

Willdan Group, Inc.
Form 10-K
March 27, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 29, 2006

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 001-33076

WILLDAN GROUP, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)
2401 East Katella Avenue, Suite 300, Anaheim, CA
(Address of Principal Executive Offices)

14-1951112
(I.R.S. Employer
Identification No.)
92806
(Zip Code)

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

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, par value \$0.01 per share	Nasdaq Global Market

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer

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

The registrant's common stock had not yet been listed as of the last day of its most recently completed second fiscal quarter. As of December 29, 2006, the last business day of the registrant's most recently completed fiscal quarter, there were 5,681,700 shares of the registrant's common stock outstanding that were held by non-affiliates of the registrant and the aggregate market value of such shares held by non-affiliates of the registrant (based upon the closing sale price of such shares on The Nasdaq Global Market on December 29, 2006) was approximately \$56.8 million. Shares of the registrant's common stock held by each executive officer and director as of December 29, 2006 have been excluded in that such persons may be deemed to be affiliates of the registrant. This determination of affiliate status is not necessarily a conclusive determination for other purposes. As of March 26, 2007, there were 7,147,640 shares of common stock, \$0.01 par value share, of the registrant issued and outstanding.

Documents Incorporated by Reference:

The information required by Part III of this Report, to the extent not set forth herein, is incorporated herein by reference from the registrant's definitive proxy statement relating to the Annual Meeting of Shareholders to be held in 2007, which definitive proxy statement will be filed with the Securities and Exchange Commission within 120 days after the end of the fiscal year to which this Report relates.

TABLE OF CONTENTS

		Page
	<u>PART I</u>	
<u>ITEM 1.</u>	<u>BUSINESS</u>	1
<u>ITEM 1A.</u>	<u>RISK FACTORS</u>	18
<u>ITEM 1B.</u>	<u>UNRESOLVED STAFF COMMENTS</u>	26
<u>ITEM 2.</u>	<u>PROPERTIES</u>	26
<u>ITEM 3.</u>	<u>LEGAL PROCEEDINGS</u>	26
<u>ITEM 4.</u>	<u>SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS</u>	27
	<u>PART II</u>	
<u>ITEM 5.</u>	<u>MARKET FOR THE REGISTRANT'S COMMON STOCK, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES</u>	28
<u>ITEM 6.</u>	<u>SELECTED FINANCIAL DATA</u>	31
<u>ITEM 7.</u>	<u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	33
<u>ITEM 7A.</u>	<u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	45
<u>ITEM 8.</u>	<u>FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA</u>	46
<u>ITEM 9.</u>	<u>CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE</u>	46
<u>ITEM 9A.</u>	<u>CONTROLS AND PROCEDURES</u>	46
<u>ITEM 9B.</u>	<u>OTHER INFORMATION</u>	46
	<u>PART III</u>	
<u>ITEM 10.</u>	<u>DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT</u>	47
<u>ITEM 11.</u>	<u>EXECUTIVE COMPENSATION</u>	47
<u>ITEM 12.</u>	<u>SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED SHAREHOLDER MATTERS</u>	47
<u>ITEM 13.</u>	<u>CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS</u>	47
<u>ITEM 14.</u>	<u>PRINCIPAL ACCOUNTANT FEES AND SERVICES</u>	47
	<u>PART IV</u>	
<u>ITEM 15.</u>	<u>EXHIBITS AND FINANCIAL STATEMENT SCHEDULES</u>	48

PART I

ITEM 1. BUSINESS

Overview

We are a leading provider of outsourced services to small and mid-sized public agencies in California and other western states. Outsourcing enables these agencies to provide a wide range of specialized services, without having to incur and maintain the overhead necessary to develop staffing in-house. We provide a broad range of services to public agencies, including:

- civil engineering;
- building and safety services;
- geotechnical engineering;
- financial and economic consulting; and
- disaster preparedness and homeland security.

We operate our business through a network of over 20 offices located throughout California and other western states and had a staff of 670 as of December 29, 2006 that includes licensed engineers and other professionals. Our core clients are 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 a close working relationship with our public agency clients and, over time, to expand the breadth and depth of the services we provide to them.

While we currently serve communities throughout the country, our business is concentrated in California and neighboring states. We provide services to approximately 60% of the 478 cities and over 60% of the 58 counties in California. We also serve special districts, school districts and other public agencies.

We were founded over 40 years ago, and today consist of a family of wholly owned companies that operate within the following areas:

- **Engineering Services.** Our subsidiary, Willdan, provides engineering-related services to public agencies, and our subsidiary, Arroyo Geotechnical, offers geotechnical engineering services. For fiscal year 2005 and fiscal year 2006, revenue for the Engineering Services segment represented 84.6% and 84.1%, respectively, of our overall contract revenue.
- **Public Finance Services.** Our subsidiary, MuniFinancial, offers financial and economic services to public agencies. For fiscal year 2005 and fiscal year 2006, contract revenue for the Public Finance Services segment represented 15.3% and 14.7%, respectively, of our overall contract revenue.
- **Homeland Security Services.** Our subsidiary, American Homeland Solutions, or AHS, offers homeland security, disaster preparedness and public safety consulting services. We formed AHS in 2004, and it began generating revenue in the second half of fiscal year 2005. For fiscal year 2005 and fiscal year 2006, contract revenue for our Homeland Security Services segment represented 0.1% and 1.2%, respectively, of our overall contract revenue.

In February and March 2007, there were several changes to our senior management affecting us and our operating subsidiary, Willdan. Win Westfall, who was our President, Chief Executive Officer and Chairman of the Board of Directors, resigned from his positions as President and Chief Executive Officer as of February 8, 2007. Mr. Westfall continues to serve as Chairman. Since February 8, 2007, Tracy Lenocker, a former member of our board of directors, has served as interim Chief Executive Officer and

President, and will continue to do so until a successor has been appointed by the board of directors. Mr. Lenocker resigned from his positions as a member of our board of directors and audit committee and as chairman of the compensation committee and nominating and corporate governance committee as of February 8, 2007. Richard Kopecky, our former Senior Vice President and President and Chief Executive Officer of Willdan was terminated from both of these positions, effective February 6, 2007. He remains with the company in a new role at another of our subsidiaries, Public Agency Resources. David L. Hunt, who most recently served as the Senior Vice President and Regional Manager of our Orange County, California regional office, was appointed as President and Chief Executive Officer of our subsidiary, Willdan, on March 21, 2007. Mr. Westfall served as the interim President and Chief Executive Officer of our subsidiary Willdan prior to Mr. Hunt's appointment.

Market Opportunity

As the population of the United States continues to grow, cities, counties and local agencies face the increased challenges of building the infrastructure and providing the services required by their growing constituencies. These entities increasingly are turning to privatization as a way to supplement their in-house ability to deliver services.

Much of the western United States, particularly in California, is characterized by strong county governments that oversee large tracts of land. Beginning in the 1960s, cities and towns in California began to contract for governmental services, such as police and fire, from the counties in which they were located. Over time, this form of outsourcing extended to private companies, which provided ready access to expertise, without the corresponding financial commitment to the hiring of permanent staff. Today the privatization of services is particularly well established in California and the western United States, where hundreds of communities currently utilize contract services.

Conversely, we believe that much of the northeastern, midwestern and southern sections of the United States were developed by the creation of densely populated, major urban areas that are surrounded by small towns, villages and cities, many of which chose to establish their own governmental operations, and provide discrete police, fire, building and safety, public works and other services to their constituents. As the infrastructure in these communities deteriorates, we believe outsourcing to the private sector will become a logical alternative to developing in-house expertise and staffing to rehabilitate the existing public infrastructure.

We believe the market for privatized governmental services is being driven by a number of factors, including:

- population growth, which leads to a need for increased capacity in government services and infrastructure;
- demand by constituents for a wider variety of services;
- the creation of new municipalities and the growth of smaller communities, which creates the need to obtain highly specialized services without incurring the costs of hiring permanent staffing and the associated support structure;
- the deterioration of local infrastructures, especially in aging areas; and
- government funding programs, such as federal homeland security grants and various state legislation, that provide funds for local communities to provide services to their constituents.

Within our specific markets, privatized services can take the form of:

- contracting for specific projects, such as engineering design, construction management and inspection for public infrastructure improvements, such as streets, water and wastewater systems, or storm drains;
- creating or staffing entire departments or positions within departments, on a contract or interim basis, such as serving as the building and safety department of a newly formed community, or supplying a contract engineer, planner or building official to supplement an existing agency; and
- providing overflow and emergency work, such as building and infrastructure plan review or inspections relating to construction and reconstruction efforts.

Engineering Services

Engineering services encompass a variety of disciplines associated with the design and construction of public infrastructure improvements. We expect demand for engineering services to grow as continued population growth in California and other western states places significant strain on the infrastructure in those areas. The U.S. Census Bureau projects that the populations of California, Arizona, Colorado, Utah and Nevada will, in aggregate, increase by over 23 million residents from 2000 to the year 2030. The table below shows long-term growth projections for those five western states:

Projected Changes in State Populations: 2000 to 2030

	Census 2000 Population	Projected Population for 2030	Projected Change in Residents Added (2000-2030)	Projected Change as a Percentage (2000-2030)	50-State Rank in Percentage Change
California	33,872,000	46,445,000	12,573,000	37.1 %	13
Arizona	5,131,000	10,712,000	5,581,000	108.8	2
Colorado	4,301,000	5,792,000	1,491,000	34.7	14
Utah	2,233,000	3,485,000	1,252,000	56.1	5
Nevada	1,998,000	4,282,000	2,284,000	114.3	1

Source: U.S. Census Bureau, Population Division, April 2005

From 2000 to 2005, the population in these five states grew by over 3.7 million people, according to the U.S. Census Bureau.

Increasing populations drive the need for new infrastructure, as well as the rehabilitation of aging structures, such as those related to aviation, bridges, dams, drinking water, energy (power), hazardous waste, navigable waterways, public parks/recreation, railroads, roads, schools, security, solid waste, transit, and wastewater. The American Society of Civil Engineers, or ASCE, in its 2005 United States Infrastructure Report Card, rated only one of these elements, solid waste, as high as C+. The elements were rated on a school-type scale of A to F, on a national basis. Ten of the 15 were rated D+ or below. On a national level, the ASCE estimates that \$1.6 trillion needs to be spent over the next five years to bring these elements up to a functional level.

At the state level, the grades for California as measured by the ASCE were similar. The ASCE estimates that 28% of California's bridges are structurally deficient or functionally obsolete, and 71% of the state's major roads are in poor or mediocre condition. Additionally, the ASCE estimates that \$17.5 billion will be needed over the next 20 years to meet the drinking water needs for the state. These findings are supported by the California Infrastructure Coalition's annual report for 2005, in which the

Coalition states that much of the state's infrastructure is outdated, overburdened and will not meet the needs of the state's projected population growth.

In August 2005, President Bush signed the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users, or SAFETEA-LU, in response to growing concern over the condition of our nation's infrastructure. This legislation allocates more than \$286 billion to infrastructure investment through 2009, a 40% increase over predecessor legislation. State and local governments will play an expanded role in the deployment of these federal funds, receiving approximately 79% of the disbursements. California is slated to receive \$23 billion under this program.

In addition, state and local agencies are devoting an increasing percentage of their own budgets to infrastructure. The State of California budget for fiscal year 2006-2007 provides in excess of \$13.3 billion for transportation and infrastructure related spending, an increase of 9% over fiscal year 2005-2006. A significant portion of these funds will be pushed down to local agencies for project implementation. The Cities Annual Report from the California State Controller's Office indicated that, for fiscal year 2003-2004 (the most recent report published), total city operating expenditures exceeded \$40 billion, an increase of 3.9% over the prior period. In addition, approximately \$8.2 billion was budgeted to be spent on capital improvements, an increase of 1.5% over the prior fiscal year. We believe that the trend toward increased local funding of infrastructure related activities will continue in subsequent years.

Voters in the western United States are also acting to provide funding for infrastructure improvement and rehabilitation. In California, the voters in 18 counties, representing over 75% of the state's population, have passed sales tax increases to fund transportation improvements. In Maricopa County, Arizona, voters enacted Proposition 400, which extends a half-cent sales tax for an additional 20 years to continue funding road building and transportation infrastructure, a measure that is expected to generate approximately \$8.5 billion over this period. In Tucson, Arizona, city voters recently passed a half-cent sales tax increase that is expected to generate \$2.1 billion for transportation projects over the next 20 years.

Public Finance Services

Public agencies face an increasing burden to raise the necessary funding to build, improve and maintain infrastructure and to provide services to their local communities. While tax revenues are a primary source of funding, in California there are property tax and spending limits that curtail the generation of these funds. Alternatives include the issuance of tax-exempt securities; the formation of special financing districts to assess property owners on a parcel basis for infrastructure and public improvements, such as assessment districts and community facilities districts (known as Mello-Roos 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.

In California, the use of special tax revenue bonds and special assessment bonds has increased since 2003. Special tax revenue bonds are tax-exempt securities associated with community facilities districts. Special assessment bonds are the tax-exempt securities used in conjunction with assessment districts. The proceeds from these bonds are used to finance the construction and maintenance of public infrastructure.

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The table below shows the use of tax-exempt securities in conjunction with bonded special financing districts in California from 2003 through 2006:

Special Assessment Bonds					Special Tax Revenue Bonds (CFD s)				
Year	Dollar Amount of Bonds Issued	% Change	Number of Issuances		Year	Dollar Amount of Bonds Issued	% Change	Number of Issuances	
2003	\$ 402,698,000	N/A	46		2003	\$ 1,546,220,000	N/A	125	
2004	474,456,000	17.8 %	71		2004	1,713,404,000	10.8 %	165	
2005	606,007,000	27.7 %	68		2005	2,761,958,000	61.2 %	188	
2006	440,991,000	(27.2)%	45		2006	2,257,656,000	(18.3)%	184	

Source: California State Treasurer s Office, California Debt and Investment Advisory Commission. Data includes refundings of existing debt.

California continues to be the nation s leading issuer of all types of tax-exempt debt, followed by Texas, New York and Florida. In 2006, a total of 993 sales of tax-exempt securities took place in California, for a total issuance of \$48.7 billion, a 15.4% decrease over 2005. Issuers in Texas sold \$37.7 billion in tax-exempt bonds in 2006, an increase of 6.0% over 2005. New York sold 748 issuances totaling \$32.8 billion, a decrease of 23.9%. Florida sold \$27.0 billion in 2006, an increase of 35.0% over 2005. Federal compliance requirements, such as arbitrage rebate calculation and continuing disclosure, apply to all tax-exempt issuances on a nation-wide basis.

To implement these financing techniques, public agencies frequently contract with private consultants to provide the advance studies, manage the processes and provide the administration necessary to support these methods. Consultants have the expertise necessary to form the special financing districts and produce an impact fee study used to develop a schedule of developer fees.

Privatized services are then 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 Services

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

For fiscal year 2006, under the Department of Homeland Security Grant Program, or HSGP, the federal government will provide \$1.7 billion to the states, which in turn will disburse these funds to local law enforcement and other agencies. The federal Department of Homeland Security, or DHS, has designated 46 metropolitan areas throughout the country to receive almost half of the HSGP funds

through a program called the DHS Urban Area Security Initiative, or UASI. Designated UASI metropolitan areas include: five metropolitan areas in California; the Phoenix, Arizona (Maricopa County) metropolitan area; Denver, Colorado; and Las Vegas, Nevada. States and local communities also are increasing budget funds for immigration and homeland security matters.

The table below shows federal HSGP disbursements to California, Arizona, Colorado, Utah and Nevada, and how those funds will be deployed to local agencies and initiatives. The state HSGP allocation provides for state grants to cities and other local government agencies.

Federal Department of Homeland Security Grant Program Fiscal Year 2006

	Total HSGP Allocation	State HSGP Allocation	Local Law Enforcement Terrorism Prevention	UASI Allocation	Metropolitan Medical Response System Allocation	Citizens Corps Allocation
California	\$ 231,951,000	\$ 47,580,000	\$ 42,370,000	\$ 136,290,000	\$ 4,180,000	\$ 1,529,000
Arizona	20,171,000	8,660,000	6,290,000	3,920,000	929,000	372,000
Colorado	21,080,000	8,080,000	7,600,000	4,380,000	697,000	323,000
Utah	8,271,000	4,520,000	3,280,000		232,000	239,000
Nevada	20,509,000	8,110,000	4,180,000	7,750,000	232,000	237,000

Source: U.S. Department of Homeland Security

We expect homeland security funding to remain constant at the federal and state levels for the foreseeable future.

Competitive Strengths

Founded over 40 years ago, we have a well-established track record of providing a wide range of privatized services to the public sector. 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. Because public engineering contracts in California are awarded primarily based on qualifications, we believe our high quality of service is a significant factor in our providing services currently to over 60% of the cities and counties in California.

Broad range of services. Our focus on customer service has led us to continually broaden the scope of the services we provide. At different stages in our 40-year history, as the needs of our public sector clients have evolved, we have developed service capabilities complementary to our core engineering business, including building and safety services, financial and economic services, planning services, geotechnical services, code enforcement services and, most recently, disaster planning and homeland security services.

Further, because we recognize that local public sector projects and issues often cross departmental lines, we have developed the capability 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 over 20 offices dispersed throughout the western United States. Further, 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. In addition, we operate in some of the fastest growing states, counties and cities in the country. We operate in four of the five fastest growing counties in the country (based on number of residents added from July 2004 to July 2005): Maricopa County, Arizona; Clark County, Nevada; and Riverside and San Bernardino Counties, California. In addition, we operate in California, Arizona and Nevada, in which seven of the top 10 fastest growing cities in the nation (with populations over 100,000) are located. (Source: U.S. Census Bureau, Population Division, April 2005).

Strong, long-term client relationships. We have developed strong relationships with our public agency clients, some of whom we have worked with for over 25 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 25 years of experience in or supporting the public sector, and an average of 17 years with our company.

Key Business Strategies

We intend to pursue the following strategies to increase our revenue and market share and profitably expand our business:

Continue to focus on small to mid-sized public agencies. We focus on providing our services to small to mid-sized municipalities, counties, special districts and other public agencies and will continue to do so for the foreseeable future. We believe that these markets 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. In addition, because we work almost exclusively with governmental bodies, we are able to avoid the conflicts of interest that many of our competitors encounter who work for both private developers and the agencies that may be regulating these private entities. Further, working with literally hundreds of municipalities and public agencies has provided us with a broadly diversified client base.

Provide new service offerings and cross-sell existing services. We intend to continue to expand our service offerings and to cross-sell additional services to existing clients. A recent example is the creation of our subsidiary, American Homeland Solutions, to provide homeland security and public safety consulting services to our core client base of local and regional public agencies. Increasingly, these public agencies face budget constraints that limit their ability to support new, unique or temporary service offerings. We believe that these government entities will increasingly view the use of privatized services as an attractive solution.

Expand our business geographically. We have identified several high-growth regions in the United States, particularly in the Sunbelt, where we intend to pursue expansion of our business. We recently began serving communities in Colorado and Utah, and have opened offices in the states of Washington and Florida to capitalize on growth opportunities in these areas. We believe there are communities throughout the United States in which the local infrastructure is deteriorating and where contract, privatized services afford a potential solution. We intend to explore entering new markets through new office openings with key hires and through strategic acquisitions.

Continue to attract and retain valuable employees. We believe we are able to attract and retain valuable employees as a result of having developed a strong reputation for providing quality services to our public agency clients. In addition to our traditional recruiting activities, this has provided us with a unique opportunity to attract excellent employees with local knowledge and expertise as they seek opportunities outside of public service. As a result, we are able to attract and retain a staff of well-trained, knowledgeable and respected employees who are able to provide a high level of service and local knowledge to our clients. We will continue to seek to make key hires, individually and through acquisitions, to facilitate both geographic expansion and new service offerings.

Our Services

We specialize in providing privatized services to public agencies. Our core client base is composed of cities, counties, special districts, other local and state agencies, and tribal governments.

We are organized to win and profitably manage numerous small to mid-size contracts at any one time. With our focus on local and regional agencies, typical contracts can range from \$5,000 to over \$1,000,000 in contract revenue. Our typical project contract has a duration of less than 12 months, although we have city services contracts that have been in effect for over 25 years. At December 29, 2006, we had approximately 3,000 open projects.

We offer services in three segments: Engineering Services, Public Finance Services, and Homeland Security Services. The interfaces and synergies among and between these segments are key elements of our strategy. Management established these segments based upon the services provided, the different marketing strategies associated with these services and the specialized needs of their respective clients.

The following table presents, for the periods indicated, the approximate percentage of our consolidated contract revenue attributable to each segment:

	Fiscal Year					
	2004		2005		2006	
Engineering Services	83.4	%	84.6	%	84.1	%
Public Finance Services	16.6	%	15.3	%	14.7	%
Homeland Security Services	N/A		0.1	%	1.2	%

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

Engineering Services

We provide a wide range of engineering services to the public 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. Many jobs are awarded without a mandated proposal process, especially where an agency has had a longstanding relationship with an engineering professional that has expertise in the type of project under consideration. A substantial percentage of our engineering related work is for existing clients and represents an extension of our long-term associations with them.

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We offer our clients a broad range of engineering services, listed in the following table and described individually below:

City Engineering	Structural Engineering
Building and Safety	Planning
Public Works and Infrastructure Design	Landscape Architecture
Construction Management	Geotechnical Engineering
Traffic Engineering	Flood Control
Water and Wastewater Engineering	Code Enforcement

City Engineering. We specialize in providing engineering services tailored to the unique needs of municipalities. City Engineering can range from staffing an entire engineering department to carrying out specific projects within a municipality, such as developing a pavement management program or reviewing engineering plans on behalf of a city. This is the core of our original business and was the first service offered when we were founded over 40 years ago.

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

Public Works and Infrastructure Design. This sector constitutes our traditional engineering design function. Our engineers design roads, streets and highways; airport and transit facilities; freeway interchanges; high occupancy vehicles lanes; pavement reconstruction; and other elements of state, county and city infrastructure.

Construction Management. We have developed construction and program management systems specifically devoted to our public sector clients. We provide inspection services, along with full construction management and support, 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 and utilities.

Traffic Engineering. Our traffic engineering services involve 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. In 1999, we acquired WPA Traffic Engineering, Inc., a traffic engineering firm in southern California, which was integrated into our Orange County regional office and now operates as a division of our Willdan subsidiary.

Water and Wastewater Engineering. Our water and wastewater engineering services include design and project management of public water and wastewater facilities. 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.

Structural Engineering. 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.

Planning. We offer services to planning agencies as well as community development/redevelopment departments within cities. Typically, cities contract with us to relieve peak workload situations or to fill vacant planning positions on an interim basis. In other instances, we will handle the entire planning function for small or newly incorporated cities.

Landscape Architecture. Our services in the area of landscape architecture include design, planning, landscape management and urban forestry. 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.

Geotechnical Engineering. We provide geotechnical engineering services, including soils testing, slope stability evaluations, earthquake engineering, engineering geology and hydrogeology. We have a licensed, full service geotechnical laboratory at our headquarters in Anaheim, California, which offers an array of testing services, including the relatively new line of construction materials testing and inspection.

Flood Control. We provide a complete analysis and projection of storm flows for use in master drainage plans and for individual storm drain systems to reduce flooding in streets and adjacent properties.

Code Enforcement. We assist municipalities with the development and implementation of neighborhood preservation programs and the staffing of code enforcement personnel.

Selected Projects. Examples of typical ongoing projects we have in the Engineering Services segment include:

- *City of Rosemead, California.* We began working with the City of Rosemead in 1976, when we became the designated city engineer for this Los Angeles County community. Over time, the services we provide to the city have expanded to include: building and safety services, traffic engineering, planning, community development services, public works design, construction management and observation, and all related support services. Our personnel staff the city's planning and building department counters, administer housing rehabilitation programs and act as the city's building inspectors. Today, 30 years later, in addition to the services listed above, our personnel are named as the city's designated city engineer, traffic engineer and building official.
- *City of Maricopa, Arizona.* In October 2003, the City of Maricopa was incorporated and became Arizona's 88th city. We were hired in April 2004 to assist in creating a development services department for the city. This included continual staffing to respond to requests for building plan review and inspection, counter services, public works plan review as well as serving as the community's designated building official. After developing a number of standards, procedures and processes which relied heavily on our experience in other cities, we successfully opened the doors to the city's first development services department in July 2004. Since then, we have logged over 10,000 hours of counter staffing, provided building plan review and permitting for over 12,000 housing units and 100 commercial projects, and provided plan review for plats and infrastructure improvements on over 200 subdivisions ranging in size from 150 to 2,000 lots. Our relationship with the City of Maricopa has expanded to include the preparation of the city's first General Plan, and we currently are assisting with the development of code enforcement policies and procedures.
- *Clark County, Nevada.* In 1987, we were engaged by the Clark County, Nevada Department of Building and Safety to provide plan review services. In 1989, the Clark County Department of Public Works contracted with us to provide review services for drainage studies. Since then, our contracts have been renewed continuously and expanded to include review services for traffic studies and public improvement plans as well. At the inception of these contracts, we provided these review services on an overflow, as-needed basis. Beginning with a very low volume of services, the scope and quantity of services has grown over the past 20 years. In Clark County's fiscal year

2005-2006, we provided 296 engineering reviews for the Department of Public Works and 713 reviews for the Department of Building and Safety.

- *City of La Canada Flintridge, California.* In 1996, we began working as the prime consultant for the City of La Canada Flintridge on its approximately \$85 million project to convert the city from individual septic systems to a traditional sewer collection system. Our services for this project, which are still under way, include assessment district formation, engineering design, construction management and inspection. To launch the project, we prepared the sewer master plan, through which the city was divided into four separate phases. Funding for the design and construction of improvements within each phase was provided by the formation of assessment districts. Phases 1 and 2 are complete; the construction of Phase 3 is scheduled for completion in September 2007. We have completed the preliminary design for Phase 4, which is tentatively scheduled to begin construction in June 2008.

Public Finance Services

We acquired our public finance consulting business in 1999 to supplement the services we offer our public sector 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. However, since many public sector financing instruments, such as tax-exempt bonds, remain outstanding for up to 30 years, once we have established a client relationship, the client tends to retain us for as long as the financing remains in place. Our services in this segment include the following:

District Administration. We administer special districts on behalf of public agencies. The types of special districts administered include community facilities districts (in California, Mello-Roos districts), assessment districts, landscape and lighting districts, school facilities improvement districts, water districts, benefit assessment districts, fire suppression districts, and business improvement districts. Our administration services include calculating the annual levy for each parcel in the district; billing charges directly or through a county tax roll; preparing the annual Engineer's Report, budget and resolutions; reporting on collections and payment status; calculating prepayment quotes; and providing financial analyses, modeling and budget forecasting. From July 2006 to June 2007, we plan to administer over 1,400 districts on behalf of more than 190 public agencies, involving an annual levy of more than six million parcels that is expected to generate approximately \$590 million in public revenues.

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

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

- fee and rate studies, such as cost allocation studies, user fee analysis, utility rate analysis, fiscal impact studies and development fee studies;
- special district formations, which involves the design, development and initiation of community facilities districts, school facilities, improvement districts, assessment districts, landscape and lighting districts, benefit assessment districts, business improvement districts, fire suppression assessments and re-engineering;
- facility financing plans;
- economic impact analyses;
- the formation of new public entities, annexations and incorporations;
- reassessment engineering for bond refunding; and
- infrastructure analysis both to evaluate the need for rehabilitation efforts, and for financial reporting purposes, in association with Willdan.

Federal Compliance Services. 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 assist issuers to 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 500 issuers in 36 states and the District of Columbia on more than 1,900 bond issues totaling over \$47 billion in municipal debt.

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

- *Metropolitan Water District of Southern California.* Since 2002, we have administered water standby charges for the Metropolitan Water District of Southern California, or MWD. This involves the placement of standby charges onto the property tax bills of parcel owners within the six-county area serviced by MWD. Data for over four million parcels is managed. Over 3.3 million parcels are levied on an annual basis, totaling \$42.8 million in water district revenues. In 2005, our contract with the MWD was extended for an additional five years.
- *City of Indio, California.* In 1997, the City of Indio engaged us to administer their landscape and lighting districts. In April 2005, our services were expanded to include the administration of their local improvement and community facilities districts, as well as delinquency management and municipal disclosure services. This agreement is in effect for as long as the underlying districts are active. Since then, our relationship with the city has expanded further to include assessment engineering services, a water rate study, and special district formations. Arbitrage rebate calculations and continuing disclosure reports have also been contracted with us for a term of 30 years.
- *City of Roseville, California.* Our association with the City of Roseville also began in 1997, with the administration of 11 special financing districts. Since then, our administration services have expanded to encompass 33 special financing districts, with contracts that will remain in effect for as long as the districts remain active. Delinquency management and municipal disclosure are included in these contracts. We also have provided the city with a number of consulting services, including

two fiscal impact analyses, an update to a public facilities fee study, a fire facilities impact fee study, an animal control facilities fee study, and arbitrage rebate services. The contract for arbitrage rebate services is open for the lives of the underlying bonds.

Homeland Security Services

We provide homeland security and public safety consulting services 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.

We entered this segment in fiscal year 2004 with the formation of our subsidiary, American Homeland Solutions, or AHS, and began generating revenue in the second half of fiscal year 2005. Our services include:

Training Services. 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, or 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 Office of Emergency Services and the federal Department of Homeland Security's Office of Grants and Training, formerly Office of Domestic Preparedness.

Emergency Operations Planning Services. We design, implement, review and evaluate public agencies' Emergency Operations Plan, including compliance and consistency with federal, state and local laws and policies. Plans are tailored in response 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.

Terrorism and Threat Vulnerability Assessments. These assessments involve the development of policies and procedures to assess threats and the vulnerability of local, regional, state and national infrastructures. Included in these assessments are: city and county buildings, ports and airports, facilities, power supplies, water supplies, communications networks and transportation systems.

Planning Evaluations and 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 and are fully compliant with NIMS, the State Emergency Management System for California, and the National Response Plan. Exercises are designed to evaluate and test first responders and support personnel, as well as elected officials and agency management.

Public Safety and Management Consulting. We provide independent analyses, evaluations and recommendations for enhancing the performance of public safety agencies, such as police and fire departments.

Selected Projects. Examples of typical projects in the Homeland Security Services segment that are ongoing or completed include:

- *NIMS Training Sessions.* We conduct NIMS training sessions for law enforcement, fire protection, building department and public works personnel, and other first responders. In 2006, representatives from over 500 public agencies attended AHS training courses.
- *City of Norwalk, California.* We are currently assisting the City of Norwalk with an update of its emergency response plan. The project includes executive course training, and development of a field operations guide for emergency operations command and emergency disaster response.

- *City of Huntington Park, California.* We conducted an analysis of the structure and effectiveness of the police department in the City of Huntington Park and offered recommendations as to how the department could better serve the community.

Business Development

We emphasize the development of new business through personal relationships with key decision makers in our industry, and by cross-selling our services among our business segments as opportunities arise. We seek to attract prospective clients through a well-established referral network, and participation in professional and community organizations and events. We seek to serve our clients well and repeatedly, and believe that our success is demonstrated by the number of clients that we have served for many years, and the referrals they make to others for our services.

Our business development efforts begin at our local offices with our project managers who work with appointed, rather than elected, senior officials on a day-to-day basis. These project managers have responsibility for client development within their business segment and geographic region. We believe that our local personnel have an in-depth understanding of local issues and, therefore, can effectively target their marketing activities. Our project managers are responsible for maintaining close contact with their clients, to ensure that the clients' needs are being met and that they are satisfied with the quality of our work. Through close and regular client interaction, our project managers are well-positioned to identify new opportunities.

Marketing and Advertising

Our marketing programs are customer focused. Our managers participate in a variety of industry organizations related to the disciplines they practice and the public agencies they serve. Many of our managers serve or have served in leadership capacities for key professional organizations, such as the American Public Works Association, the International Code Council and the Institute of Transportation Engineers. Our managers also participate in public sector organizations including the League of California Cities, the National League of Cities, the International City Management Association, the National Association of County Engineers and the National Institute of Justice, Law Enforcement and Corrections.

Our Corporate Relations department, which is centralized in our Anaheim, California headquarters, is responsible for organizing attendance at public agency organization meetings, conferences and seminars and coordinating our print advertising and marketing campaigns. These tools are used to assist in the cultivation and nurturing of prospective and on-going client relationships. We advertise in more than 100 publications ranging from major national trade magazines to local publications to single edition event programs. We advertise in major public agency publications, including Police Chief Magazine, California Builder Magazine and the American Public Works Association Reporter.

Clients

Our clients primarily consist of cities, counties, redevelopment agencies, water districts, school districts and universities, state agencies, federal agencies, a variety of other special districts and agencies, and tribal governments. Our typical client is an agency serving a community of 10,000 to 300,000 persons. In fiscal year 2006, we served over 790 distinct clients. No individual client accounted for over 3.5% of our consolidated contract revenue in fiscal year 2006. For fiscal year 2006, each of our top eight clients accounted for between 1.7% and 3.5% of our consolidated contract revenue. Our clients are predominantly based in California, although we have major clients in both Arizona and Nevada. For fiscal year 2006, services provided to public agencies in California accounted for approximately 84% of our contract revenue.

Contract Structure

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

- *Time-and-materials provisions* provide for reimbursement of costs and overhead plus a fee for labor based on the time expended on a project multiplied by a negotiated hourly billing rate. The profitability achievable on a time and materials basis is driven by billable headcount and cost control.
- *Unit-based provisions* require the delivery of specific units of work, such as arbitrage rebate calculations, dissemination of municipal securities continuing disclosure reports, or building plan checks, at an agreed price per unit, with the total payment under the contract determined by the actual number of units performed.
- *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 may vary substantially.

The following table presents, for the periods indicated, the approximate percentage of our contract revenue subject to each type of pricing provision:

	Fiscal Year	
	2005	2006
Time-and-materials	58 %	58 %
Unit-based	29 %	28 %
Fixed-price	13 %	14 %
	100 %	100 %

Under each of the different types of contracts, other than unit-based, 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 contracts, we bill our clients upon delivery of the contracted item or, 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 the renewal, termination or modification of a contract may materially impact an individual project, we do not believe the renewal, termination or modification of any specific contract would have a material adverse effect on our consolidated operations due to our large volume of transactions and low customer concentration.

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 40 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 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 other localities. Our smaller competitors generally are limited both geographically as well as in the services they are able to provide.

We believe that primary competitors for our Engineering Services segment include: Charles Abbott & Associates, Inc., Bureau Veritas, Harris & Associates, Psomas, RBF Consulting, TetraTech, Inc., Stantec, Inc., Michael Baker Corporation, TRC Companies, Inc. and Jacobs Engineering Group, Inc. For our Public Finance Services segment, chief competitors include: David Taussig & Associates, Harris & Associates, Inc., NBS Government Finance Group and Ernst & Young LLP. We believe the Homeland Security Services segment competes primarily with EG&G (a division of URS Corporation) and SRA International, Inc.

Insurance

We currently maintain general liability insurance, with coverage in the amount of \$1.0 million per occurrence, subject to a \$2.0 million general aggregate limit; and professional liability insurance, with \$5.0 million in coverage per claim, and a \$10.0 million annual aggregate limit. Our professional liability policy is a claims made policy. We also carry excess coverage of an additional \$9.0 million for general liability claims. We are liable to pay these claims from our assets if and when the aggregate settlement or judgment amount exceeds our policy limits.

Employees

At December 29, 2006, we had approximately 584 full-time employees and 86 part-time employees. All PARs 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.

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

	As of Fiscal Year End					
	2004	2005			2006	
Engineering Services	404		481			542
Public Finance Services	65		78			78
Homeland Security Services	N/A		1			4
Holding Company Employees (Willdan Group, Inc.)	39		39			46
Total	508		599			670

At December 29, 2006, we contracted with approximately 40 former and current public safety officers to conduct homeland security services training courses. These instructors are classified as subconsultants and not employees. At December 29, 2006, all five of our field survey employees were covered by a Master Labor Agreement between the International Union of Operating Engineers Local Union No. 12 and the Southern California Association of Civil Engineers and Land Surveyors, which expires in October 2007.

Intellectual Property

The Willdan Group of Companies, Willdan, MuniFinancial, Arroyo Geotechnical, and AHS names and logos are service marks of ours, and we have applied for federal trademark registrations for each with the United States Patent and Trademark Office. We believe we have strong name recognition in the western United States and that this provides us a competitive advantage in obtaining new business. Consequently, we believe it is important to protect our brand identity through trademark registrations. The name and logo of our proprietary software, MuniMagic®, are registered trademarks of MuniFinancial, and we are planning to file an application for a federal copyright registration 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.willdangroup.com and our investor relations page is under the caption "Investor Relations" on our website. We make available on this website under "SEC Filings," free of charge, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports as soon as reasonably practicable after we electronically file or furnish such materials to the U.S. Securities and Exchange Commission, or SEC. We also make available on this website our prior earnings calls and, under the heading "Corporate Governance," our Code of Ethical Conduct. 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

The recent turnover of our top management, including our Chief Executive Officer, could have a material adverse effect on our business.

In May 2006, Dan W. Heil, a co-founder of our company and our chief executive officer since its inception (except for the period of July 1993 through October 1995), passed away unexpectedly. Just prior to Mr. Heil's death, and at his recommendation, our Board of Directors elected Win Westfall to succeed Mr. Heil. Mr. Westfall resigned as our chief executive officer in February 2007. One of our directors, Tracy Lenocker, agreed to resign from the board of directors and serve as our interim chief executive officer until we can find a successor to Mr. Westfall. In February 2007, Richard Kopecky, our Senior Vice President and the President and Chief Executive Officer of our operating subsidiary, Willdan, was terminated from these positions. In March 2007, David L. Hunt was appointed to serve as president and chief executive officer of our operating subsidiary, Willdan. Mr. Hunt has been with Willdan for 21 years, most recently as Senior Vice President and Regional Manager for the Orange County, California regional office.

We have engaged an executive search firm to find qualified candidates for the position of chief executive officer of Willdan Group, Inc. Although we have engaged a search firm, no assurance can be given that we can find qualified candidates promptly and that our business and the implementation of our business strategy will not be affected. Once a successor is chosen by our board of directors, no assurance can be given that this successor will be able to continue to successfully implement our strategic business plan or continue to foster our corporate culture.

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

Although we have an employment agreement with our chief financial officer, we do not have employment agreements or maintain key man life insurance on most of our other key executives and employees. Because of the recent turnovers of our chief executive officer and senior vice president and president of our subsidiary, Willdan, any additional losses of our management team or key employees could have a material adverse effect on our business, including the ability to secure or complete contracts and to attract and retain additional employees, including a new chief executive officer. Our success is highly dependent upon the efforts, talents, abilities, marketing skills and operational execution of our key executives and managers.

A downturn in public and private sector construction activity in the regions we serve may have a material adverse effect on our business, financial condition and results of operations.

A downturn in construction activity in our geographic service areas may affect demand for our services, which could have a material adverse effect on the results of our operations and our financial condition. During fiscal year 2006, a majority of our contract revenues were generated by services rendered to public agencies in connection with private and public sector construction projects.

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

- 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;
- adverse changes in other governmental rules and fiscal policies; and
- earthquakes and other natural disasters, which can cause uninsured losses, and other factors which are beyond our control.

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

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

Adverse economic and other conditions affecting the local and regional economies of California may reduce the demand for our services, which could have a material adverse effect on our business, financial condition and results of operations. During fiscal year 2006, approximately 84% of our contract revenue was derived from services rendered to public agencies in California. From 1991 to 1996, California experienced an economic downturn that had a negative impact on the construction and development sectors. This economic downturn caused us to experience cash flow difficulties and substantial operating losses.

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

Our state and local government clients may 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.

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 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 2006, approximately 84% of our contract revenue was derived from services rendered to public agencies in California. While attempts at such legislation have failed in the past, as the composition of California's legislative body changes over time there is an increased risk that measures could be adopted in the future that limit the market for privatized services.

State and other public employee unions may prevail in pending or future litigation which 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 revenues and profitability.

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

Presently before the California Supreme Court is the case of Professional Engineers in California Government, et al. v. Jeff Morales, et al. in which Professional Engineers in California Government, or PEGC, a union representing state civil service employees, is challenging whether Proposition 35, which allows state agencies to use private contractors to perform architectural and engineering services on public works, effected an implied repeal or amendment of existing statutes to the extent that they limit the ability of the State of California Department of Transportation, or Caltrans, to hire private contractors to perform such services on public works. PEGC has been challenging Caltrans' hiring of private firms since 1986, and in 2002 began this judicial challenge of Caltrans' hiring practices based on Caltrans' interpretation of the affect of Proposition 35. In the event that PEGC 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 outcomes of which could affect our ability to compete for contracts and may have an adverse effect on our revenues 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 2006, approximately 14% of our contract revenue was derived from fixed-price contracts. Under fixed price contracts, we perform services under a contract at a stipulated price which protects clients but exposes us to a greater number of risks than time-and-materials and unit-based contracts. These risks include:

- underestimation of costs;
- ambiguities in specifications;
- problems with new technologies;
- unforeseen costs or difficulties;
- failures of subcontractors;
- delays beyond our control; and

- economic and other changes that may occur during the contract period.

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

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

We primarily work for municipalities 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 type and pricing terms of contracts can vary widely from agency to agency;
- change orders and additions to contracts can be difficult to obtain; and
- periodic audits can be a condition of certain contract arrangements.

Changes in the perceived risk of acts of terrorism or natural disasters could have a material adverse effect on our ability to grow our American Homeland Solutions 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 American Homeland Solutions, or AHS, could be negatively affected. AHS provides training and consulting services to local and regional agencies related to preparing for and responding to incidents of terrorism and natural disaster. Should the perceived risk of such incidence decline, federal and state funding for homeland security and emergency preparedness could be reduced which might decrease demand for our services and have a material adverse affect on our business, financial condition and results of operations.

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

A critical factor to our business is our ability to attract and retain qualified professionals. We are continually at risk of losing current professionals or being unable to hire additional professionals as needed. If we are unable to attract new qualified employees, our ability to grow will be adversely affected. If we are unable to retain current employees, our financial condition and results of operations may be adversely affected. We would also be increasing our competition, as former employees pose the greatest threat of significant competition to our business.

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

The market for services in the engineering, municipal consulting, public finance consulting, geotechnical, homeland security and other technical services industries 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. With regard to engineering related services, which represented approximately 85% and 84% of our contract revenue for fiscal years 2005 and 2006, respectively, our competitors include many larger consulting firms such as TetraTech, Inc., Stantec, Inc., and Jacobs Engineering Group, Inc. In certain public finance consulting services, we may compete with large accounting firms, such as Ernst & Young LLP. We can offer no assurance that we will be able to compete successfully in the future with these or other competitors.

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

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

We currently maintain general liability insurance, with coverage in the amount of \$1.0 million per occurrence, subject to a \$2.0 million general aggregate limit; and professional liability insurance, with \$5.0 million in coverage per claim, and a \$10.0 million annual aggregate limit. We also carry excess coverage of an additional \$9.0 million for general liability claims. Claims may be made against us that exceed these limits. We are liable to pay claims from our assets if and when the aggregate settlement or judgment amount exceeds our policy limits. In 2002, we experienced two claims against our professional liability insurance that exceeded by \$3.1 million the aggregate annual limit of our coverage, which at that time was \$5.0 million. Since then, we were awarded approximately \$1.0 million in the third quarter of fiscal year 2006 on a claim for indemnity, recovering the settlement amount and interest thereon and attorney fees and costs related to one of the 2002 claims. This award replenished the 2002 aggregate limits of our professional liability policy. The other 2002 claim and the corresponding judgment was settled in March 2007. As a result of these two events, we expect to be liable for \$2.1 million, which is the amount by which these 2002 claims exceeded our policy limits in 2002.

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

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

Under some of our contracts, we rely on the efforts and skills of subconsultants for the performance of some of the tasks. In fiscal years 2005 and 2006, subconsultant costs comprised 7.1% and 5.3%, respectively, of our contract revenue. The absence of qualified subconsultants with whom we have a satisfactory relationship could adversely affect the quality of our service offerings and therefore our financial results.

We may not be able to maintain or accelerate our current growth rate, effectively manage our expanding operations or achieve planned growth on a timely or profitable basis.

Our employee headcount and volume of operations have grown rapidly over the past five years. This rapid growth has placed, and is expected to continue to place, a significant strain on our management and on our administrative, operational and financial infrastructure. The number of our employees has increased from 508 at the end of fiscal year 2004 to 599 at the end of fiscal year 2005 to 670 at the end of fiscal year 2006. We anticipate further growth as we seek to increase the geographic scope of our client base. Our success will depend in part upon the ability of our senior management to manage an expanding array of engineering, public finance consulting, homeland security consulting and technical services. We must continue to hire, train, manage and integrate a significant number of qualified engineers and other technical and professional personnel to continue to grow. If our new employees perform poorly or if we are unsuccessful in hiring, training, managing and integrating new employees, or retaining these or our existing employees, our business may suffer.

Additionally, to manage our expected continued growth of our employee headcount and volume of operations, we will need to continue to improve our information technology infrastructure and our operational, financial and management controls and reporting systems and procedures, and manage expanded operations in geographically distributed locations. Our expected additional headcount and capital investment will increase our costs, which will make it more difficult for us to offset any future revenue shortfalls by reducing expenses in the short term. If we fail to successfully manage our growth we will be unable to successfully execute our business plan.

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

As part of our business strategy, we intend to consider acquisitions of companies that are complementary to our business. Appropriate acquisitions could allow us to expand into new geographical locations, offer new services, or acquire additional talent. Accordingly, our future performance will be impacted by our ability to identify appropriate businesses to acquire, negotiate favorable terms for such acquisitions and then effectively and efficiently integrate such acquisitions into our existing businesses. There is no certainty that we will succeed in such endeavors.

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

- difficulties in integrating the operations, technologies, products, existing contracts, accounting and personnel of the target company and realizing the anticipated synergies of the combined businesses;
- difficulties in supporting and transitioning customers, if any, of the target company;
- diversion of our financial and management resources from existing operations;
- the price we pay or other resources that we devote may exceed the value we realize, or the value we could have realized if we had allocated the purchase price or other resources to another opportunity;
- risks of entering new markets in which we have limited or no experience;
- potential loss of key employees, customers and strategic alliances from either our current business or the target company's business;
- assumption of unanticipated problems or latent liabilities, such as problems with the quality of the target company's services; and
- inability to generate sufficient net income to justify the acquisition costs.

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

If we fail to comply with the requirements imposed by Section 404 of the Sarbanes-Oxley Act, the trading price of our stock could drop significantly.

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, or Sarbanes-Oxley, beginning with the filing of our Annual Report on Form 10-K for fiscal year 2007, we will be required to provide a management certification on our internal control over financial reporting and we may be required to provide an attestation report for fiscal year 2007 as well. If we do not become an accelerated filer in fiscal year 2007, we will not be required to provide an attestation report from our independent registered public accounting firm until fiscal year 2008. In order to achieve compliance with Section 404 of Sarbanes-Oxley within the prescribed period, we will need to engage in a process to document and evaluate our internal control over financial reporting, which will be both costly and challenging. We can provide no assurance as to our conclusions or those of our independent registered public accounting firm with respect to the effectiveness of our internal control over financial reporting under Section 404 of Sarbanes-Oxley. There is a risk that neither we nor our independent auditors will be able to conclude that our internal controls over financial reporting are effective. Moreover, the costs to comply with the provisions of Section 404 of Sarbanes-Oxley, as presently in effect, could be significant.

In addition, during the course of testing the design and effectiveness of our internal controls, we or our independent registered public accounting firm may identify deficiencies that we may not be able to remediate in time to allow for unqualified reports from our management and our independent registered public accounting firm. Furthermore, if we fail to achieve and maintain the adequacy of our internal controls, as such standards are modified, supplemented or amended from time to time, we may not be able to ensure that we can conclude on an ongoing basis that we have effective internal controls over financial reporting in accordance with Section 404 of Sarbanes-Oxley. Effective internal controls, particularly those related to revenue recognition, are necessary for us to produce reliable financial reports and are important to helping prevent financial fraud. If we cannot provide reliable financial reports or prevent fraud, our business and operating results could be harmed, investors could lose confidence in our reported financial information, and the trading price of our stock could drop significantly.

We will incur significant increased costs as a result of operating as a new public company, and our management will be required to devote substantial time to new compliance initiatives.

Prior to November 2006, we had never operated as a public company. As a public company, we incur significant legal, accounting and other expenses that we did not incur as a private company. In addition, Sarbanes-Oxley as well as new rules subsequently implemented by the Securities and Exchange Commission, or the SEC, and the Nasdaq Global Market, have imposed various new requirements on public companies, including requiring changes in corporate governance practices. Our management and other personnel will need to continue to devote a substantial amount of time to these new compliance initiatives. Moreover, rules and regulations for public companies will increase our legal and financial compliance costs and will make some activities more time-consuming and costly. For example, we expect these rules and regulations to make it more difficult and more expensive for us to obtain director and officer liability insurance, and we may be required to incur substantial costs to maintain the same or similar coverage.

We may not be able to obtain capital when desired on favorable terms, if at all, or without dilution to our stockholders.

We anticipate that our current cash, cash equivalents, cash provided by operating activities and funds available through 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. If this occurs, we may need additional financing to execute on our current or future business strategies, which include the following:

- hire additional engineers and other personnel;
- develop new or enhance existing service lines;
- expand our business geographically;
- enhance our operating infrastructure;
- acquire complementary businesses; or
- otherwise respond to competitive pressures.

If we raise additional funds through the issuance of convertible debt or equity securities, the percentage ownership of our stockholders could be significantly diluted, and these newly issued securities may have rights, preferences or privileges senior to those of existing stockholders. We cannot assure you that additional financing will be available on terms favorable to us, or at all. If adequate funds are not available or are not available on acceptable terms, if and when needed, our ability to fund our operations, take advantage of unanticipated opportunities, develop or enhance our products, or otherwise respond to competitive pressures would be significantly limited.

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 26, 2007, our directors and executive officers beneficially own 1,131,120 shares of common stock, or approximately 15.8% of our outstanding common stock. Of these shares, 920,120 shares, or approximately 12.9% of our outstanding common stock, are owned by Linda L. Heil, a member of our board of directors.

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, plan, anticipate, believe, estimate, predict, project, potential, or continue or the negative of such terms or other comparable terminology. This report includes, among others, forward-looking statements regarding our:

- expectations about future customers;
- expectations about expanded service offerings;
- expectations about our ability to cross-sell additional services to existing clients;

- expectations about our intended geographical expansion;
- expectations about our ability to attract executive officers and key employees;
- evaluation of the materiality of our current legal proceedings; and
- expectations about positive cash flow generation and existing cash and investments 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

Not applicable.

ITEM 2. PROPERTIES

Our corporate headquarters are located in approximately 21,000 square feet of office space that we lease at 2401 East Katella Avenue, Anaheim, California. In addition, we lease office space in over 20 other locations principally in California, Nevada, Arizona and Washington. In total, our facilities contain approximately 150,000 square feet of office space and are subject to leases that expire through fiscal year 2013. We also rent additional office space on a month-to-month basis. We believe that our existing facilities are adequate to meet current requirements and that suitable additional or substitute space will be available as needed to accommodate any expansion of operations and for additional offices.

ITEM 3. LEGAL PROCEEDINGS

We are subject from time to time to claims and lawsuits, 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.

We were involved in a dispute with the City of West Hollywood, California. This matter concerned a construction project in the City of West Hollywood for the improvement of Santa Monica Boulevard. The project required the reconstruction of approximately three miles of roadway. The city and the general contractor claimed that the design we prepared was inadequate for the volume and type of traffic on Santa Monica Boulevard. The city also claimed that we failed to control the costs of the project due to contractor claims for extra costs.

In the fourth quarter of 2005, following a trial in the Los Angeles County Superior Court, the jury rendered a verdict against us and awarded damages to the city in the amount of \$6.3 million, including attorney's fees, interest and costs. Our insurance company posted bonds and filed an appeal with respect to this matter. During the appeal process, interest accrued on the outstanding judgment at the rate of 10% per annum.

As of December 30, 2005, we believed that approximately \$3.2 million of the damages was covered by our professional liability insurance policy. Therefore, in fiscal year 2005, we expensed \$2.7 million of this judgment and recorded related interest expense of \$0.4 million related to the West Hollywood case. In the third quarter of 2006, we obtained a court ruling awarding us approximately \$1.0 million on a claim for indemnity, recovering the settlement amount and interest thereon and attorney fees and costs in

connection with an unrelated claim that arose in fiscal year 2002. This ruling has been appealed by the cross-defendant and that appeal is ongoing. Because the claim arose in 2002 and our insurance carrier previously paid the settlement amount, we were able to replenish our insurance coverage by approximately \$1.0 million for that policy year. Therefore, we reflected an additional receivable of approximately \$1.0 million from our insurance company in the third quarter of 2006, which will remain outstanding while the appeal is ongoing, and a corresponding reduction in litigation accrual expense.

In our consolidated balance sheet as of December 30, 2005, we reflected a total liability of \$6.3 million and the related receivable of \$3.2 million from the insurance company. In our consolidated balance sheet as of December 29, 2006, we reflected a total liability of \$6.9 million and related receivables of \$4.2 from the insurance company.

Effective March 6, 2007, we entered into a settlement agreement with the City of West Hollywood relating to the Santa Monica Boulevard matter. Pursuant to the settlement agreement, both parties have agreed to a full mutual release of all claims related to the lawsuit and appeal, subject to dismissal of the appeal. Neither party admits any fault or liability related to the claims in the lawsuit.

Under the terms of the settlement agreement, we agreed to pay \$6.2 million in cash to the city. Our insurance company has already paid \$3.2 million of the settlement amount and we expect to receive an additional \$1.0 million from our insurance company upon the resolution of the appeal in the unrelated matter discussed above. We also agreed to provide an \$85,000 credit for future services to the city. The future services are to be provided at our then prevailing rates and can be chosen in the city's sole discretion from services provided by us to our municipal clients. The city must use the credit before December 31, 2012.

We will file a stipulation and request for dismissal of appeal in the action against the city. In the event that the California Court of Appeal declines to accept the stipulation and dismissal of appeal, the settlement agreement will be invalid and any payment made under the agreement will be returned to us.

We do not believe, based on current knowledge, that the foregoing legal proceedings are likely to have a material adverse effect on our financial position, results of operations or cash flows. However, we may incur substantial expenses in defending against third party claims. In the event of a determination adverse to us, we may incur substantial monetary liability, and be required to change our business practices. Either of these could have a material adverse effect on our financial position, results of operations or cash flows.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of our stockholders during the last quarter of our fiscal year ended December 29, 2006.

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 on the Nasdaq Global Market under the symbol WLDN . For the fourth quarter of the fiscal year ended December 29, 2006, the high and low per share sales prices of our common stock, as reported on the Nasdaq Global Market (beginning November 21, 2006) were \$11.99 and \$9.25, respectively.

On March 26, 2007, the closing sales price per share of our common stock, as reported on the Nasdaq Global Market, was \$9.60.

Stockholders

As of March 26, 2007, there were 77 stockholders of record of our common stock.

Dividends

We have not declared or paid cash dividends on our common stock. Our revolving loan agreement prohibits the payment of dividends on our common stock, other than dividends payable in our common stock, without the consent of the lender. The final S Corporation distribution of \$6.3 million was paid to the holders of our redeemable common stock in two equal portions. The first portion was paid in December 2006. The second portion was accrued as a current liability and is reflected in our consolidated balance sheet at December 29, 2006. The second portion was paid in January 2007.

Comparison of Cumulative Total Return

The following graph compares the cumulative annual stockholders return on our common stock from the date trading began on The Nasdaq Global Market (November 21, 2006) through December 29, 2006 to that of the total return index for the Russell 2000 and a peer group of companies assuming an investment of \$100 on the date our stock began trading publicly. The companies in our peer group include publicly traded companies that have operating characteristics most comparable to ours and that provide engineering services. The peer group includes the following companies: TetraTech, Inc., Michael Baker Corporation and TRC Companies, Inc. In calculating total annual stockholder return, reinvestment of dividends, if any, is assumed. The indices are included for comparative purposes only. They do not necessarily reflect management's opinion that such indices are an appropriate measure of the relative performance of our common stock. This graph is not soliciting material, is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference in any of our filings under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date hereof and irrespective of any general incorporation language in any such filing.

**Comparison of 2 Month Cumulative Total Return
Among Willdan Group, Inc., The Russell 2000 Index And A Peer Group**

Recent Sales of Unregistered Securities

In the three years preceding the filing of this report, we have issued the following securities that were not registered under the Securities Act:

On November 27, 2006, we issued stock warrants in connection with our IPO to the underwriter for the right to purchase 290,000 common shares at 120% of the IPO share price (or \$12.00 per share). The warrants become exercisable on November 20, 2007 and expire on November 20, 2011. The stock warrants were issued in reliance on Regulation D promulgated under the Securities Act of 1933, as amended.

On June 30, 2006, we issued an aggregate of 4,712,640 shares of our common stock to the 75 shareholders of The Willdan Group of Companies, Inc., a California corporation (Willdan California). The shares were issued in connection with the merger of Willdan California into Willdan Group in order to effect its reincorporation in the state of Delaware. The shares were issued in reliance on Rule 145(a)(2) of the Securities Act of 1933, as amended.

In January 2006, we issued an aggregate of 4,900 shares of our common stock to four purchasers, described below, for an aggregate purchase price of \$17,798 (or \$3.62 per share).

From August 2005 through October 2005, we issued an aggregate of 953,500 shares of our common stock to 59 purchasers, described below, for an aggregate purchase price of \$3,594,695 (or \$3.77 per share). These issuances were all part of the same stock offering.

With respect to the transactions in January 2006 and from August 2005 through October 2005, the purchasers were a select group of our officers, directors, key managers or consultants of the Company and/or its subsidiaries. The offer and sale of shares during these periods were not registered or qualified under federal or state securities laws, and exemptions from registration and qualification provided by these securities laws may not have been available or may not have been perfected. Consequently, we may be deemed to have violated the registration and qualification requirements of these securities laws with respect to the offer and sale of the common stock. To address this matter, in July 2006 we made a repurchase offer to the holders of the shares of common stock in accordance with the rules and regulations promulgated by the commissioner of the California Department of Corporations. Under the repurchase offer, we offered to repurchase from each stockholder all of his or her shares purchased during the period in question at a price equal to the original purchase price paid by such stockholder plus interest at an annual rate of 7% from the date of purchase. All of the stockholders elected to decline the repurchase offer.

Effective January 1, 2005, we issued an aggregate of 2,820,000 additional shares of common stock to stockholders of record as of January 1, 2005 in connection with a stock dividend approved by our board of directors on August 4, 2004. In connection with the stock dividend, each stockholder received an additional three shares of common stock for each one share of common stock owned by such stockholders as of the record date. The issuance of common stock was deemed to be exempt from registration under the Securities Act in reliance on Section 3(a)(9).

From June 2004 through August 2004, we issued an aggregate of 208,400 shares of our common stock to 33 purchasers for an aggregate purchase price of \$628,326 (or \$3.02 per share). These issuances were all part of the same stock offering. The number of shares and per share price have been adjusted to give effect to the stock dividend on January 1, 2005. The purchasers were a select group of our officers, directors, key managers and consultants.

Unless otherwise stated, the sales of the above securities were deemed by the Registrant to be exempt from registration under the Securities Act in reliance upon Section 4(2) of the Securities Act as transactions by an issuer not involving any public offering. The purchasers comprised a select group of our officers, directors, managers and service providers who, as a group, have had longstanding relationships with and knowledge of our Company, our senior management and our board of directors. The purchasers were provided financial and other information concerning us and were allowed the opportunity to ask questions and receive information from us prior to making their investment decisions. The purchasers represented their intention to acquire the securities for investment purposes and not with a view to sell or for sale in connection with any distribution thereof. Based on the limited nature of the offering, the level of knowledge and relationships of the purchasers with us, the provision and access to information and the restrictions on transfer, we believe our offerings satisfied the Section 4(2) exemption of the Act.

Use of Proceeds

On November 20, 2006, a registration statement (Registration No. 333-136444) relating to our initial public offering of our common stock was declared effective by the Securities and Exchange Commission. Under this registration statement, we registered 2,900,000 shares of our common stock, and another 435,000 shares subject to the underwriter's over-allotment option. All 3,335,000 shares of common stock registered under the registration statement, including the 435,000 shares covered by the over-allotment option, were sold at a price to the public of \$10.00 per share. Of these shares, 2,435,000 shares were sold by us, including the 435,000 shares covered by the over-allotment option, and 900,000 shares were sold by the selling stockholder identified in the registration statement. The offering closed on November 27, 2006. The managing underwriter was Wedbush Morgan Securities Inc.

The offering terminated after the sale of all of the shares registered on the registration statement. The aggregate gross proceeds from the shares of common stock sold by us, including the exercise of the over-allotment option, were approximately \$24.4 million. The aggregate net proceeds to us from the offering were approximately \$20.4 million after deducting an aggregate of \$1.7 million in underwriting discounts and commissions paid to the underwriters and an estimated \$2.3 million in other expenses incurred in connection with the offering. As of the date of this report, we have used the proceeds from the offering for working capital and general corporate purposes and to fund a payment of approximately \$6.3 million as the final S Corporation distribution to stockholders who were stockholders immediately prior to the offering, including some of our officers, directors and significant employees.

Issuer Purchases of Equity Securities

None.

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				
	2002	2003	2004	2005	2006
	(in thousands except per share amounts)				
Consolidated Statement of Operations Data:					
Contract revenues	\$ 48,778	\$ 54,485	\$ 58,263	\$ 67,263	\$ 78,339
Direct costs of contract revenues:					
Salaries and wages	13,211	14,522	15,623	20,918	24,602
Production expenses	1,318	1,327	1,497	1,529	1,496
Subconsultant services	5,781	7,360	6,089	4,745	4,168
Total direct costs of contract revenues	20,310	23,209	23,209	27,192	30,266
General and administrative expenses:					
Salaries and wages, payroll taxes, employee benefits	15,649	17,473	19,711	22,720	26,051
Facilities	3,096	3,466	3,267	3,481	4,046
Stock-based compensation				2,737	38
Depreciation and amortization	844	865	1,056	1,257	1,584
Litigation accrual (reversal)				2,686	(1,049)
Other	6,490	6,202	6,923	7,935	10,359
Total general and administrative expenses	26,079	28,006	30,957	40,816	41,029
Loss on impairment of goodwill	353				
Income (loss) from operations	2,036	3,270	4,097	(745)	7,044
Other income (expense):					
Interest expense	(496)	(366)	(272)	(630)	(773)
Other, net		1	(6)	11	2,470
Total other income (expense)	(496)	(365)	(278)	(619)	1,697
Income (loss) before income taxes	1,540	2,905	3,819	(1,364)	8,741
Income tax provision	34	53	47	17	2,452
Net income (loss)	\$ 1,506	\$ 2,852	\$ 3,772	\$ (1,381)	\$ 6,289
Earnings per common share, basic and diluted(1)	\$ 0.42	\$ 0.79	\$ 1.03	\$ (0.35)	\$ 1.28
Weighted average common shares outstanding, basic and diluted(1)	3,566,000	3,633,000	3,653,000	3,994,000	4,900,000
S Corporation distributions paid per share(1)	\$ 0.14	\$ 0.11	\$ 0.30	\$ 0.46	\$ 1.16
Pro Forma Data (unaudited):					
Pro forma provision for income taxes(2)	\$ 616	\$ 1,162	\$ 1,528	\$ 549	\$ 2,596
Pro forma net income (loss)(3)	\$ 924	\$ 1,743	\$ 2,291	\$ (1,913)	\$ 6,145
Pro forma earnings per common share, basic and diluted	\$ 0.26	\$ 0.48	\$ 0.63	\$ (0.48)	\$ 1.25
Other Operating Data (unaudited):					
Adjusted EBITDA(4)	\$ 2,893	\$ 4,154	\$ 5,163	\$ 5,951	\$ 7,651
Revenue per employee(5)	\$ 109	\$ 113	\$ 119	\$	