Willdan Group, Inc.
Form S-1/A
September 19, 2006

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As filed with the Securities and Exchange Commission on September 19, 2006

Registration No. 333-136444

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

Amendment No. 1
to
FORM S-1

**REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933**

WILLDAN GROUP, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware	**8711**	**14-1951112**
(State or Other Jurisdiction of Incorporation or Organization)	**(Primary Standard Industrial Classification Code Number)**	**(I.R.S. Employer Identification Number)**

**2401 East Katella Avenue, Suite 300
Anaheim, California 92806
(800) 424-9144**

(Address, Including Zip Code, and Telephone Number, Including Area Code, of Registrant's Principal Executive Offices)

**Win Westfall
Chief Executive Officer
2401 East Katella Avenue, Suite 300
Anaheim, California 92806
(800) 424-9144**

(Name, Address, Including Zip Code, and Telephone Number, Including Area Code, of Agent For Service)

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Approximate date of commencement of proposed sale to the public: **As soon as practicable after this registration statement becomes effective.**

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. o

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

CALCULATION OF REGISTRATION FEE

Title of Each Class of Security To be Registered	Proposed Maximum Aggregate Offering Price(1)	Amount of Registration Fee(2)
Common Stock, $0.01 par value per share	$32,200,000	$3,446(3)

(1) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(o) under the Securities Act of 1933.

(2) Calculated pursuant to Rule 457(o) based on an estimate of the proposed maximum aggregate offering price, including the offering price of shares that the underwriters have the option to purchase to cover over- allotments, if any.

(3) The Registrant has previously paid $3,077.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act or until the registration statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), shall determine.

The information contained in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and we are not soliciting offers to buy these securities in any state where any such offer or sale is not permitted.

PRELIMINARY PROSPECTUS (Subject to Completion)

Dated September 19, 2006

2,800,000 Shares

COMMON STOCK

Willdan Group, Inc. is offering 2,000,000 shares of its common stock, and a selling stockholder is offering 800,000 shares of common stock. We estimate we will use approximately $5.9 million of the net proceeds of this offering to fund the final S Corporation distribution to our existing stockholders, of which approximately $3.2 million will be distributed to our officers, directors and other significant employees. We will not receive any proceeds from the sale of shares by the selling stockholder.

This is our initial public offering, and no public market currently exists for our shares. We anticipate that the initial public offering price will be between $9.00 and $11.00 per share.

We have applied to list our common stock on the Nasdaq Global Market under the symbol "WLDN".

Investing in our common stock involves risks. See "Risk Factors" beginning on page 9.

	Price to Public	Underwriting Discounts and Commissions	Proceeds to Willdan Group	Proceeds to Selling Stockholder
Per Share	$	$	$	$
Total	$	$	$	$

We have granted the underwriters the right to purchase up to an additional 420,000 shares to cover over-allotments.

The Securities and Exchange Commission and state securities regulators have not approved or disapproved these securities, or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The underwriters expect to deliver the shares to purchasers on , 2006.

Wedbush Morgan Securities

The date of this prospectus is , 2006

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We have not authorized anyone to provide you with information different from that contained in this prospectus. We and the selling stockholder are offering to sell, and seeking offers to buy, shares of our common stock only in jurisdictions where offers and sales are permitted. The information in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or any sale of shares of our common stock.

PROSPECTUS SUMMARY

This summary highlights information contained elsewhere in this prospectus and does not contain all of the information you should consider before investing in our common stock. You should read this entire prospectus carefully, especially the risks of investing in our common stock discussed under "Risk Factors" beginning on page 9, and the consolidated financial statements and notes to those consolidated financial statements, before making an investment decision.

WILLDAN GROUP, INC.

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 have a staff of 657 as of June 30, 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 private sector 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.

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 1960's, 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.

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 that we compete for 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.

Broad range of services. 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, 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 that understand their local needs. We deliver our services through a network of over 20 offices dispersed throughout the western United States. 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 United States.

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.

Experienced, talented, and motivated employees. Our staff consists of seasoned professionals with a broad array of specialties, and a strong customer service orientation. Our executive officers have an average of more than 25 years of experience in or supporting the public sector.

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.

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.

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 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. We will continue to seek to make key hires, individually and through acquisitions, to facilitate both geographic expansion and new service offerings.

Risk Factors

An investment in our common stock involves risks. Please see the section of this prospectus entitled "Risk Factors" for a discussion of the factors you should consider before deciding to invest in our common stock. These risks include, among other things:

- downturns in public and private sector construction activity in the regions we serve;
- changes in the local and regional economies of California;
- the enactment of legislation that could limit the ability of state, regional or local agencies to contract for our privatized services;
- changes in elected or appointed officials in the cities and counties we serve; and
- our ability to retain the continued service of our key professionals and to identify, hire and retain additional qualified professionals.

Our Corporate Information

We are incorporated under the laws of the State of Delaware and commenced our present business in May 1964. Our principal executive offices are located at 2401 East Katella Avenue, Suite 300, Anaheim, California 92806. The telephone number of our principal executive offices is (800) 424-9144, and our main corporate website is *www.willdangroup.com*. The information on, or that can be accessed through, our website is not part of this prospectus.

Prior to this offering, we were taxed as an S Corporation for purposes of federal and state income taxes. As such, each of our stockholders has been required to include his or her portion of our taxable income or loss on his or her federal and state income tax returns. Effective upon completion of this

offering, our S Corporation status will terminate and we will thereafter be subject to federal and increased state income taxes.

We own, have rights to, or have applied for the service marks and trade names that we use in conjunction with our business, including Willdan, MuniFinancial, Arroyo Geotechnical, and our Willdan Group logo. All other trademarks and trade names appearing in this prospectus are the property of their respective holders.

We operate and report financial results on a fiscal year of 52 or 53 weeks ending on the Friday closest to December 31. Accordingly, a reference to "fiscal 2005" in this prospectus, for example, refers to the 12-month period ended December 30, 2005. The only 53-week fiscal year in the last five years was fiscal year 2003. Unless the context otherwise requires, we use the terms "Willdan Group," the "company," "we," "us" and "our" in this prospectus to refer to Willdan Group, Inc., its subsidiaries, and its predecessor company, The Willdan Group of Companies.

THE OFFERING

Common stock offered by Willdan Group, Inc.	2,000,000 shares
Common stock offered by selling stockholder	800,000 shares
Total	2,800,000 shares
Common stock outstanding after this offering	6,712,640 shares
Over-allotment option offered by Willdan Group, Inc.	420,000 shares
Use of proceeds	We intend to use the net proceeds to us from this offering to fund our estimated final S Corporation distribution to our existing stockholders, some of whom are our officers, directors and significant employees, and for working capital and other general corporate purposes, including possible acquisitions. We estimate that approximately $5.9 million of the net proceeds of this offering will be distributed as part of the final S Corporation distribution, of which approximately $3.2 million will be distributed to our officers, directors and significant employees. We will not receive any proceeds from the sale of shares by the selling stockholder. See "Use of Proceeds" for more information, including the amount of the estimated final S Corporation distribution to be received by each of our officers, directors and significant employees.
Risk factors	You should read the "Risk Factors" section of this prospectus for a discussion of factors that you should consider carefully before deciding to invest in shares of our common stock.
Proposed Nasdaq Global Market symbol	"WLDN"

The number of shares of our common stock to be outstanding following this offering is based on 4,712,640 shares of our common stock outstanding as of June 30, 2006 and excludes up to (i) an aggregate of 600,000 shares of common stock available for issuance under our 2006 Stock Incentive Plan and our 2006 Employee Stock Purchase Plan and (ii) an aggregate of 280,000 shares of common stock issuable upon exercise of the warrants we will issue to Wedbush Morgan Securities Inc. upon completion of this offering. There currently are no outstanding stock options or other rights to acquire shares of our common stock. Upon completion of this offering, we plan to issue options to acquire an aggregate of 20,000 shares to certain executive officers. See "Management Executive Compensation."

Unless otherwise expressly stated or the context otherwise requires, all information contained in this prospectus assumes that the underwriters' over-allotment option will not be exercised.

SUMMARY CONSOLIDATED FINANCIAL AND OTHER DATA

The following table sets forth our summary consolidated financial and other data on a historical and as adjusted basis and certain pro forma information to reflect our conversion from an S Corporation to a C Corporation for tax purposes.

You should read the following summary consolidated financial and other data in conjunction with our consolidated historical financial statements and notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations" that are included elsewhere in this prospectus.

The historical consolidated balance sheet data as of December 31, 2004 and December 30, 2005 and the historical consolidated statement of operations data for the fiscal years 2003, 2004 and 2005 have been derived from our consolidated financial statements, audited by KPMG LLP, independent registered public accounting firm, that are included elsewhere in this prospectus. The historical consolidated balance sheet data as of January 2, 2004 have been derived from our consolidated financial statements, audited by KPMG LLP that are not included in this prospectus. The historical consolidated balance sheet data as of June 30, 2006 and the historical consolidated statement of operations data for the fiscal six months ended July 1, 2005 and June 30, 2006 have been derived from our unaudited consolidated financial statements that are included elsewhere in this prospectus. In the opinion of our management, the historical consolidated balance sheet data as of June 30, 2006 and the historical consolidated statements of operations data for the fiscal six months ended July 1, 2005 and June 30, 2006 include all adjustments (consisting only of normal recurring adjustments) necessary to present fairly the data set forth therein. Our results of operations for the fiscal six months ended June 30, 2006 are not necessarily indicative of the results to be obtained for the full fiscal year.

	Fiscal Year			Fiscal Six Months Ended	
	2003	2004	2005	July 1, 2005	June 30, 2006
				(unaudited)	(unaudited)
	(Dollars in thousands, except per share data)				
Historical Consolidated Statement of Operations Data:					
Contract revenues	$ 54,485	$ 58,263	$ 67,263	$ 32,581	$ 38,093
Direct costs of contract revenues	23,209	23,209	27,192	13,582	14,886
General and administrative expenses:					
Stock-based compensation			2,002		
Litigation accrual			2,686		
All other general and administrative	28,006	30,957	35,393	16,901	20,348
Total general and administrative expenses	28,006	30,957	40,081	16,901	20,348
Income (loss) from operations	3,270	4,097	(10)	2,098	2,859
Other income (expense)	(365)	(278)	(619)	(151)	1,944
Net income (loss)	2,852	3,772	(646)	1,929	4,765
Pro Forma Data (unaudited):					
Pro forma provision for income taxes[1]	$ 1,162	$ 1,528	$ 549	$ 779	$ 1,021
Pro forma net income (loss)[2]	$ 1,743	$ 2,291	$ (1,178)	$ 1,168	$ 3,782
Pro forma earnings per common share, basic and diluted	$ 0.48	$ 0.63	$ (0.29)	$ 0.31	$ 0.80
Weighted average common shares outstanding, basic and diluted	3,633,000	3,653,000	3,994,000	3,758,000	4,712,000
Other Operating Data (unaudited):					
Adjusted EBITDA[3]	$ 4,154	$ 5,163	$ 5,951	$ 2,629	$ 3,647
Revenue per employee[4]	$ 113	$ 118	$ 125	$ 62	$ 66
Employee headcount at period end	451	508	599	573	657

	Historical			June 30, 2006	
	January 2, 2004	December 31, 2004	December 30, 2005	Historical (unaudited)	As Adjusted[5] (unaudited)
	(in thousands)				
Consolidated Balance Sheet Data:					
Cash and cash equivalents	$ 498	$ 266	$ 3,066	$ 119	$ 11,319
Working capital	5,199	7,195	9,421	11,529	20,291
Total assets	21,460	23,223	32,797	36,085	47,285
Total indebtedness	5,033	3,543	1,858	2,660	2,660
Total redeemable common stock	8,661	11,477	14,660	17,109	
Total stockholders' equity					25,509

(1) Reflects combined federal and state income taxes on a pro forma basis, as if we had been taxed as a C Corporation, using an effective tax rate of 40%.

(2) Reflects historical income (loss) before income taxes less the pro forma provision for income taxes.

(3)

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

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

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

	Fiscal Year			Fiscal Six Months Ended	
	2003	**2004**	**2005**	**July 1, 2005**	**June 30, 2006**
Net income (loss)	$ 2,852	$ 3,772	$ (646)	$ 1,929	$ 4,765
Interest income	(1)	(2)	(19)	(1)	(27)
Interest expense	366	272	630	166	411
Income tax provision	53	47	17	18	38
Depreciation and amortization	865	1,056	1,257	523	723
Loss (gain) on sale of assets	19	18	24	(6)	(13)
Life insurance proceeds					(2,250)
Litigation accrual			2,686		
Stock-based compensation expense			2,002		
Adjusted EBITDA	$ 4,154	$ 5,163	$ 5,951	$ 2,629	$ 3,647

(4)

Reflects contract revenues, excluding revenue related to reimbursement of subconsultants and other costs, divided by the average number of full-time equivalent employees during the period.

(5)

Gives effect to the offering of 2,000,000 shares of our common stock by us at an assumed initial public offering price of $10.00 per share (the mid-point of the IPO price range indicated on the cover of this prospectus), less the underwriting discount and estimated offering expenses payable by us, the application of $5.9 million of the net proceeds from this offering to make the estimated final distribution to our stockholders as a result of the termination of our S Corporation status and the recognition of a net deferred tax liability of $2.8 million resulting from the termination of our S Corporation status, as if each had occurred as of June 30, 2006.

RISK FACTORS

Investing in our common stock involves a high degree of risk. You should carefully consider the following risk factors, as well as the other information in this prospectus, before deciding whether to invest in our common stock. If any of the following risks actually materializes, our business, financial condition and results of operations would suffer. The trading price of our common stock could decline as a result of any of these risks, and you might lose all or part of your investment in our common stock. You should read the section entitled "Forward-Looking Statements" immediately following these risk factors for a discussion of what types of statements are forward-looking statements, as well as the significance of such statements in the context of this prospectus.

Risks Relating to Our Business and Industry

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 2005, 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 2005, approximately

85% 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 2005, approximately 85% 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 *Professional Engineers in California Government, et al.* v. *Jeff Morales, et al.* in which Professional Engineers in California Government, or PECG, 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. PECG 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 PECG 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 2005, approximately 13% 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.

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

We do not have an employment agreement with or maintain key man life insurance on Win Westfall, our President and Chief Executive Officer, or Richard Kopecky, the President and Chief Executive Officer of our largest subsidiary, Willdan. Our success is highly dependent upon the efforts, talents, abilities, marketing skills and operational execution of these and other key managers. If we lose the services of Mr. Westfall or Mr. Kopecky or any other key executive we may be less likely to secure or complete contracts and to attract and retain additional employees.

The recent death of Dan Heil, our former chief executive officer and a co-founder, could have a material adverse effect on our business.

Dan W. Heil was a co-founder of our company and our chief executive officer from its inception (except for the period of July 1993 through October 1995). He recently 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 has been affiliated with our company since 1998, first as our regional manager for Northern California and for the past two years as a senior vice president of corporate relations. Although we transitioned smoothly to a new chief executive officer, no assurance can be given that Mr. Westfall will be able to continue to successfully implement our strategic business plan or continue to foster our corporate culture.

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 represents approximately 85% of our fiscal 2005 contract revenue, 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. 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. We are liable to pay claims from our assets if and when the aggregate settlement or judgment amount exceeds our policy limits. We recently were awarded approximately $1.0 million 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 will replenish the 2002 aggregate limits of our professional liability policy. The other 2002 judgment is under appeal.

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 year 2005, subconsultant costs comprised 6.6% 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. During fiscal year 2005, the number of our employees increased from 508 to 599 and has grown to 657 as of June 30, 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 report on our internal control over financial reporting. 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 public company, and our management will be required to devote substantial time to new compliance initiatives.

We have never operated as a public company. As a public company, we will 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 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, including those acquiring shares in this offering. 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.

Our existing stockholders will retain significant control over us following the completion of this offering, which may delay or prevent a change of control of our company or changes in our management, and as a result may hinder your ability 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. Upon completion of this offering, our directors and executive officers will beneficially own 1,556,940 shares of common stock, or approximately 23.2% of our outstanding common stock. Of these shares, 1,020,120 shares, or approximately 15.2% of our outstanding common stock, will be owned by Linda L. Heil, a member of our board of directors. Richard Kopecky, Chief Executive Offic