for building, mechanical, plumbing, electrical, energy, and fire code compliance for construction of new development with the City. Both contracts are multi-year contracts with the potential to capture \$1.5 million annually per discipline.

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 that 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, 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.

Table of Contents

The key to our District Administration services is our proprietary software package, MuniMagicSM: 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 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;

Fiscal and economic impact analysis;

Strategic economic development and redevelopment plans;

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

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

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;

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 750 issuers in 42 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:

Durango, Colorado. We worked with the City to develop a balanced long-term water and wastewater financial plan incorporating a combination of rate increases and debt issuances to fully fund the City's operations while minimizing rate impacts on the City's customers. One of the challenges facing the City is the need to upgrade the wastewater treatment plant in order to meet and maintain compliance with State wastewater treatment standards and to provide available capacity for new growth. The project cost for the upgrade is approximately \$50 million over 3 years.

Table of Contents

San Benito County, California. We were hired by the County of San Benito to provide professional consulting services specific to the replacement of its Enterprise Resource Planning system. We assisted the County with several project components including review of the draft contract, coordination with County staff to ensure that comprehensive functional and technical specifications were developed and added as a contract addendum. In addition, we are involved in the design the Chart of Accounts to facilitate employee time tracking, and internal/external financial reporting, including internal management reporting, monthly financial reporting, grant reporting, project accounting and Comprehensive Annual Financial Report preparation. Also, we interface with the software developer's project manager to resolve issues, develop the project task list and schedule, and monitor the work plan and project schedule.

Bay County, Florida. The County owns and operates a water and sewer system that provides wholesale water to eight municipal customers within the County, as well as to retail customers within the unincorporated communities. The County is in the process of issuing bonds to refund certain outstanding debt obligations and provide funding for system improvements. We are currently developing the financial feasibility report contained within the offering documents for the bonds.

Columbia, Missouri. In partnership with the City of Columbia, we are preparing a solid waste collection cost-of-service, benchmarking and rate Study. This multi-faceted project included observation of the City collection system and development of full cost rates for the City's landfill and Material Recovery Facility, as well as collection rates for residential, commercial dumpster, and commercial roll-off rates. Our tasks included the development of a utility rate model, which would serve as a long-term planning and decision-making tool as the City's solid waste system evolves over time.

Brighton, Colorado. We were hired by the City to prepare a comprehensive fee and rate study for utility services, including water, wastewater and storm drainage. Due to the increase in residential development over the past few decades, the Brighton community doubled in size causing water distribution and collection pipelines to triple. This relatively sudden increase in system growth diverted needed attention and resources away from the appropriate maintenance of the existing utility system components and focused City resources primarily on new installations and growth planning, which accelerated the need for the study and updated fees. Working with City staff, we identified and prioritized the utility system objectives and desired rate attributes, reviewed existing rates and made recommendations on refinements that effectively meet these goals. This information was used to develop a comprehensive multi-year capital financing analysis as well as rate policies that will guide the rate setting process.

Flagstaff, Arizona. Willdan was retained by the City, in second quarter of 2014, to conduct a comprehensive utility rate analyses for water, wastewater and reclaimed water rates, as well as connection/capacity fees. We had previously completed a similar analysis for the City in 2010. Willdan is currently working with the City to create a new comprehensive revenue sufficiency analysis and financial plan from the ground up, and design updated utility rates and fees that effectively meet previously identified project goals. Key issues being addressed include the equity of utility rates for customers inside the City, as compared with those outside the City, and ensuring that capacity fee and rates reflect the proper burden on new development. The project team is also actively involved in stakeholder meetings, which are necessary to gain political and community acceptance of the proposed rate structures by explaining the process and results at each key milestone of the project.

Table of Contents

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.

Table of Contents

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

New York State Mass Transit Authority Training Program ("NYS MTA"). For several years we have been contracted to develop and deliver NYS MTA's Phase III Advanced Security and Emergency Response training courses for NYS MTA employees. The NYS MTA is the largest public transportation provider in the western hemisphere, serving approximately 14.4 million people. The program covers several NYS MTA agencies and course development and includes topical material focused on Behavioral Recognition, Counter Terrorism, Evacuation, Emergency Command and Control, Critical Incident Management, Crisis Communications and Leadership. Phase III was successfully completed in fiscal year 2014 and work on NYS MTA's Phase IV preparedness training has been started.

Amtrak Security Exercise Program. In 2013, WHS was part of the Obsidian Analysis team that was 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 was 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. Successfully completed in fiscal year 2014, this contract adds to our expanding portfolio of professional transportation security services, which now includes work at the national level. Moreover, in 2014, Amtrak selected the Obsidian Analysis and Willdan team to provide the follow on training and exercise program in 2015.

Alameda County-Bay Area UASI Training Services. In 2014, WHS was awarded a three-year contract 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. Prior to this, from 2011 to 2014, 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. We expect that our training and exercise services will be used to prepare the Bay Area to host Super Bowl 50 in Levi Stadium in Santa Clara, CA.

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 71% of the cities and approximately 89% of the counties in California.

Table of Contents

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 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 36 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 2014, we served over 763 distinct clients. For fiscal year 2014, we had two clients, the Consolidated Edison Company of New York and the City of Elk Grove that accounted for 25% and 11%, 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 2014, services provided to clients in California accounted for approximately 57% of our contract revenue and services provided to clients in New York accounted for approximately 32% 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

Table of Contents

approximately \$39 million through 2015 and we are not guaranteed to receive any minimum amount of revenue.

Contract Structure

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

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

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

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	
	2014	2013
Time and materials	14%	29%
Unit based	43%	39%
Fixed price	42%	31%
Monthly retainer	1%	1%
Total	100%	100%

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.

Table of Contents

Competition

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

Doing business with governmental agencies is complex and requires the ability to comply with intricate regulations and satisfy periodic audits. We have been serving cities, counties, special districts and other public agencies for over 50 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 our Energy Efficiency Services segment competes primarily with Lockheed-Martin, EnerPath, KEMA (a division of the DNV Group) and Nexant, Inc. 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. 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 the following insurance coverage: commercial general liability with limits of \$1.0 million per occurrence and \$2.0 million general aggregate; automobile liability insurance with limits of \$1.0 million per occurrence; employer's liability with limits of \$1.0 million per occurrence. We also carry professional liability insurance with limits of \$5.0 million per claim and \$10.0 million annual aggregate and excess liability insurance with a limit of \$10.0 million. We are liable to pay these claims from our assets if and when the aggregate settlement or judgment amount exceeds our policy limits.

Table of Contents

Employees

At January 2, 2015, we had approximately 443 full-time employees and 194 part-time employees. All Public Agency Resources' employees are classified as part-time. Our employees include, among others, licensed civil, traffic and structural engineers, land surveyors, certified building officials, licensed geotechnical engineers and engineering geologists, certified inspectors and plans examiners, licensed architects and landscape architects, certified planners, and information technology specialists. We believe that we attract and retain highly skilled personnel with significant industry experience and strong client relationships by offering them challenging assignments in a stable work environment. We believe that our employee relations are good.

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

	As of Fiscal Year End		
	2014	2013	2012
Engineering Services	326	294	282
Energy Efficiency Services	204	142	135
Public Finance Services	58	53	51
Homeland Security Services	10	10	10
Holding Company Employees (Willdan Group, Inc.)	39	35	56
Total	637	534	534

At January 2, 2015, 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 servicemark 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 servicemarks 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 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

Table of Contents

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>.

ITEM 1A. RISK FACTORS

Risks Relating to Our Business and Industry

We operate in a changing environment that involves numerous known and unknown risks and uncertainties that could materially adversely affect our operations. Set forth below are descriptions of risks and uncertainties that could cause our actual results to differ materially from the results and expectations contained in this report. Additional risks we do not yet know of or that we currently think are immaterial may also affect our business operations. If any of the events or circumstances described in the following risks actually occurs, our business, financial condition or results of operations could be materially adversely affected.

If we fail to complete a project in a timely manner, miss a required performance standard, or otherwise fail to adequately perform on a project, then we may incur a loss on that project, which may reduce or eliminate our overall profitability.

Our engagements often involve large-scale, complex projects. The quality of our performance on such projects depends in large part upon our ability to manage the relationship with our clients and our ability to effectively manage the project and deploy appropriate resources, including third-party contractors and our own personnel, in a timely manner. We may commit to a client that we will complete a project by a scheduled date or that, when completed, a project will achieve specified performance standards. If the project is not completed by the scheduled date or fails to meet required performance standards, we may either incur significant additional costs or be held responsible for the costs incurred by the client to rectify damages due to late completion or failure to achieve the required performance standards. The uncertainty of the timing of a project can present difficulties in planning the amount of personnel needed for the project. If the project is delayed or canceled, we may bear the cost of an underutilized workforce that was dedicated to fulfilling the project. In addition, performance of projects can be affected by a number of factors beyond our control, including unavoidable delays from government inaction, public opposition, inability to obtain financing, weather conditions, unavailability of vendor materials, changes in the project scope of services requested by our clients, industrial accidents, environmental hazards, and labor disruptions. To the extent these events occur, the total costs of the project could exceed our estimates, and we could experience reduced profits or, in some cases, incur a loss on a project, which may reduce or eliminate our overall profitability. Further, any defects or errors, or failures to meet our clients' expectations, could result in claims for damages against us. Failure to meet performance standards or complete performance on a timely basis could also adversely affect our reputation.

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 2014, a portion of our contract revenue was generated by services rendered to public agencies in connection with private and public sector construction projects.

Table of Contents

In the recent past, 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 have improved from fiscal year 2010 through fiscal year 2014, the recovery has been slow with regard to our traditional engineering and public finance services segments. If the economy declines again, we will need to evaluate whether reductions in headcount and facilities in geographic areas that are underperforming are again needed.

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

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

Slow-growth or no-growth initiatives or legislation;

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

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

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

Changes in real estate tax rates and assessments;

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

Adverse changes in other governmental rules and fiscal policies; and

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

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

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

Adverse economic and other conditions affecting the local and regional economies of California and New York 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 2014, approximately 57% and 32% of our contract revenue was derived from services rendered to public agencies, utilities, and private industry in California and New York, respectively. California and New York each 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.

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

Edgar Filing: Willdan Group, Inc. - Form 10-K

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

Table of Contents

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.

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.

Each year, client funding for some of our government contracts may rely on government appropriations or public-supported financing. If adequate public funding is delayed or is not available, then our profits and revenue could decline.

Each year, client funding for some of our government contracts may directly or indirectly rely on government appropriations or public-supported financing. Legislatures may appropriate funds for a given project on a year-by-year basis, even though the project may take more than one year to perform. In addition, public-supported financing such as state and local municipal bonds may be only partially raised to support existing projects. Similarly, the impact of the economic downturn on state and local governments may make it more difficult for them to fund projects. In addition to the state of the economy and competing political priorities, public funds and the timing of payment of these funds may be influenced by, among other things, curtailments in the use of government contracting firms, increases in raw material costs, delays associated with insufficient numbers of government staff to oversee contracts, budget constraints, the timing and amount of tax receipts, and the overall level of government expenditures. If adequate public funding is not available or is delayed, then our profits and revenue could decline.

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.

Table of Contents

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.

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 25% of our consolidated contract revenue in fiscal year 2014 and 16% in fiscal year 2013. Prior to July 2012, this revenue primarily related to a contract we entered into in fiscal year 2009 with Consolidated 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 50% of our revenue in fiscal year 2014. 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.

Our actual business and financial results could differ from the estimates and assumptions that we use to prepare our financial statements, which may significantly reduce or eliminate our profits.

To prepare financial statements in conformity with generally accepted accounting principles in the United States of America ("GAAP"), management is required to make estimates and assumptions as of the date of the financial statements. These estimates and assumptions affect the reported values of assets, liabilities, revenue and expenses, as well as disclosures of contingent assets and liabilities. For example, we typically recognize revenue of our fixed price contracts over the life of a contract based on the proportion of costs incurred to date compared to the total costs estimated to be incurred for the entire project. Areas requiring significant estimates by our management include:

the application of the percentage-of-completion method of accounting and revenue recognition on contracts, change orders, and contract claims, including related unbilled accounts receivable;

unbilled accounts receivable, including amounts related to requests for equitable adjustment to contracts that provide for price redetermination, primarily with the U.S. federal government. These amounts are recorded only when they can be reliably estimated and realization is probable;

provisions for uncollectible receivables, client claims, and recoveries of costs from subcontractors, vendors, and others;

provisions for income taxes, valuation allowances, and unrecognized tax benefits;

value of goodwill and recoverability of other intangible assets;

valuations of assets acquired and liabilities assumed in connection with business combinations;

valuation of contingent earn-out liabilities recorded in connection with business combinations;

valuation of stock-based compensation expense; and

Table of Contents

accruals for estimated liabilities, including litigation and insurance reserves.

Our actual business and financial results could differ from those estimates, which may significantly reduce or eliminate our profits.

Our profitability could suffer if we are not able to maintain adequate utilization of our workforce.

The cost of providing our services, including the extent to which we utilize our workforce, affects our profitability. The rate at which we utilize our workforce is affected by a number of factors, including:

our ability to transition employees from completed projects to new assignments and to hire and assimilate new employees;

our ability to forecast demand for our services and thereby maintain an appropriate headcount in each of our geographies and workforces;

our ability to manage attrition;

our need to devote time and resources to training, business development, professional development, and other non-chargeable activities; and

our ability to match the skill sets of our employees to the needs of the marketplace.

If we over-utilize our workforce, our employees may become disengaged, which could impact employee attrition. If we under-utilize our workforce, our profit margin and profitability could suffer.

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 2014, approximately 57% 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. Kempton*). The California Supreme Court ruled in favor of Caltrans, concluding that Caltrans may hire private contractors to

Table of Contents

perform architectural and engineering services on public works. Although Caltrans was successful in this litigation, similar claims may be brought in the future and we cannot predict their outcome. If a state or other public employee union is successful in its challenge and as a result the ability of state agencies to hire private firms is severely limited, such a decision would likely lead to additional litigation challenging the ability of the state, counties, municipalities and other public agencies to hire private engineering, architectural and other firms, the outcome of which could affect our ability to compete for contracts and may have an adverse effect on our revenue and profitability.

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

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

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

In fiscal year 2014, approximately 42% 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.

Our use of the percentage-of-completion method of revenue recognition on our fixed price contracts could result in a reduction or reversal of previously recorded revenue and profits.

We account for our fixed price contracts on the percentage-of-completion method of revenue recognition. Generally, our use of this method results in recognition of revenue and profit ratably over the life of the contract, based on the proportion of costs incurred to date to total costs expected to be incurred for the entire project. The effects of revisions to revenue and estimated costs, including the achievement of award fees and the impact of change orders and claims, are recorded when the amounts are known and can be reasonably estimated. Such revisions could occur in any period and their effects could be material. Although we have historically made reasonably reliable estimates of the progress towards completion of long-term contracts, the uncertainties inherent in the estimating process make it possible for actual costs to vary materially from estimates, including reductions or reversals of previously recorded revenue and profit.

Table of Contents

We have made and expect to continue to make acquisitions that could disrupt our operations and adversely impact our business and operating results. Our failure to conduct due diligence effectively, or our inability to successfully integrate acquisitions, could impede us from realizing all of the benefits of the acquisitions, which could weaken our results of operations.

A key part of our growth strategy, as shown by our January 2015 acquisitions discussed below under "Management's Discussion and Analysis of Financial Condition and Results of Operations Recent Developments," is to acquire other companies that complement our lines of business or that broaden our technical capabilities and geographic presence. We may continue to acquire companies as an element of our growth strategy; however, our ability to make acquisitions is restricted under our amended credit agreement. Acquisitions involve certain known and unknown risks that could cause our actual growth or operating results to differ from our expectations or the expectations of securities analysts. For example:

we may not be able to identify suitable acquisition candidates or to acquire additional companies on acceptable terms;

we compete with others to acquire companies, which may result in decreased availability of, or increased price for, suitable acquisition candidates;

we may not be able to obtain the necessary financing, on favorable terms or at all, to finance any of our potential acquisitions;

we may ultimately fail to consummate an acquisition even if we announce that we plan to acquire a company; and

acquired companies may not perform as we expect, and we may fail to realize anticipated revenue and profits.

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

If we fail to conduct due diligence on our potential targets effectively, we may, for example, not identify problems at target companies, or fail to recognize incompatibilities or other obstacles to successful integration. Our inability to successfully integrate future acquisitions could impede us from realizing all of the benefits of those acquisitions and could severely weaken our business operations. The integration process may disrupt our business and, if implemented ineffectively, may preclude realization of the full benefits expected by us and could harm our results of operations. In addition, the overall integration of the combining companies may result in unanticipated problems, expenses, liabilities, and competitive responses, and may cause our stock price to decline. The difficulties of integrating an acquisition include, among others:

issues in integrating information, communications, and other systems;

incompatibility of logistics, marketing, and administration methods;

maintaining employee morale and retaining key employees;

integrating the business cultures of both companies;

preserving important strategic client relationships;

consolidating corporate and administrative infrastructures, and eliminating duplicative operations; and

coordinating and integrating geographically separate organizations.

Table of Contents

Even if the operations of an acquisition are integrated successfully, we may not realize the full benefits of the acquisition, including the synergies, cost savings or growth opportunities that we expect. These benefits may not be achieved within the anticipated time frame, or at all.

Further, acquisitions may cause us to:

issue common stock that would dilute our current stockholders' ownership percentage;

use a substantial portion of our cash resources;

increase our interest expense, leverage, and debt service requirements (if we incur additional debt to pay for an acquisition);

assume liabilities, including environmental liabilities, for which we do not have indemnification from the former owners. Further, indemnification obligations may be subject to dispute or concerns regarding the creditworthiness of the former owners;

record goodwill and non-amortizable intangible assets that are subject to impairment testing and potential impairment charges;

experience volatility in earnings due to changes in contingent consideration related to acquisition earn-out liability estimates;

incur amortization expenses related to certain intangible assets;

lose existing or potential contracts as a result of conflict of interest issues;

incur large and immediate write-offs; or

become subject to litigation.

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

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

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

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

Table of Contents

The loss of key personnel or our inability to attract and retain qualified personnel could impair our ability to provide services to our clients and otherwise conduct our business effectively.

As primarily a professional and technical services company, we are labor-intensive and, therefore, our ability to attract, retain, and expand our senior management and our professional and technical staff is an important factor in determining our future success. The market for qualified engineers is competitive and, from time to time, it may be difficult to attract and retain qualified individuals with the required expertise within the timeframe demanded by our clients. In addition, we rely heavily upon the expertise and leadership of our senior management. If we are unable to retain executives and other key personnel, the roles and responsibilities of those employees will need to be filled, which may require that we devote time and resources to identify, hire, and integrate new employees. The loss of the services of any of these key personnel could adversely affect our business. We do not maintain key-man life insurance policies on any of our executive officers or senior managers. Our failure to attract and retain key individuals could impair our ability to provide services to our clients and conduct our business effectively.

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

The market for energy efficiency, engineering and planning, 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 energy efficiency and sustainability consulting services, which represented approximately 49% and 42% of our contract revenue for fiscal years 2014 and 2013, respectively, competes with larger energy efficiency consulting firms such as Lockheed-Martin, EnerPath, KEMA (a division of the DNV Group) and Nexant, Inc. Our competitors for engineering related services, which represented approximately 38% and 41% of our contract revenue for fiscal years 2014 and 2013, 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. 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 the following insurance coverage: commercial general liability with limits of \$1.0 million per occurrence and \$2.0 million general aggregate; automobile liability insurance with limits of \$1.0 million per occurrence; employer's liability with limits of \$1.0 million per occurrence. We also carry professional liability insurance with limits of \$5.0 million per claim and \$10.0 million annual aggregate and excess liability insurance with a limit of \$10.0 million. We are liable to pay these claims from our assets if and when the aggregate settlement or judgment amount exceeds our policy 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

Table of Contents

claims are based on events or acts that occurred during the term of the policy. Further, our insurance may not protect us against liability because our policies typically have various exceptions to the claims covered and also require us to assume some costs of the claim even though a portion of the claim may be covered. In addition, if we expand into new markets, we may not be able to obtain insurance coverage for these new activities or, if insurance is obtained, the dollar amount of any liabilities incurred could exceed our insurance coverage. A partially or completely uninsured claim, if successful and of significant magnitude, could have a material adverse effect on our liquidity.

We 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 33% of our contract revenue in fiscal year 2014. 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.

If our contractors and subcontractors fail to satisfy their obligations to us or other parties, or if we are unable to maintain these relationships, our revenue, profitability, and growth prospects could be adversely affected.

We depend on contractors and subcontractors in conducting our business. There is a risk that we may have disputes with our subcontractors arising from, among other things, the quality and timeliness of work performed by the subcontractor, client concerns about the subcontractor, or our failure to extend existing task orders or issue new task orders under a subcontract. In addition, if a subcontractor fails to deliver on a timely basis the agreed-upon supplies, fails to perform the agreed-upon services, or goes out of business, then we may be required to purchase the services or supplies from another source at a higher price, and our ability to fulfill our obligations as a prime contractor may be jeopardized. This may reduce the profit to be realized or result in a loss on a project for which the services or supplies are needed.

We also rely on relationships with other contractors when we act as their subcontractor or joint venture partner. The absence of qualified subcontractors with which we have a satisfactory relationship could adversely affect the quality of our service and our ability to perform under some of our contracts. Our future revenue and growth prospects could be adversely affected if other contractors eliminate or reduce their subcontracts or teaming arrangement relationships with us, or if a government agency terminates or reduces these other contractors' programs, does not award them new contracts, or refuses to pay under a contract.

If our reports and opinions are not in compliance with professional standards and other regulations, we could be subject to monetary damages and penalties.

We issue reports and opinions to clients based on our professional engineering expertise, as well as our other professional credentials. Our reports and opinions may need to comply with professional standards, licensing requirements, securities regulations, and other laws and rules governing the performance of professional services in the jurisdiction in which the services are performed. In addition, we could be liable to third parties who use or rely upon our reports or opinions even if we are not contractually bound to those third parties. For example, if we deliver an inaccurate report or

Table of Contents

one that is not in compliance with the relevant standards, and that report is made available to a third party, we could be subject to third-party liability, resulting in monetary damages and penalties.

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.

Changes in resource management, environmental, or infrastructure industry laws, regulations, and programs could directly or indirectly reduce the demand for our services, which could in turn negatively impact our revenue.

Some of our services are directly or indirectly impacted by changes in U.S. federal, state, local or foreign laws and regulations pertaining to the resource management, environmental, and infrastructure industries. Accordingly, a relaxation or repeal of these laws and regulations, or changes in governmental policies regarding the funding, implementation or enforcement of these programs, could result in a decline in demand for our services, which could in turn negatively impact our revenue.

Force majeure events, including natural disasters and terrorist actions, could negatively impact the economies in which we operate or disrupt our operations, which may affect our financial condition, results of operations, or cash flows.

Force majeure or extraordinary events beyond the control of the contracting parties, such as natural and man-made disasters, as well as terrorist actions, could negatively impact the economies in which we operate by causing the closure of offices, interrupting projects, and forcing the relocation of employees. We typically remain obligated to perform our services after a terrorist action or natural disaster unless the contract contains a force majeure clause that relieves us of our contractual obligations in such an extraordinary event. If we are not able to react quickly to force majeure, our operations may be affected significantly, which would have a negative impact on our financial condition, results of operations, or cash flows.

We have only a limited ability to protect our intellectual property rights, and our failure to protect our intellectual property rights could adversely affect our competitive position.

Our success depends, in part, upon our ability to protect our proprietary information and other intellectual property. We rely principally on trade secrets to protect much of our intellectual property where we do not believe that patent or copyright protection is appropriate or obtainable. However, trade secrets are difficult to protect. Although our employees are subject to confidentiality obligations, this protection may be inadequate to deter or prevent misappropriation of our confidential information. In addition, we may be unable to detect unauthorized use of our intellectual property or otherwise take appropriate steps to enforce our rights. Failure to obtain or maintain trade secret protection could adversely affect our competitive business position. In addition, if we are unable to prevent third parties from infringing or misappropriating our trademarks or other proprietary information, our competitive position could be adversely affected.

Systems and information technology interruption could adversely impact our ability to operate.

We rely heavily on computer, information, and communications technology and systems to operate. From time to time, we experience system interruptions and delays. If we are unable to effectively deploy software and hardware, upgrade our systems and network infrastructure, and take steps to improve and protect our systems, systems operations could be interrupted or delayed.

Table of Contents

Our computer and communications systems and operations could be damaged or interrupted by natural disasters, telecommunications failures, acts of war or terrorism, and similar events or disruptions. In addition, we face the threat of unauthorized system access, computer hackers, computer viruses, malicious code, organized cyber-attacks, and other security breaches and system disruptions. We devote significant resources to the security of our computer systems, but they may still be vulnerable to threats. Anyone who circumvents security measures could misappropriate proprietary information or cause interruptions or malfunctions in system operations. As a result, we may be required to expend significant resources to protect against the threat of system disruptions and security breaches, or to alleviate problems caused by disruptions and breaches.

Any of these or other events could cause system interruption, delays, and loss of critical data that could delay or prevent operations, and could have a material adverse effect on our business, financial condition, results of operations, and cash flows, and could negatively impact our clients.

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 January 2, 2015, the price of our stock ranged from a high of \$18.42 per share to a low of \$4.44 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 23, 2015, our directors and executive officers beneficially own 1,035,375 shares of common stock, or approximately 14.88% 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

Table of Contents

Wedbush Inc., beneficially own 1,066,074 and 1,052,184 shares of common stock, respectively, of our outstanding common stock.

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:

Ability to achieve energy savings goals on our contracts;

Expectations about future customers;

Expectations regarding the industries and geographies that we primarily serve, including the impact of economic conditions in those industries and geographies;

Ability to successfully integrate our recent acquisitions;

Expectations about our 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 and retain executive officers and key employees;

Expectations about the impact of legislation on our business and that of our customers;

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

Edgar Filing: Willdan Group, Inc. - Form 10-K

Our corporate headquarters are located in approximately 18,000 square feet of office space that we lease at 2401 East Katella Avenue, Anaheim, California. In addition, we lease office space in 26 other locations nationwide, principally in California and New York. In total, our facilities contain approximately 121,000 square feet of office space and are subject to leases that expire through February 2020. 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.

Table of Contents

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 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.

City of Glendale v. Willdan Financial Services, Superior Court of California, Los Angeles County

A complaint was filed against us on July 16, 2014 relating to a project performed by Willdan Financial Services to prepare a Cost of Services Analysis (a "COSA") for the Department of Water and Power of the City of Glendale, California (the "City of Glendale"). The purpose of the COSA was to assist the City of Glendale in setting water rates for property owners. The lawsuit alleges that the City of Glendale suffered damages due to mistakes in the COSA, as follows: the City of Glendale received less revenue than anticipated in an amount exceeding \$9,000,000; the City of Glendale was required to retain another consultant to prepare a new COSA at the cost of \$130,000; and the City of Glendale incurred costs associated with noticing and conducting public hearings at a cost of \$83,052. We deny the allegations asserted in the lawsuit and will vigorously defend against the claims. Additionally, this matter is covered by our professional liability insurance policy.

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 2014 and 2013. These reported prices reflect inter-dealer prices without adjustments for retail markups, markdowns, or commissions.

	2014		2013	
	High	Low	High	Low
1st Quarter	\$ 5.31	\$ 4.44	\$ 2.30	\$ 2.01
2 nd Quarter	\$ 8.31	\$ 4.45	\$ 3.70	\$ 2.18
3 rd Quarter	\$ 13.82	\$ 7.34	\$ 3.75	\$ 2.76
4 th Quarter	\$ 18.42	\$ 10.80	\$ 5.50	\$ 3.53

On March 16, 2015, the closing sales price per share of our common stock, as reported on the Nasdaq Global Market, was \$13.99.

Stockholders

As of March 16, 2015, there were 138 stockholders of record of our common stock.

Dividends

We did not declare or pay cash dividends on our common stock in fiscal years 2014 and 2013. 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

On January 15, 2015, in connection with our acquisition of Abacus Resource Management Company ("Abacus"), we issued 75,758 shares of common stock (the "Abacus Stock Issuance") to the selling shareholders of Abacus with an agreed upon value of \$1 million (based on the volume-weighted average price of shares of common stock for the ten trading days immediately prior to, but not including, January 15, 2015). Specifically, we issued 37,879 shares of common stock to Mr. Kinzer and 37,879 shares of common stock to Mr. Rubbert.

On January 15, 2015, in connection with our acquisition of 360 Energy Engineers, LLC ("360 Energy"), we issued 47,348 shares of common stock (the "360 Energy Stock Issuance") to 360 Energy with an agreed upon value of \$525,000 (based on the volume-weighted average price of shares of common stock for the ten trading days immediately prior to, but not including, January 15, 2015).

The issuances of common stock in the Abacus Stock Issuance and the 360 Energy Stock Issuance were not registered under the Securities Act of 1933, as amended (the "Securities Act"). Such shares were issued in a private placement exempt from the registration requirements of the Securities Act, in reliance on the exemptions set forth in Section 4(a)(2) of the Securities Act.

Issuer Purchases of Equity Securities

None.

Table of Contents**ITEM 6. SELECTED FINANCIAL DATA**

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									
	2014		2013		2012		2011		2010	
	(in thousands except per share amounts)									
Consolidated Statement of Operations Data:										
Contract revenue	\$	108,080	\$	85,510	\$	93,443	\$	107,165	\$	77,896
Direct costs of contract revenue (exclusive of depreciation and amortization shown separately below):										
Salaries and wages		28,207		24,098		23,218		25,714		21,607
Subcontractor services and other direct costs		35,611		24,831		35,741		39,013		20,415
Total direct costs of contract revenue		63,818		48,929		58,959		64,727		42,022
General and administrative expenses:										
Salaries and wages, payroll taxes, employee benefits		21,394		20,555		22,421		22,594		17,582
Facilities and facility related		4,371		4,654		4,871		4,875		4,290
Stock-based compensation		258		150		227		201		235
Depreciation and amortization		459		517		671		877		1,042
Lease abandonment (recovery), net		9		30		26		2		(68)
Impairment of goodwill						15,208				
Other		9,462		8,067		10,315		10,488		9,719
Total general and administrative expenses		35,953		33,973		53,739		39,037		32,800
Income (loss) from operations		8,309		2,608		(19,255)		3,401		3,074
Other income (expense):										
Interest income		8		10		6		5		12
Interest expense		(16)		(94)		(106)		(77)		(54)
Other, net		125		238		(28)		1		32
Total other income (expense), net		117		154		(128)		(71)		(10)
Income (loss) before income tax expense		8,426		2,762		(19,383)		3,330		3,064
Income tax (benefit) expense		(990)		132		(2,083)		1,500		344
Net income (loss)	\$	9,416	\$	2,630	\$	(17,300)	\$	1,830	\$	2,720
Earnings (loss) per common share:										
Basic	\$	1.26	\$	0.36	\$	(2.37)	\$	0.25	\$	0.38
Diluted	\$	1.22	\$	0.35	\$	(2.37)	\$	0.24	\$	0.37

Edgar Filing: Willdan Group, Inc. - Form 10-K

Weighted average common shares outstanding:

Basic	7,488	7,355	7,310	7,262	7,233
Diluted	7,739	7,495	7,310	7,485	7,311

Other Operating Data (unaudited):

Adjusted EBITDA(1)	\$	8,913	\$	3,455	\$	(3,294)	\$	4,350	\$	4,074
Employee headcount at period end(2)		637		534		534		562		540

34

Table of Contents

	Fiscal Year Ended				
	January 2, 2015	December 27, 2013	December 28, 2012	December 30, 2011	December 31, 2010
Consolidated Balance Sheet Data:					
Cash and cash equivalents	\$ 20,371	\$ 8,134	\$ 10,006	\$ 3,001	\$ 6,642
Working capital	24,406	15,706	13,099	13,083	18,060
Total assets	54,659	38,237	41,977	64,311	49,454
Total indebtedness	985	731	3,904	1,232	1,490
Total stockholders' equity	30,413	20,213	17,351	34,293	32,162

(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 interest expense (income), income tax expense (benefit), lease abandonment expense (recovery), goodwill impairment, depreciation and amortization, and loss (gain) on sale of assets. 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				
	2014	2013	2012	2011	2010
Net income (loss)	\$ 9,416	\$ 2,630	\$ (17,300)	\$ 1,830	\$ 2,720
Interest income	(8)	(10)	(6)	(5)	(12)
Interest expense	16	94	106	77	54
Income tax (benefit) expense	(990)	132	(2,083)	1,500	344
Lease abandonment expense (recovery)	9	13	26	2	(68)
Impairment of goodwill			15,208		
Depreciation and amortization	459	585	737	944	1,053
Loss (gain) on sale of assets	11	(6)	18	2	(17)
Adjusted EBITDA	\$ 8,913	\$ 3,455	\$ (3,294)	\$ 4,350	\$ 4,074

(2)

Includes full-time and part-time employees.

Table of Contents

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 utilities, private industry, and public agencies at all levels of government. Nationwide, we enable our clients to realize cost and energy savings by providing a wide range of specialized services, including comprehensive energy efficiency solutions, 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:

Energy Efficiency and Sustainability;

Engineering and Planning;

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 January 2, 2015 we had a staff of 637 which includes licensed engineers and other professionals. Since fiscal 2008, we have been providing 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. 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. 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 71% of the 482 cities and approximately 89% 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 also have business with utilities in Texas, Illinois, Ohio and Washington State.

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:

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 49% and 42% of our consolidated contract revenue for fiscal years 2014 and 2013, respectively.

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 38% and 41% of our overall consolidated contract revenue for fiscal years 2014 and 2013, 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

Table of Contents

public agencies. Contract revenue for the Public Finance Services segment represented approximately 10% and 12% of our consolidated contract revenue for fiscal years 2014 and 2013, 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 3% and 5% of our consolidated contract revenue for fiscal years 2014 and 2013, respectively.

While we were profitable in fiscal year 2014 and fiscal year 2013, our profitability in fiscal year 2012 was severely impacted by a goodwill impairment charge related to a prior acquisition.

Recent Developments

Acquisitions. On January 15, 2015, we completed two separate acquisitions. Through our wholly-owned subsidiary, Willdan Energy Solutions ("WES"), we acquired all of the outstanding shares of Abacus Resource Management Company ("Abacus"), an Oregon-based energy engineering company. In addition, we, through our wholly-owned subsidiary WES, also acquired substantially all of the assets of 360 Energy Engineers, LLC ("360 Energy"), a Kansas-based energy and engineering energy management consulting company.

Pursuant to the terms of the Stock Purchase Agreement, dated as of January 15, 2015 (the "Abacus Agreement"), by and among us, WES, Abacus and Mark Kinzer and Steve Rubbert (the "Abacus Shareholders"), WES will pay the Abacus Shareholders a maximum purchase price of \$6,150,000, consisting of (i) \$2,500,000 in cash paid at closing (subject to certain post-closing adjustments), (ii) 75,758 shares of Common Stock, par value \$0.01 per share, of the Company ("Common Stock") equaling \$1,000,000 based on the volume-weighted average price of shares of the Common Stock for the ten trading days immediately prior to, but not including, the closing date of the Abacus Acquisition, (iii) \$1,250,000 aggregate principal amount of promissory notes issued to the Abacus Shareholders (collectively, the "Abacus Notes") and (iv) up to \$1,400,000 in cash, payable at the end of the Company's and WES's 2015 and 2016 fiscal years, if certain financial targets of Abacus are met during such fiscal years. The Abacus Notes were issued in an initial outstanding principal amount of \$625,000 to each of the Abacus Shareholders. The Abacus Notes provide for a fixed interest rate of 4% per annum and are fully amortizing and payable in equal monthly installments between January 15, 2015 and their January 15, 2017 maturity date. The Abacus Notes contain events of default provisions customary for documents of their nature.

Pursuant to the terms of the Asset Purchase Agreement, dated as of January 15, 2015 (the "360 Energy Agreement"), by and among us, WES and 360 Energy, WES will pay 360 Energy a maximum purchase price of \$15,000,000, consisting of (i) \$4,875,000 in cash paid at closing, (ii) 47,348 shares of Common Stock equaling \$625,000 based on the volume-weighted average price of shares of the Common Stock for the ten trading days immediately prior to, but not including, the closing date of the 360 Energy Acquisition, (iii) \$3,000,000 aggregate principal amount of promissory note issued to 360 Energy (the "360 Energy Note" and, together with the Abacus Notes, the "Notes") and (iv) up to \$6,500,000 in cash, payable at the end of the Company's and WES's 2015, 2016 and 2017 fiscal years, if certain financial targets of WES's division made up of the assets acquired from, and former employees of, 360 Energy are met during such fiscal years. The 360 Energy Note was issued in an initial outstanding principal amount of \$3,000,000. The 360 Energy Note provides for a fixed interest rate of 4% per annum and is fully amortizing and payable in equal monthly installments between January 15, 2015 and their January 15, 2018 maturity date. The 360 Energy Note contains events of default provisions customary for documents of its nature. We also provided a guaranty to 360 Energy which guarantees WES's obligations under the promissory note issued to 360 Energy.

Table of Contents

To finance the acquisitions of Abacus and 360 Energy, we borrowed \$2,000,000 under our delayed draw term loan facility and used cash on hand to pay the remaining \$5,375,000.

Amended Credit Facility. On January 14, 2015, we and our subsidiaries, as guarantors, entered into the Second Amendment (the "Second Amendment") to the Credit Agreement (as amended, the "BMO Credit Agreement"), dated as of March 24, 2014, by and between us, the guarantors listed therein and BMO Harris Bank National Association ("BMO Harris"). The BMO Credit Agreement governs our credit facility that includes a revolving line of credit and a delayed draw term loan facility.

The Second Amendment revised the BMO Credit Agreement to, among other things, permit the acquisitions of Abacus and 360 Energy, the incurrence of the Notes and the 360 Energy Guaranty issued in connection with the acquisitions of Abacus and 360 Energy and to add Abacus as a guarantor under the BMO Credit Agreement upon the closing of the acquisition of Abacus.

The Second Amendment also increased the amount available to us for borrowing under the delayed draw term loan facility from \$2,500,000 to \$3,000,000. In addition, the Second Amendment increased the interest rate under the delayed draw term loan facility by 25 basis points. Giving effect to the Second Amendment, borrowings under the delayed draw term loan facility will now bear interest, at our option, at (a) the base rate plus an applicable margin ranging between 1.25% and 1.75%, or (b) the LIBOR rate plus an applicable margin ranging between 2.25% and 2.75%. Borrowings under the revolving line of credit will continue to bear interest, at our option, at (a) the base rate plus an applicable margin ranging between 0.75% and 1.25%, or (b) the LIBOR rate plus an applicable margin ranging between 1.75% and 2.25%. The applicable margin is determined based on our total leverage ratio.

The Second Amendment also revised some of the covenants in the BMO Credit Agreement. As a result of the Second Amendment, we must maintain (A) a maximum total leverage ratio of not more than 2.25 for the first four fiscal quarters after the acquisitions of Abacus and 360 Energy, and not more than 2.0 thereafter and (B) a minimum tangible net worth of at least (x) the greater of (1) \$5.0 million and (2) 85% of our actual tangible net worth as of March 31, 2015, plus (y) an amount equal to 50% of net income for the first fiscal quarter of 2015, and 50% of net income (only if positive) for each fiscal quarter ending thereafter, plus or minus (z) 80% of any adjustments to our tangible net worth arising as a result of the consummation of the acquisitions of Abacus and 360 Energy. The limit on the total consideration allowed for all permitted acquisitions (including potential future earn-out obligations) during the term of the BMO Credit Agreement was also reduced from \$2.5 million to \$1.5 million. In addition, the conditions required to extend the maturity date of the credit facility by one year to March 24, 2017 were amended to require that we have a trailing twelve month EBITDA (as defined in the BMO Credit Agreement) of not less than \$10.0 million (previously \$5.0 million) as of the end of the third fiscal quarter of 2015.

As of March 23, 2015, there was approximately \$2.0 million of borrowings outstanding under the BMO Credit Agreement.

For further information on our 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 14% of our contracts are based on contractual rates per hour plus costs incurred. Some of these contracts include

Table of Contents

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.

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.

Table of Contents

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 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. Award and incentive fees are recorded when they are fixed or determinable and consider customer contract terms.

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

Table of Contents

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 2014 or 2013. We expect to have goodwill in the first quarter of fiscal year 2015 as the result of two acquisitions in January 2015. We have not yet finalized our purchase price allocation to determine the amount of the goodwill.

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 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 fiscal year 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.

Table of Contents

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.

Business Combinations

The acquisition method of accounting for business combinations requires us to use significant estimates and assumptions, including fair value estimates, as of the business combination date and to refine those estimates as necessary during the measurement period (defined as the period, not to exceed one year, in which we may adjust the provisional amounts recognized for a business combination) in a manner that is generally similar to the previous purchase method of accounting.

Under the acquisition method of accounting, we recognize separately from goodwill the identifiable assets acquired, the liabilities assumed, and any noncontrolling interests in an acquiree, generally at the acquisition date fair value. We measure goodwill as of the acquisition date as the excess of consideration transferred, which we also measure at fair value, over the net of the acquisition date amounts of the identifiable assets acquired and liabilities assumed. Costs that we incur to complete the business combination such as investment banking, legal and other professional fees are not considered part of consideration and we charge them to acquisition expense as they are incurred.

Should the initial accounting for a business combination be incomplete by the end of a reporting period that falls within the measurement period, we report provisional amounts in our financial statements. During the measurement period, we adjust the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the measurement of the amounts recognized as of that date and we record those adjustments to our financial statements. We apply those measurement period adjustments that we determine to be significant retrospectively to comparative information in our financial statements, including adjustments to depreciation and amortization expense.

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 the 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. Significant judgment is applied when assessing the need for valuation allowances. Areas of estimation include our consideration of future taxable income and ongoing prudent and feasible tax planning strategies. Should a change in circumstances lead to a change in judgment about the utilization of deferred tax assets in future years, we would adjust the related valuation allowances in the period that the change in circumstances occurs, along with a corresponding increase or charge to income. During fiscal year 2014, management assessed the available positive and negative evidence to estimate if sufficient future taxable income will be generated to utilize the existing deferred tax assets. Based on this evaluation, as of January 2, 2015, we reversed the valuation allowance on our deferred tax assets. We will continue to assess the need for a valuation allowance in the future. The provision for income taxes represents the tax payable for the period and the change during the period in deferred tax assets and liabilities.

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

Edgar Filing: Willdan Group, Inc. - Form 10-K

Table of Contents

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.

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		
	2014	2013	2012
Statement of Operations Data:			
Contract revenue	100.0%	100.0%	100.0%
Direct costs of contract revenue (exclusive of depreciation and amortization shown separately below)			
Salaries and wages	26.1	28.2	24.8
Subcontractor services and other direct costs	32.9	29.0	38.2
Total direct costs of contract revenue	59.0	57.2	63.1
General and administrative expenses:			
Salaries and wages, payroll taxes, employee benefits	19.8	24.0	24.0
Facilities and facility related	4.1	5.4	5.2
Stock-based compensation	0.2	0.2	0.2
Depreciation and amortization	0.4	0.6	0.7
Impairment of goodwill			16.3
Other	8.8	9.4	11.0
Total general and administrative expenses	33.3	39.7	57.5
Income (loss) from operations	7.7	3.0	(20.6)
Other income (expense):			
Interest income			
Interest expense		0.1	(0.1)
Other, net	0.1	0.3	
Total other income (expense), net	0.1	0.4	(0.1)
Income (loss) before income taxes	7.8	3.2	(20.7)
Income tax (benefit) expense	(0.9)	0.1	(2.2)
Net income (loss)	8.7%	3.1%	(18.5)%

Fiscal Year 2014 Compared to Fiscal Year 2013

Contract revenue. Our contract revenue was \$108.1 million for fiscal year 2014, with \$52.9 million attributable to the Energy Efficiency Services segment, \$40.8 million attributable to the Engineering Services segment, \$10.6 million attributable to the Public Finance Services segment, and \$3.7 million attributable to the Homeland Security Services segment. Consolidated contract revenue increased \$22.6 million, or 26.4%, to \$108.1 million for fiscal year 2014 from \$85.5 million for fiscal year 2013. This was primarily the result of increases of \$16.9 million, or 46.9%, and \$5.6 million, or 15.8%, in contract revenue from our Energy Efficiency Services and Engineering Services segments, respectively. Contract revenue for our Public Finance Services increased \$0.8 million, or 8.0% to \$10.6 million for fiscal year 2014 from \$9.8 million for fiscal year 2013. Contract revenue for our Homeland Security Services segment decreased by \$0.7 million, or 15.4%, to \$3.7 million for fiscal year 2014 from

Table of Contents

\$4.4 million for fiscal year 2013. Contract revenue for the Energy Efficiency Services segment increased primarily because of increased demand for energy efficiency services in the states of New York and California, largely due to a contract modification that expanded an existing Small Business Direct Install ("SBDI") contract with Consolidated Edison. Contract revenue for the Engineering Services segment increased primarily due to greater demand for our city engineering services in northern California, our building and safety services, and our construction management services. Revenue in the Homeland Security Services segment decreased due to slightly lower levels of activity in the traditional planning, training and exercise consulting services business.

Direct costs of contract revenue. Direct costs of contract revenue were \$63.8 million for fiscal year 2014, with \$34.9 million attributable to the Energy Efficiency Services segment, \$22.4 million attributable to the Engineering Services segment, \$4.3 million attributable to the Public Finance Services segment, and \$2.2 million attributable to the Homeland Security Services segment. Overall, direct costs increased by \$14.9 million, or 30.4%, to \$63.8 million for fiscal year 2014 from \$48.9 million for fiscal 2013. The increase in direct costs was primarily attributable to an increase in direct costs within our Energy Efficiency Services segment of \$11.8 million, or 51.2% for fiscal year 2014. Direct costs of contract revenue also increased within our Engineering Services and Public Finance segments by \$3.4 million, or 17.7%, and \$0.3 million, or 6.2%, respectively. Direct costs of contract revenue in our Homeland Security Services segment decreased by \$0.5 million, or 19.1% to \$2.2 million for fiscal year 2014 from \$2.8 million for fiscal year 2013.

Direct costs increased as a result of increases in subcontractor services and other direct costs of \$10.8 million and an increase in salaries and wages of \$4.1 million. Within direct costs of contract revenue, salaries and wages decreased to 26.1% of contract revenue for fiscal year 2014 as compared to 28.2% for fiscal 2013. Subcontractor services and other direct costs increased to 32.9% of contract revenue for fiscal 2014 from 29.0% of contract revenue for fiscal year 2013. Subcontractor services increased primarily because of increased demand for the energy efficiency, sustainability and renewable energy services of our subsidiary Willdan Energy Solutions, which generally utilizes a higher percentage of subcontractors than our other subsidiaries.

General and administrative expenses. General and administrative expenses increased by \$2.0 million, or 5.8%, to \$36.0 million for fiscal year 2014 from \$34.0 million for fiscal year 2013. This reflected increases of \$0.6 million and \$0.4 million in general and administrative expenses of the Energy Efficiency Services and the Public Finance Services segments, respectively. General and administrative expenses for our Engineering Services and Homeland Security Services segments decreased by \$0.4 million and \$0.2 million, respectively. Our unallocated corporate expenses increased by \$1.5 million. General and administrative expenses as a percentage of contract revenue was 33.3% for fiscal year 2014 as compared to 39.7% for the fiscal year 2013. We were able to keep our overall general and administrative expenses relatively stable while our revenues increased by 26.4% during this same period. We were partially able to do this because we were able to more fully utilize some of our employees, which resulted in those salaries and wages being allocated to direct costs. As discussed above under "Components of Income and Expense Direct Costs of Contract Revenue," we do not allocate that portion of salaries and wages not related to time spent directly generating revenue to direct costs of contract revenue and instead accrue it under general and administrative expenses.

Of the \$2.0 million increase in general and administrative expenses, approximately \$1.4 million resulted from an increase in other general and administrative expenses. Salaries and wages, payroll taxes and employee benefits and stock-based compensation increased by \$0.8 million and \$0.1 million, respectively. These increases were partially offset by decreases in facility and facilities related expenses and depreciation and amortization expenses of \$0.3 million and \$0.1 million, respectively.

Income from operations. As a result of the above factors, our operating income was \$8.3 million for fiscal year 2014 as compared to \$2.6 million for fiscal year 2013. Income from operations, as a

Table of Contents

percentage of contract revenue, was 7.7% for fiscal year 2014, as compared to 3.1% for fiscal year 2013.

Other income. Other income was \$117,000 for fiscal year 2014 as compared to \$154,000 for fiscal year 2013. The decrease is primarily the result of lower interest expense due to decreased borrowings under the Wells Fargo line of credit.

Income tax expense (benefit). We recorded an income tax benefit of \$990,000 for fiscal year 2014, as compared to an income tax expense of \$132,000 for fiscal year 2013. The income tax benefit is attributable to a reversal of a valuation allowance that occurred during the third quarter. The effect of the release resulted in a total decrease to tax expense of \$4.6 million. For further discussion of our income tax provision, see Note 11 "Income Taxes" of notes to our consolidated financial statements.

Net income. As a result of the above factors, our net income was \$9.4 million for fiscal year 2014, as compared to net income of \$2.6 million for fiscal year 2013.

Fiscal Year 2013 Compared to Fiscal Year 2012

Contract revenue. Our contract revenue was \$85.5 million for fiscal year 2013, with \$36.0 million attributable to the Energy Efficiency Services segment, \$35.2 million attributable to the Engineering 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 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 \$23.1 million attributable to the Energy Efficiency Services segment, \$19.0 million attributable to the Engineering 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

Table of Contents

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 \$19.7 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 \$17.5 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. 3 " 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 3.1% for fiscal year 2013, while loss from operations, as a percentage of contract revenue, was 20.6% for fiscal year 2012.

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. 11 " 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.

Liquidity and Capital Resources

As of January 2, 2015, we had \$20.4 million of cash and cash equivalents. 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 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

Table of Contents

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 \$12.6 million for fiscal year 2014, as compared to cash flows provided by operating activities of \$1.5 million and \$4.7 million for fiscal years 2013 and 2012, respectively. Our cash flows provided by operating activities for fiscal year 2014 were due primarily to a higher net income, increases in accounts payable, accrued liabilities and billings in excess of costs and estimated earnings on uncompleted contracts, partially offset by increases in deferred income taxes, accounts receivable and costs and estimated earnings in excess of billings on uncompleted contracts and decreases in accounts payable. 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 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.

Cash Flows from Investing Activities

Cash flows used in investing activities were \$0.5 million for fiscal year 2014 and \$0.3 million for fiscal years 2013 and 2012. Cash used in investing activities primarily relates to the purchase of equipment and leasehold improvements.

Cash Flows from Financing Activities

Cash flows provided by financing activities were \$0.1 million for fiscal year 2014, as compared to cash flows used in financing activities of \$3.1 million and cash flows provided by financing activities of \$2.7 million for fiscal years 2013 and 2012, respectively. The net cash flows provided by financing activities for fiscal year 2014 increased by \$3.2 million from fiscal year 2013 primarily due to a decrease in repayments on our line of credit during fiscal year 2014. The net cash flows used in financing activities for fiscal year 2013 increased by \$5.8 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.

Outstanding Indebtedness

On March 24, 2014, we entered into a credit agreement with BMO Harris Bank, N.A., or BMO, that provides for a revolving line of credit of up to \$7.5 million, subject to a borrowing base calculation, including a \$5.0 million standby letter of credit sub-facility, and a delayed draw term loan facility of up to \$2.5 million. All borrowings under the revolving line of credit are limited to a borrowing base equal to roughly 75% of the eligible accounts receivable plus 50% of the lower of cost or market value of our eligible inventory, each term as defined in the credit agreement. As of January 2, 2015, there were no outstanding borrowings under the revolving line of credit or term loan facility and all \$7.5 million under the revolving line of credit and \$2.5 million under the delayed draw term loan facility were available for borrowing. Under the BMO credit agreement, as of January 2, 2014, no cash amounts are restricted. The revolving line of credit matures on March 24, 2016 and term loans can be requested at any time prior to February 23, 2016. Subject to certain conditions, including that we are not in default under the credit agreement and that our trailing twelve month EBITDA (as defined in the credit

Table of Contents

agreement) is not less than \$5.0 million as of the end of the third fiscal quarter of 2015, we may request that the maturity date be extended by one year to March 24, 2017 and term loans could accordingly be requested at any time prior to February 22, 2017. 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 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.

On March 20, 2014, in connection with entering into our current credit facility with BMO, 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. On July 1, 2014, we further extended the maturity on the letter of credit to June 30, 2015. 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. We were in compliance with each of our covenants under the Wells Fargo credit agreement as of January 2, 2015.

Contractual Obligations

We have certain cash obligations and other commitments which will impact our short- and long-term liquidity. At January 2, 2015, such obligations and commitments consisted of long-term debt,

Table of Contents

operating leases and capital leases. The following table sets forth our contractual obligations as of January 2, 2015:

Contractual Obligations	Total	Less than 1 Year	1 - 3 Years	3 - 5 Years	More than 5 Years
Long term debt(1)	\$	\$	\$	\$	\$
Operating leases	4,567,000	1,862,000	1,660,000	996,000	50,000
Capital leases	667,000	352,000	315,000		
Total contractual cash obligations	\$ 5,234,000	\$ 2,214,000	\$ 1,975,000	\$ 996,000	\$

(1)

Long-term debt includes principal and interest payments under our debt agreements assuming no additional borrowings or principal payments and includes borrowings under our line of credit.

The table above does not include the payment of up to \$7.9 million in earn-out payments in connection with our acquisition of 360 Energy and Abacus. We are obligated to pay (i) up to \$6,500,000 in cash, payable at the end of our 2015, 2016 and 2017 fiscal years, if certain financial targets of our division made up of the assets acquired from, and former employees of, 360 Energy are met during such fiscal years and (ii) up to \$1,400,000 in cash, payable at the end of our 2015 and 2016 fiscal years, if certain financial targets of Abacus are met during such fiscal years.

Off-Balance Sheet Arrangements

Other than operating lease commitments, we do not have any off-balance sheet financing arrangements or liabilities. In addition, our policy is not to enter into derivative instruments, futures or forward contracts. Finally, we do 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.

New Accounting Pronouncements

Income Taxes

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 15, 2013. The adoption of this guidance did not have a material impact on our consolidated financial position, results of operations or cash flows.

Discontinued Operations

In April 2014, the FASB issued guidance on reporting discontinued operations. The new guidance changes the criteria for determining which disposals can be presented as discontinued operations and modifies related disclosure requirements. Under the new guidance, a discontinued operation is defined as a disposal of a component or group of components that is disposed of or is classified as held for sale and represents a strategic shift that has or will have a major effect on an entity's operations and financial results. The guidance applies prospectively to new disposals and new classifications of disposal groups as held for sale after the effective date. The standard is required to be adopted in annual periods beginning on or after December 15, 2014. The adoption of this guidance is not expected to have any impact on our consolidated financial position, results of operations or cash flows.

Table of Contents

Revenue Recognition

In May 2014, the FASB issued an amendment to the accounting guidance related to revenue recognition. Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers: Topic 606, provides for a single comprehensive principles based standard for the recognition of revenue across all industries through the application of the following five-step process: Step 1 Identify the contract(s) with a customer, Step 2 Identify the performance obligations in the contract, Step 3 Determine the transaction price, Step 4 Allocate the transaction price to the performance obligations in the contract, and Step 5 Recognize revenue when (or as) the entity satisfies a performance obligation. The new guidance is effective prospectively for annual periods beginning after December 15, 2016. Early application is not permitted. We are evaluating the impact that adopting this prospective guidance 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 \$20.4 million as of January 2, 2015. This amount represents cash on hand in business checking accounts with BMO Harris Bank.

We do not engage in trading activities and do not participate in foreign currency transactions or utilize derivative financial instruments. As of January 2, 2015, we had no outstanding debt under the BMO Harris Bank revolving credit facility.

Table of Contents

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

	Page
<u>Report of Independent Registered Public Accounting Firm</u>	<u>F-1</u>
<u>Consolidated Balance Sheets as of January 2, 2015 and December 27, 2013</u>	<u>F-2</u>
<u>Consolidated Statements of Operations for each of the fiscal years in the three-year period ended January 2, 2015</u>	<u>F-3</u>
<u>Consolidated Statements of Stockholders' Equity for each of the fiscal years in the three-year period ended January 2, 2015</u>	<u>F-4</u>
<u>Consolidated Statements of Cash Flows for each of the fiscal years in the three-year period ended January 2, 2015</u>	<u>F-5</u>
<u>Notes to Consolidated Financial Statements</u>	<u>F-6</u>

Table of Contents

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 January 2, 2015.

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 January 2, 2015. 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 January 2, 2015. 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 January 2, 2015. 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 (2013 Framework). Our management has concluded that, as of January 2, 2015, 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.

Table of Contents

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 2014 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.

Table of Contents

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 2015 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the Company's 2014 fiscal year.

We have posted our Code of Ethical Conduct on our website, 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 2015 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the Company's 2014 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 2015 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the Company's 2014 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 2015 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the Company's 2014 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 2015 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the Company's 2014 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:

	Page
<u>Report of Independent Registered Public Accounting Firm</u>	<u>F-1</u>
<u>Consolidated Balance Sheets as of January 2, 2015 and December 27, 2013</u>	<u>F-2</u>
<u>Consolidated Statements of Operations for each of the fiscal years in the three-year period ended January 2, 2015</u>	<u>F-3</u>
<u>Consolidated Statements of Stockholders' Equity for each of the fiscal years in the three-year period ended January 2, 2015</u>	<u>F-4</u>
<u>Consolidated Statements of Cash Flows for each of the fiscal years in the three-year period ended January 2, 2015</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:

Exhibit Number	Exhibit Description
2.1	Stock Purchase Agreement, by and among Willdan Energy Solutions, Abacus Resource Management Company, Willdan Group, Inc. and the shareholders of Abacus Resource Management Company, dated as of January 15, 2015.(1)
2.2	Asset Purchase Agreement, by and among Willdan Energy Solutions, Willdan Group, Inc. and 360 Energy Engineers, LLC, dated as of January 15, 2015.(1)
3.1	Articles of Incorporation of Willdan Group, Inc., including amendments thereto(2)
3.2	Amended and Restated Bylaws of Willdan Group, Inc.(3)
4.1	Specimen Stock Certificate for shares of the Registrant's Common Stock(2)
4.2	The Company agrees to furnish to the Securities and Exchange Commission upon request a copy of each instrument with respect to issues of long-term debt of Willdan Group, Inc. and its subsidiaries, the authorized principal amount of which does not exceed 10% of the consolidated assets of Willdan Group, Inc. and its subsidiaries.
10.1	Credit Agreement, dated March 24, 2014, between Willdan Group, Inc. and BMO Harris Bank, National Association(4)

Edgar Filing: Willdan Group, Inc. - Form 10-K

Table of Contents

Exhibit Number	Exhibit Description
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.(4)
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(4)
10.4	Security Agreement, dated as of March 24, 2014, between Willdan Group, Inc. and BMO Harris Bank, National Association (portions of this exhibit have been omitted pursuant to a request for confidential treatment)(4)
10.5	Willdan Group, Inc. 2006 Stock Incentive Plan(2)
10.6	Form of Incentive Stock Option Agreement(2)
10.7	Form of Non-Qualified Stock Option Agreement(2)
10.8	Amended and Restated Willdan Group, Inc. 2006 Employee Stock Purchase Plan(5)
10.9	Form of Indemnification Agreement between Willdan Group, Inc. and its Directors and Officers(2)
10.10	Offer Letter from Willdan Group, Inc. to Daniel Chow dated October 29, 2008 and accepted November 9, 2008(6)
10.11	Employment Agreement, dated as of May 3, 2011 by and between Willdan Group, Inc. and Thomas D. Brisbin(7)
10.12	Employment Agreement, dated as of May 3, 2011 by and between Willdan Group, Inc. and Marc Tipermas(7)
10.13	Willdan Group, Inc. 2008 Performance Incentive Plan(8)
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)(9)
10.15	First Amendment, dated September 23, 2014, to 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)(10)
10.16	First Amendment to the Credit Agreement, dated as of June 3, 2014, between Willdan Group, Inc., BMO Harris Bank, National Association and the parties thereto.(11)
10.17	Employment Agreement, by and between Willdan Group, Inc. and Mike Bieber, dated as of December 17, 2014.(11)
10.18	Second Amendment to the Credit Agreement, dated as of January 14, 2015, by and between Willdan Group, Inc. and BMO Harris Bank National Association.(12)
14.1	Code of Ethical Conduct of Willdan Group, Inc.(5)
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)

Edgar Filing: Willdan Group, Inc. - Form 10-K

Table of Contents

Exhibit Number	Exhibit Description
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 January 2, 2015 and December 27, 2013; (ii) the Consolidated Statements of Operations for each of the fiscal years in the three-year period ended January 2, 2015; (iii) the Consolidated Statements of Stockholders' Equity for each of the fiscal years in the three-year period ended January 2, 2015; (iv) the Consolidated Statement of Cash Flows for each of the fiscal years in the three-year period ended January 2, 2015; and (v) the Notes to the Consolidated Financial Statements.

*

Filed herewith.

Indicates a management contract or compensating plan or arrangement.

- (1) Incorporated by reference to Willdan Group, Inc.'s Current Report on Form 8-K, filed with the Securities and Exchange Commission on January 21, 2015.
- (2) Incorporated by reference to Willdan Group, Inc.'s Registration Statement on Form S-1, filed with the Securities and Exchange Commission on August 9, 2006, as amended (File No. 333-136444).
- (3) Incorporated by reference to Willdan Group, Inc.'s Quarterly Report on Form 10-Q, filed with the Securities and Exchange Commission on August 13, 2009.
- (4) Incorporated by reference to Willdan Group, Inc.'s Annual Report on Form 10-K, filed with the Securities and Exchange Commission on March 25, 2014.
- (5) 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.
- (6) 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.
- (7) 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.
- (8) 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.
- (9) 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.

Edgar Filing: Willdan Group, Inc. - Form 10-K

- (10) Incorporated by reference to Willdan Group, Inc.'s Quarterly Report on Form 10-Q, filed with the Securities and Exchange Commission on November 6, 2014.
- (11) Incorporated by reference to Willdan Group, Inc.'s Quarterly Report on Form 10-Q, filed with the Securities and Exchange Commission on August 7, 2014.
- (12) Incorporated by reference to Willdan Group, Inc.'s Current Report on Form 8-K, filed with the Securities and Exchange Commission on January 7, 2015.

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 31, 2015.

WILLDAN GROUP, INC.

/s/ STACY B. MCLAUGHLIN

Stacy B. McLaughlin
Chief Financial Officer and Vice President

Date: March 31, 2015

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.

Signature	Title	Date
/s/ THOMAS D. BRISBIN	Director, President and Chief Executive Officer (chief executive officer)	March 31, 2015
Thomas D. Brisbin		
/s/ STACY B. MCLAUGHLIN	Chief Financial Officer and Vice President (chief financial officer and chief accounting officer)	March 31, 2015
Stacy B. McLaughlin		
/s/ WIN WESTFALL	Director	March 31, 2015
Win Westfall		
/s/ KEITH W. RENKEN	Director	March 31, 2015
Keith W. Renken		
/s/ JOHN M. TOUPS	Director	March 31, 2015
John M. Toups		
/s/ RAYMOND W. HOLDSWORTH	Director	March 31, 2015
Raymond W. Holdsworth		
/s/ DOUGLAS J. MCEACHERN	Director	March 31, 2015
Douglas J. McEachern		

Table of Contents

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 January 2, 2015 and December 27, 2013, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended January 2, 2015. 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 January 2, 2015 and December 27, 2013, and the consolidated results of their operations and their cash flows for each of the three years in the period ended January 2, 2015, in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young LLP

Los Angeles, California
March 31, 2015

F-1

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

	January 2, 2015	December 27, 2013
Assets		
Current assets:		
Cash and cash equivalents	\$ 20,371,000	\$ 8,134,000
Accounts receivable, net of allowance for doubtful accounts of \$662,000 and \$385,000 at January 2, 2015 and December 27, 2013, respectively	13,189,000	13,167,000
Costs and estimated earnings in excess of billings on uncompleted contracts	12,170,000	9,635,000
Other receivables	208,000	212,000
Prepaid expenses and other current assets	2,244,000	2,377,000
Total current assets	48,182,000	33,525,000
Equipment and leasehold improvements, net	1,384,000	691,000
Other assets	535,000	333,000
Deferred income taxes, net of current portion	4,558,000	3,688,000
Total assets	\$ 54,659,000	\$ 38,237,000

Liabilities and Stockholders' Equity

Current liabilities:		
Excess of outstanding checks over bank balance	\$ 2,198,000	\$ 1,473,000
Accounts payable	3,237,000	3,957,000
Accrued liabilities	10,668,000	5,808,000
Billings in excess of costs and estimated earnings on uncompleted contracts	3,863,000	2,247,000
Current portion of notes payable	355,000	517,000
Current portion of capital lease obligations	324,000	129,000
Current portion of deferred income taxes	3,131,000	3,688,000
Total current liabilities	23,776,000	17,819,000
Capital lease obligations, less current portion	306,000	85,000
Deferred lease obligations	164,000	120,000
Total liabilities	24,246,000	18,024,000

Commitments and contingencies

Stockholders' equity:

Preferred stock, \$0.01 par value, 10,000,000 shares authorized, no shares issued and outstanding		
Common stock, \$0.01 par value, 40,000,000 shares authorized; 7,635,000 and 7,375,000 shares issued and outstanding at January 2, 2015 and December 27, 2013, respectively	76,000	74,000
Additional paid-in capital	35,436,000	34,654,000
Accumulated deficit	(5,099,000)	(14,515,000)
Total stockholders' equity	30,413,000	20,213,000

Edgar Filing: Willdan Group, Inc. - Form 10-K

Total liabilities and stockholders' equity	\$	54,659,000	\$	38,237,000
--	----	------------	----	------------

See accompanying notes to consolidated financial statements.

F-2

Table of Contents

WILLDAN GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	Fiscal Year		
	2014	2013	2012
Contract revenue	\$ 108,080,000	\$ 85,510,000	\$ 93,443,000
Direct costs of contract revenue (exclusive of depreciation and amortization shown separately below):			
Salaries and wages	28,207,000	24,098,000	23,218,000
Subcontractor services and other direct costs	35,611,000	24,831,000	35,741,000
Total direct costs of contract revenue	63,818,000	48,929,000	58,959,000
General and administrative expenses:			
Salaries and wages, payroll taxes and employee benefits	21,394,000	20,555,000	22,421,000
Facilities and facility related	4,371,000	4,654,000	4,871,000
Stock-based compensation	258,000	150,000	227,000
Depreciation and amortization	459,000	517,000	671,000
Lease abandonment , net	9,000	30,000	26,000
Impairment of goodwill			15,208,000
Other	9,462,000	8,067,000	10,315,000
Total general and administrative expenses	35,953,000	33,973,000	53,739,000
Income (loss) from operations	8,309,000	2,608,000	(19,255,000)
Other income (expense):			
Interest income	8,000	10,000	6,000
Interest expense	(16,000)	(94,000)	(106,000)
Other, net	125,000	238,000	(28,000)
Total other income (expense), net	117,000	154,000	(128,000)
Income (loss) before income taxes	8,426,000	2,762,000	(19,383,000)
Income tax (benefit) expense	(990,000)	132,000	(2,083,000)
Net income (loss)	\$ 9,416,000	\$ 2,630,000	\$ (17,300,000)
Earnings (loss) per share:			
Basic	\$ 1.26	\$ 0.36	\$ (2.37)
Diluted	\$ 1.22	\$ 0.35	\$ (2.37)

Weighted-average shares outstanding:

Edgar Filing: Willdan Group, Inc. - Form 10-K

Basic	7,488,000	7,355,000	7,310,000
Diluted	7,739,000	7,495,000	7,310,000

See accompanying notes to consolidated financial statements.

F-3

[Table of Contents](#)

WILLDAN GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Common Stock		Additional	Retained	
	Shares	Amount	Paid-in	Earnings/ (Accumulated Deficit)	Total
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 employee stock purchase plan	56,000		120,000		120,000
Shares of common stock issued in connection with 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 employee stock purchase plan	31,000	1,000	72,000		73,000
Shares of common stock issued in connection with 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
Shares of common stock issued in connection with employee stock purchase plan	12,000		76,000		76,000
Shares of common stock issued in connection with employee stock plans	248,000	2,000	448,000		450,000
Stock-based compensation			258,000		258,000
Net income				9,416,000	9,416,000
Balances at January 2, 2015	7,635,000	\$ 76,000	\$ 35,436,000	\$ (5,099,000)	\$ 30,413,000

See accompanying notes to consolidated financial statements.

Table of Contents

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

	Fiscal Year		
	2014	2013	2012
Cash flows from operating activities:			
Net income (loss)	\$ 9,416,000	\$ 2,630,000	\$ (17,300,000)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	460,000	585,000	737,000
Deferred income taxes	(1,427,000)		(2,249,000)
Goodwill impairment			15,208,000
Lease abandonment expense (recovery), net	9,000	30,000	26,000
Loss (gain) on sale of equipment	11,000	(6,000)	18,000
Provision for doubtful accounts	510,000	101,000	673,000
Stock-based compensation	258,000	150,000	227,000
Changes in operating assets and liabilities:			
Accounts receivable	(532,000)	2,216,000	625,000
Costs and estimated earnings in excess of billings on uncompleted contracts	(2,535,000)	225,000	10,812,000
Other receivables	4,000	(117,000)	80,000
Prepaid expenses and other current assets	133,000	(595,000)	(58,000)
Other assets	(202,000)	(26,000)	76,000
Accounts payable	(720,000)	(3,026,000)	(1,199,000)
Changes in excess of outstanding checks over bank balance	725,000	285,000	(589,000)
Accrued liabilities	4,860,000	502,000	(4,886,000)
Billings in excess of costs and estimated earnings on uncompleted contracts	1,616,000	(1,172,000)	2,667,000
Deferred lease obligations	35,000	(284,000)	(186,000)
Net cash provided by operating activities	12,621,000	1,498,000	4,682,000
Cash flows from investing activities:			
Purchase of equipment and leasehold improvements	(492,000)	(306,000)	(359,000)
Proceeds from sale of equipment	5,000	27,000	20,000
Net cash used in investing activities	(487,000)	(279,000)	(339,000)
Cash flows from financing activities:			
Payments on notes payable	(162,000)	(621,000)	(663,000)
Proceeds from notes payable		510,000	614,000
Borrowings under line of credit			11,663,000
Repayments of line of credit		(3,000,000)	(8,919,000)
Principal payments on capital leases	(261,000)	(62,000)	(164,000)
Proceeds from stock option exercise	450,000	9,000	11,000
Proceeds from sales of common stock under employee stock purchase plan	76,000	73,000	120,000
Net cash provided by (used in) financing activities	103,000	(3,091,000)	2,662,000
Net increase (decrease) in cash and cash equivalents	12,237,000	(1,872,000)	7,005,000
Cash and cash equivalents, at beginning of the year	8,134,000	10,006,000	3,001,000
Cash and cash equivalents, at end of the year	\$ 20,371,000	\$ 8,134,000	\$ 10,006,000

Edgar Filing: Willdan Group, Inc. - Form 10-K

Supplemental disclosures of cash flow information:

Cash paid during the period for:

Interest	\$	16,000	\$	100,000	\$	106,000
Income taxes		134,000		324,000		139,000

Supplemental disclosures of noncash investing and financing activities:

Equipment acquired under capital leases	\$	677,000	\$	87,000	\$	151,000
---	----	---------	----	--------	----	---------

See accompanying notes to consolidated financial statements

F-5

Table of Contents**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, including comprehensive energy efficiency solutions, for utilities, private industry, and public agencies at all levels of government, primarily 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 energy efficiency, engineering and planning, 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 Energy Solutions, Willdan Engineering, 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 its annual financial results based on 52 or 53-week periods ending on the Friday closest to December 31, with consideration of business days. The Company operates and reports its quarterly financial results based on the 13-week period ending on the Friday closest to March 31, June 30 and September 30 and the 13 or 14-week period ending on the Friday closest to December 31, as applicable, with consideration of business days. Fiscal year 2014 contained 53 weeks. Fiscal years 2013 and 2012 contained 52 weeks. All references to years in the notes to consolidated financial statements represent fiscal years.

Cash, Cash Equivalents and Liquid Investments

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

	January 2, 2015	December 27, 2013
Wells Fargo Stage Coach Sweep Investment Account	\$	\$ 1,103,000
Wells Fargo Money Market Mutual Fund		1,002,000
Wells Fargo Advantage Heritage Fund		48,000
Wells Fargo Collateral Investment Account		5,003,000
BMO Harris Bank Master Control Operating Account	20,317,000	
Cash on hand in business checking accounts	54,000	978,000
	\$ 20,371,000	\$ 8,134,000

Table of Contents

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Company from time to time may be exposed to credit risk with its bank deposits in excess of the FDIC insurance limits and with uninsured money market investments. The Company has not 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 January 2, 2015 and December 27, 2013, the carrying amounts of the Company's cash and cash equivalents, accounts receivable, costs and estimated earnings in excess of billings on uncompleted contracts, other receivables, prepaid expenses and other current assets, excess of outstanding checks over bank balance, accounts payable, accrued liabilities and billings in excess of costs and estimated earnings on uncompleted contracts, approximate their fair values because of the relatively short period of time between the origination of these instruments and their expected realization or payment. The carrying amounts of debt obligations approximate their fair values since the terms are comparable to terms currently offered by local lending institutions for loans of similar terms to companies with comparable credit risk.

Segment Information

Willdan Group, Inc. ("WGI") is a holding company with 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 12.

Off-Balance Sheet Arrangements

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

Accounting for Contracts

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

Table of Contents

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. Award and incentive fees are recorded when they are fixed or determinable and consider customer contract terms.

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.

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

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

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

Table of Contents**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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.

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

Category	Estimated Useful Life
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

Table of Contents

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 accrues an undiscounted liability related to claims against it for which the incurrence of a loss is probable and the amount can be reasonably estimated. The Company discloses the amount accrued and an estimate of any reasonably possible loss in excess of the amount accrued, if such disclosure is necessary for its financial statements not to be misleading. The Company does 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 the Company's estimates could have a material effect on its consolidated financial statements.

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.

Business Combinations

The acquisition method of accounting for business combinations requires the Company to use significant estimates and assumptions, including fair value estimates, as of the business combination date and to refine those estimates as necessary during the measurement period (defined as the period, not to exceed one year, in which the Company may adjust the provisional amounts recognized for a business combination) in a manner that is generally similar to the previous purchase method of accounting.

Under the acquisition method of accounting, the Company recognizes separately from goodwill the identifiable assets acquired, the liabilities assumed, and any noncontrolling interests in an acquiree, generally at the acquisition date fair value. The Company measures goodwill as of the acquisition date as the excess of consideration transferred, which it also measures at fair value, over the net of the acquisition date amounts of the identifiable assets acquired and liabilities assumed. Costs that the Company incurs to complete the business combination such as investment banking, legal and other professional fees are not considered part of consideration and the Company charges them to acquisition expense as they are incurred.

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, subject to judgmental assessment of the 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

Table of Contents

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. Significant judgment is applied when assessing the need for valuation allowances. Areas of estimation include the Company's consideration of future taxable income and ongoing prudent and feasible tax planning strategies. Should a change in circumstances lead to a change in judgment about the utilization of deferred tax assets in future years, the Company would adjust the related valuation allowances in the period that the change in circumstances occurs, along with a corresponding increase or charge to income. During fiscal year 2014, management assessed the available positive and negative evidence to estimate if sufficient future taxable income will be generated to utilize the existing deferred tax assets. Based on this evaluation, as of January 2, 2015, the Company reversed the valuation allowance on its deferred tax assets. The Company will continue to assess the need for a valuation allowance in the future. The provision for income taxes represents the tax payable for the period and the change during the period in deferred tax assets and liabilities.

If the Company identifies changes to acquired deferred tax asset valuation allowances or liabilities related to uncertain tax positions during the measurement period and they relate to new information obtained about facts and circumstances that existed as of the acquisition date, those changes are considered a measurement period adjustment and the Company records the offset to goodwill. The Company records all other changes to deferred tax asset valuation allowances and liabilities related to uncertain tax positions in current period income tax expense.

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

Income Taxes

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 these fixed years, beginning after December 15, 2013. The adoption of this guidance did not have a material impact on the Company's consolidated financial position, results of operations or cash flows.

Table of Contents**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)***Discontinued Operations*

In April 2014, the FASB issued guidance on reporting discontinued operations. The new guidance changes the criteria for determining which disposals can be presented as discontinued operations and modifies related disclosure requirements. Under the new guidance, a discontinued operation is defined as a disposal of a component or group of components that is disposed of or is classified as held for sale and represents a strategic shift that has or will have a major effect on an entity's operations and financial results. The guidance applies prospectively to new disposals and new classifications of disposal groups as held for sale after the effective date. The standard is required to be adopted in annual periods beginning on or after December 15, 2014. The adoption of this guidance is not expected to have any impact on the Company's consolidated financial position, results of operations or cash flows.

Revenue Recognition

In May 2014, the FASB issued an amendment to the accounting guidance related to revenue recognition. Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers: Topic 606, provides for a single comprehensive principles based standard for the recognition of revenue across all industries through the application of the following five-step process: Step 1 Identify the contract(s) with a customer, Step 2 Identify the performance obligations in the contract, Step 3 Determine the transaction price, Step 4 Allocate the transaction price to the performance obligations in the contract, and Step 5 Recognize revenue when (or as) the entity satisfies a performance obligation. The new guidance is effective prospectively for annual periods beginning after December 15, 2016. Early application is not permitted. The Company is evaluating the impact that adopting this prospective guidance will have on its consolidated financial statements.

3. GOODWILL AND OTHER INTANGIBLE ASSETS

As of January 2, 2015 and December 27, 2013, the Company had no goodwill.

The gross amounts and accumulated amortization of the Company's acquired identifiable intangible assets with finite useful lives as of January 2, 2015 and December 27, 2013, included in intangible assets, net in the accompanying consolidated balance sheets, were as follows:

	January 2, 2015		December 27, 2013		Amortization
	Gross Amount	Accumulated Amortization	Gross Amount	Accumulated Amortization	Period (yrs)
Backlog	\$ 920,000	\$ 920,000	\$ 920,000	\$ 920,000	1
Training materials/courses	282,000	282,000	282,000	282,000	5
Non-compete agreements	30,000	30,000	30,000	30,000	3
	\$ 1,232,000	\$ 1,232,000	\$ 1,232,000	\$ 1,232,000	

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

For the years ended January 2, 2015, December 27, 2013 and December 28, 2012, the Company's amortization expense for acquired identifiable intangible assets with finite useful lives was \$0, \$12,000

Table of Contents
3. GOODWILL AND OTHER INTANGIBLE ASSETS (Continued)

and \$37,000, respectively. There is no estimated future amortization expense for acquired identifiable intangible assets.

4. 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 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		
	2014	2013	2012
Net income (loss)	\$ 9,416,000	\$ 2,630,000	\$ (17,300,000)
Weighted-average common shares outstanding	7,488,000	7,355,000	7,310,000
Effect of dilutive stock options and restricted stock awards	251,000	140,000	
Weighted-average common stock outstanding-diluted	7,739,000	7,495,000	7,310,000
Earnings (loss) per share:			
Basic	\$ 1.26	\$ 0.36	\$ (2.37)
Diluted	\$ 1.22	\$ 0.35	\$ (2.37)

For the fiscal year ended January 2, 2015, 251,000 options were excluded from the calculation of dilutive potential common shares, compared to 459,000 and 654,000 options, for fiscal 2013 and fiscal 2012, respectively. These options were not included in the computation of dilutive potential common shares because of the net loss position for the 2012 period and because the assumed proceeds per share exceeded the average market price per share for the 2012 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.

5. ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following at January 2, 2015 and December 27, 2013:

	January 2, 2015	December 27, 2013
Billed	\$ 13,151,000	\$ 12,879,000
Unbilled	12,170,000	9,635,000
Contract retentions	700,000	673,000
	26,021,000	23,187,000
Allowance for doubtful accounts	(662,000)	(385,000)

\$ 25,359,000 \$ 22,802,000

F-13

Table of Contents**5. ACCOUNTS RECEIVABLE (Continued)**

The movements in the allowance for doubtful accounts consisted of the following for fiscal years 2014, 2013 and 2012:

	Fiscal Year		
	2014	2013	2012
Balance as of the beginning of the year	\$ 385,000	\$ 303,000	\$ 421,000
Provision for doubtful accounts	486,000	189,000	220,000
Write-offs of uncollectible accounts	(209,000)	(107,000)	(341,000)
Recoveries of accounts written off			3,000
Balance as of the end of the year	\$ 662,000	\$ 385,000	\$ 303,000

Billed accounts receivable represent amounts billed to clients that have yet to be collected. Unbilled accounts receivable represent revenue recognized but not yet billed pursuant to contract terms or accounts billed after the period end. Substantially all unbilled receivables as of January 2, 2015 and December 27, 2013 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 January 2, 2015, one client accounted for 17% of outstanding receivables, as compared to 26% of the Company's outstanding receivables as of December 27, 2013.

Table of Contents**6. EQUIPMENT AND LEASEHOLD IMPROVEMENTS**

Equipment and leasehold improvements consisted of the following at January 2, 2015 and December 27, 2013:

	January 2, 2015	December 27, 2013
Furniture and fixtures	\$ 2,994,000	\$ 3,039,000
Computer hardware and software	5,667,000	6,338,000
Leasehold improvements	785,000	776,000
Equipment under capital leases	919,000	831,000
Automobiles, trucks, and field equipment	677,000	533,000
	11,042,000	11,517,000
Accumulated depreciation and amortization	(9,658,000)	(10,826,000)
Equipment and leasehold improvements, net	\$ 1,384,000	\$ 691,000

Included in accumulated depreciation and amortization is \$176,000 and \$152,000 of amortization expense related to equipment held under capital leases in fiscal years 2014 and 2013, respectively.

7. ACCRUED LIABILITIES

Accrued liabilities consisted of the following at January 2, 2015 and December 27, 2013:

	January 2, 2015	December 27, 2013
Accrued bonuses	\$ 1,450,000	\$ 31,000
Paid leave bank	1,404,000	1,243,000
Compensation and payroll taxes	1,371,000	749,000
Accrued legal	556,000	356,000
Accrued workers' compensation insurance	192,000	141,000
Accrued rent	149,000	367,000
Employee withholdings	637,000	343,000
Client deposits	79,000	232,000
Unvouchered accounts payable	4,462,000	2,282,000
Other	368,000	64,000
Total accrued liabilities	\$ 10,668,000	\$ 5,808,000

8. 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 \$258,000, \$150,000 and \$227,000 for fiscal years 2014, 2013 and 2012, 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

Table of Contents

8. EQUITY PLANS (Continued)

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 168,500 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 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 January 2, 2015, options granted, net of forfeitures and expirations, under the 2006 Plan consisted of 162,500 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. The 2008 Plan initially had 450,000 shares of common stock reserved for issuance (not counting any shares originally available under the 2006 Plan that "poured over.") 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 426,602 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 January 2, 2015, options granted, net of forfeitures and exercises, under the 2008 Plan consisted of 646,234 shares, 111,000 shares and 50,000 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

Table of Contents**8. EQUITY PLANS (Continued)**

and expected post-vesting termination behavior is estimated based upon the simplified method. Under this approach, the expected term is presumed to be the mid-point between the vesting date and the end of the contractual term. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant. The assumptions are as follows:

	2014	2013	2012
Expected volatility	38.35% - 40.00%	40%	39%
Expected dividends	0%	0%	0%
Expected term (in years)	6.00	5.75 - 6.00	5.75 - 6.00
Risk-free rate	1.63% - 1.73%	1.31% - 1.36%	0.65% - 1.09%

The Company's restricted stock awards are valued 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 January 2, 2015 and changes during the fiscal years ended January 2, 2015, December 27, 2013 and December 28, 2012 is presented below. The intrinsic value of the fully-vested options is \$5,960,000, based on the Company's closing stock price of \$14.50 on January 2, 2015.

	Options	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Term (Years)
Outstanding at December 27, 2013	978,000	\$ 3.86	6.95
Granted	235,000	10.23	9.68
Exercised	(198,000)	2.24	4.74
Forfeited or expired	(89,000)	2.57	
Outstanding at January 2, 2015	926,000	\$ 5.84	6.44