
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549
FORM 10-K

(Mark One)

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the Fiscal Year Ended January 1, 2016.
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Transition Period from _____ to _____
Commission File Number 001-33076

WILLDAN GROUP, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

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

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

(Address of principal executive offices) (Zip Code)

(800) 424-9144

(Registrant's telephone number, including area code)

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

Common Stock, \$0.01 par value

NASDAQ Global Market

(Title of class)

(Name of exchange)

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

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

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes No

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

(Do not check if a
smaller reporting company)

Smaller reporting company

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, as reported on the NASDAQ Global Market, as of the last business day of the registrant's most recently completed second fiscal quarter was \$80.1 million.

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

On March 15, 2016, there were 8,173,402 shares of the registrant's common stock issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Part III of this Form 10-K incorporates information by reference from the registrant's definitive proxy statement for the 2016 Annual Meeting to be filed on or prior to 120 days after the end of our fiscal year.

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PART I

ITEM 1. BUSINESS

Overview

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

- Energy Efficiency and Sustainability;
- Engineering and Planning;
- Economic and Financial Consulting; and
- National Preparedness and Interoperability.

We operate our business through a network of offices located primarily in California and New York. We also have operations in Arizona, Colorado, Florida, Illinois, Kansas, Oregon, Texas, Washington and Washington, DC. As of January 1, 2016, we had a staff of 688, which includes licensed engineers and other professionals.

We seek to establish close working relationships with our clients and expand the breadth and depth of the services we provide to them over time. Our business with public and private utilities is concentrated primarily in California and New York, but we also have business with utilities in Texas, Illinois, Ohio and Washington State. We currently serve 17 major utility customers across the country. Our business with public agencies is concentrated in California and Arizona. We provide services to many of the cities and counties in California. We also serve special districts, school districts, a range of public agencies and private industry.

We were founded in 1964 and Willdan Group, Inc., a Delaware corporation, was formed in 2006 to serve as our holding company. Historically, our clients have been public agencies in communities with populations ranging from 10,000 to 300,000 people. We believe communities of this size are underserved by large outsourcing companies that tend to focus on securing large federal and state projects, and projects for the private sector. We consist of a family of wholly-owned companies that operate within the following segments for financial reporting purposes:

Energy Efficiency Services. Our Energy Efficiency Services segment consists of the business of our subsidiary, Willdan Energy Solutions, which offers energy efficiency and sustainability consulting services to utilities, public agencies and private industry. This segment is currently our largest segment based on contract revenue, representing approximately 55% and 49% of our consolidated contract revenue for fiscal years 2015 and 2014, respectively.

Engineering Services. Our Engineering Services segment includes the operations of our subsidiaries, Willdan Engineering, Willdan Infrastructure and Public Agency Resources (“PARs”). Willdan Engineering provides civil engineering-related and city planning services, geotechnical and other engineering consulting services to our clients. Willdan Infrastructure, which was launched in fiscal year 2013, provides engineering services to larger rail, port, water, mining and other civil engineering projects. PARs primarily provides staffing to Willdan Engineering. Contract revenue for the Engineering Services segment represented approximately 34% and 38% of our overall consolidated contract revenue for fiscal years 2015 and 2014, respectively.

Public Finance Services. Our Public Finance Services segment consists of the business of our subsidiary, Willdan Financial Services, which offers economic and financial consulting services to public agencies. Contract revenue for the Public Finance Services segment represented approximately 9% and 10% of our consolidated contract revenue for fiscal years 2015 and 2014, respectively.

Homeland Security Services. Our Homeland Security Services segment consists of the business of our subsidiary, Willdan Homeland Solutions, which offers national preparedness and interoperability services and

communications and technology solutions. Contract revenue for our Homeland Security Services segment represented approximately 2% and 3% of our consolidated contract revenue for fiscal years 2015 and 2014, respectively.

Our Markets

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

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

Energy Efficiency and Sustainability Services

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

Engineering and Planning Services

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

Economic and Financial Consulting

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

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

Homeland Security, National Preparedness and Interoperability Services

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

Our Services

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

We are organized to profitably manage numerous small to mid-size contracts at the same time. Our contracts can range from \$1,000 to over \$5,000,000 in contract revenue. Our contracts typically have a duration of between two and thirty-six months, although we have city services contracts that have been in effect for over 30 years. At January 1, 2016, we had approximately 1,977 open projects.

We offer services in four segments: Energy Efficiency Services, Engineering Services, Public Finance Services, and Homeland Security Services. The interfaces and synergies among these segments are key elements of our strategy. Management established these segments based upon the services provided, the different marketing strategies associated with these services and the specialized needs of their respective clients. The following table presents, for the years indicated, the approximate percentage of our consolidated contract revenue attributable to each segment:

	Fiscal Year		
	2015	2014	2013
Energy Efficiency Services	55 %	49 %	42 %
Engineering Services	34 %	38 %	41 %
Public Finance Services	9 %	10 %	12 %
Homeland Security Services	2 %	3 %	5 %

See Note 13—"Segment Information" for additional segment information.

Energy Efficiency Services

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

program design, master planning, benchmarking analysis, installation, alternative financing, and measurement and verification services.

Our range of energy efficiency services are described below:

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

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

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

Turnkey Facility and Infrastructure Projects. We provide turnkey/design-build facility and infrastructure improvement projects to a wide array of public and private clients including municipalities, county governments, public and private K-12 schools, and higher education institutions. Our services cover preliminary planning, project design, construction management, commissioning and post-project support and measurement and verification services.

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

- *Consolidated Edison Company of New York.* We serve as Consolidated Edison’s program manager and implementer for its Small Business Direct Install (“SBDI”) Program in New York City. The Program helps small businesses achieve energy efficiency and financial savings, offering both free and cost shared energy efficiency retrofits, including installation of high efficiency lighting and refrigeration energy conservation measures. As the program implementer, we are responsible for moving a high volume of projects from survey to retrofit; tracking, analyzing, and reporting on project status and program data; and completing installation through self-performance or in cooperation with a small group of contractors. In August 2014, we engaged in a significant effort to reduce a load pocket (an area of intensive power use) in Brooklyn and Queens with a goal of achieving an electric demand reduction of 9 million watts. At the end of 2015, we had delivered over 14 megawatts (“MW”) of electric demand reduction in the load pocket and over 223 million kilowatt hours (“kWh”) of energy savings across the SBDI Program.
- *New York Prize Project Feasibility Study.* In 2015, we were awarded eight community microgrid feasibility studies throughout New York State. Under these contracts, we will determine the feasibility of developing community microgrids, which are local energy systems that operate independently of the electricity grid in the event of bulk power supply outage. These studies are supported by NYSERDA as a part of New York Governor Cuomo’s NY Prize competition, a \$40 million competition designed to help communities across New York State reduce costs, promote clean energy, and build reliability and resiliency into the electric grid. As part of each feasibility study, we are working with the local electric and gas distribution utilities, municipal and city governments and other community stakeholders to ensure the sustained operation of crucial public services, such as police and fire stations, schools, hospitals, first responders, and water treatment facilities. The microgrids will be designed to increase power reliability, enhance safety, lower energy costs, resolve existing system constraints, and reduce dependency on bulk power providers. Each study will also analyze integrating distributed energy resources, such as energy storage, combined heat and power, energy efficiency and demand response, and renewable power (e.g., solar, wind).

- *Southern California Edison (“SCE”)—Data Center Energy Efficiency Program (“DCEEP”).* We are the program implementer for SCE’s DCEEP, which primarily coordinates the retrofit components of the overall demand reduction strategy. The primary deliverables for DCEEP include initial outreach and targeting of data center and IT-related facilities, comprehensive whole building/system technical audits, and energy efficiency retrofit program element implementation. The retrofit component consists of deemed measures, calculated measures, and emerging technologies. In 2015, the program delivered 4.5 million kWh and 896 kilowatts (“kW”) in peak demand reduction.
- *Pacific Gas & Electric (“PG&E”), SCE, and SDG&E—Hospital Energy Efficiency Program (“HEEP”).* As the program implementer for HEEP, we offer energy-efficiency services for hospitals and healthcare related buildings (such as medical office buildings, long-term care facilities, etc.) in PG&E, SCE, and SDG&E territories. In 2015, these programs delivered total approximate energy savings of 11.5 million kWh, 1800 kW of peak demand reduction, and 144,000 therms of natural gas savings.
- *City of Hillsboro, Oregon, Shute Park Aquatic & Recreation Center.* The Shute Park Aquatic and Recreation Center is a one story athletic club and natatorium which consists of indoor and outdoor swimming pools, locker rooms, aerobics room, cardio/weight room, cycling rooms, child care area, lobby, staff offices, restrooms, and mechanical rooms. The facility was originally constructed in 1981 and was significantly remodeled in 2006. It is 43,480 square feet, and averages about 100 occupants during typical usage. We were hired to implement a number of energy efficiency measures, including optimizing heating, ventilating, and air conditioning (“HVAC”), upgrading the pool lighting; installing a spa blanket; and utilizing the existing condensing boilers to provide domestic hot water.
- *City of Vancouver, Washington, Mill Plain Elementary School.* Mill Plain Elementary School is comprised of four main buildings and three portable buildings. The original buildings on this campus were constructed during or before 1952. We were hired to replace classroom fan coil units and improve air distribution and economizer function; replace heating pumps and make heating piping system improvements; replace the chiller and chilled water pump; replace HVAC units; improve access into the gym mechanical mezzanine; upgrade the direct digital control system including replacing existing pneumatic controls; and ceiling repairs as required. The work also includes balancing and commissioning of all HVAC systems.

Engineering Services

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

Our engineering-related services are described individually below:

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

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

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

Development Review. We offer development plan review and inspection services including Americans with Disabilities Act (“ADA”) compliance, preliminary and final plats (maps), grading and drainage, complete infrastructure improvements for residential site plans, commercial site plans, industrial developments, subdivision, and major master planned developments. Previously, we have reviewed grading plans, street lighting and traffic signal plans, erosion control plans, storm drain plans, street improvement plans, and sewer water and utility plans.

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

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

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

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

Planning. We assist communities with a full range of planning services, from the preparation of long-range policy plans to assistance with the day-to-day operations of a planning department. For several cities, we provide contract staff support. We provide environmental documentation services (including National Environmental Policy Act, California Environmental Quality Act, and Environmental Impact Report compliance and document preparation), mitigation monitoring programs, and third party environmental review. We also provide urban planning and design services focused on investigation of specific planning and design issues and the formulation of plans, policies, and strategies for communities as a whole or for specific study areas. Typical assignments include land use studies, development of specific plans or general plan elements, design guidelines, and zoning ordinances. Our urban planning services include assisting communities with the implementation of general plans, land use enforcement, capital improvement planning, community development and redevelopment programs, and economic development strategies.

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

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

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

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

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

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

Water Resources. We assist clients in addressing the many facets of water development, treatment, distribution and conservation, including energy savings, technical, financial, legal, political, and regulatory requirements. Our core competencies include hydraulic modeling, master planning, rate studies and design and construction services. Our design experience includes reservoirs, pressure reducing stations, pump and lift stations, and pipeline alignment studies, as well as water/wastewater collection, distribution, and treatment facilities. We also provide a complete analysis and projection of storm flows for use in drainage master plans and for individual storm drain systems to reduce flooding in streets and adjacent properties. We design open and closed storm drain systems and detention basin facilities, for cities, counties and the Army Corp of Engineers.

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

- *Cadiz, Inc., Cadiz Valley Water Conservation, Recovery, and Storage Project.* We are providing public outreach and support for the Cadiz Valley Water Conservation, Recovery, and Storage project that is designed to actively manage the groundwater basin underlying a portion of the Cadiz and Fenner Valleys in California's Eastern Mojave Desert. The project will conserve renewable native groundwater and provide future water storage. Currently, we supplement public and governmental affairs support, perform outreach to stakeholder agencies and businesses, and work to secure project approvals at the local, state and federal levels. The project has completed all of its environmental clearance, and once project approvals are in place, we will assist with the later phases of work.
- *California High Speed Rail Authority and Parsons, Utility Relocation and Traffic Engineering Services.* We are providing telephone utility relocation design services in connection with the California High Speed

Rail Phase 1 project in Madera and Fresno counties. The work includes both horizontal and vertical relocation of telephone ducts and vaults within the utility corridor right-of-way crossing the railroad alignment and within associated local roadway, where overcrossings are to be constructed. We are also providing traffic engineering services.

- *City of Rancho Mirage, California, Building and Safety Services.* We are providing building and safety services to Rancho Mirage, a city with a population of 18,000. We are currently serving as the interim Building Official and providing as-needed plan check services. In addition, we are providing building and safety inspection services to Rancho Mirage's mobile home parks.
- *City of Hughson, California, Engineering Services and Fox Road Improvements.* We are providing contract city engineering services and acting as an extension of City staff. The services we provide include developing and implementing the City's Capital Improvement Program; planning and reviewing construction, operation and maintenance of the City's streets, parks, municipal buildings, and water and sewer facilities; planning and reviewing all public works engineering activities, including design, surveying, and inspection; and reviewing plans, engineering reports, budget estimates, and proposed ordinances submitted by department staff and consulting engineers.
- *City of Rialto, California, On-Call Construction Management Services.* We are providing construction management services for numerous projects throughout the City. Typical projects include roadway, parking lot, pavement, ADA compliance, underground infrastructure (sewers, storm drains, and trenches), annual overlay, and building facility (warehouse and fire station) improvements. Services include resident engineering, construction management, construction inspection, utility coordination, preparation of funding submittals, labor compliance, geotechnical and material testing, and public outreach.

Public Finance Services

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

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

Our services in this segment include the following:

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

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

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

- Fee and rate studies, such as cost allocation studies and user fee analysis;
- Utility rate analysis for water, wastewater and storm water;
- Utility system appraisals and acquisitions;
- Fiscal and economic impact analysis;
- Strategic economic development and redevelopment plans;
- Real estate and market analysis associated with planning efforts, and development fee studies;
- Proposition 218 studies, assessment balloting, and re-engineering;
- Special district formation, which involves the feasibility determinations, design, development and initiation of community facilities districts, school facilities improvement districts, tax increment financing districts, assessment districts, landscape and lighting districts, benefit assessment districts, business improvement districts, and fire suppression assessments;
- Other special projects, including facility financing plans, formation of new public entities, annexations and incorporations; reassessment engineering and financial analysis for bond offerings or refundings; development and financial projections; and nexus studies between public and private enterprises, including public-private partnerships and the benefits of economic development to municipalities and to state, provincial, regional and national governments.

Federal Compliance. We offer federal compliance services to issuers of municipal securities, which can be cities, towns, school districts, housing authorities, and other entities that are eligible to issue tax-exempt securities. Specifically, we provide arbitrage rebate calculations and municipal disclosure services that help issuers remain in compliance with federal regulations. We provide these reports, together with related compliance services such as bond elections, temporary period yield restriction, escrow fund monitoring, rebate payments, and refund requests. In terms of continuing disclosure services, we both produce the required annual reports and disseminate those reports on behalf of the issuers. We provide federal compliance services to approximately 750 issuers in 42 states and the District of Columbia on more than 2,500 bond issues totaling over \$60 billion in municipal debt.

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

- *City of Miramar, Florida, Economic Development Action Plan.* We were hired by the City of Miramar to prepare an Economic Development Action Plan. The objective of this project is to assist the City and community stakeholders in guiding the strategies and goals executed by the Economic Development Department over the next three to ten years. The final deliverables will provide the City with research, analysis, economic benchmarking, and an implementation plan which includes monitoring and reporting tools based on industry methodologies, structured for easy use by City staff. These deliverables will be used to implement the study's priorities and recommendations after the contract period.
- *Town of Queen Creek, Arizona, Transportation Development Impact Fee Study.* The Town of Queen Creek is a rapidly growing community in the Valley Area surrounding Phoenix. The Town hired us to provide a Transportation Development Impact Fee Study for the City's roadway system
- *City of Laguna Hills, California, Comprehensive Fee Study and Cost Allocation Plan Update.* The City of Laguna Hills hired us to conduct a Comprehensive Fee Study and Cost Allocation Plan Update to determine the proper allocation of expenditures and on-going full cost of services provided by the City.
- *City of Plano, Texas, Rate Methodology Assessment.* We were retained by the City of Plano, Texas, and other member cities of the North Texas Municipal Water District, to complete an assessment of the rate

methodology used to charge member and customer cities. The District consists of 13 member cities and 33 customer cities from the North Dallas area, serving 1.6 million consumers. The project consists of evaluating the current rate methodology and recommending alternatives to more equitably allocate costs amongst member cities and to customer cities. In order to achieve this objective, and have a platform to best communicate results, we developed an interactive model to simulate changes in rate methodology.

Homeland Security Services

In fiscal year 2004, we formed our subsidiary Willdan Homeland Solutions (“WHS”), formerly known as American Homeland Solutions. WHS provides emergency preparedness planning, emergency preparedness training, emergency preparedness exercises, communications and technology, and water security services that focus on integrating local resources and assets within state and federal systems to cities, counties and related municipal service agencies, such as utility and water companies, as well as school districts, port and transportation authorities, tribal governments and large business enterprises with a need for homeland security related services. We staff our projects in this area with former high-level local and regional public safety officers and focus on solutions tailored for local agencies and their personnel. Our services include the following:

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

Emergency Preparedness Training. We design customized training courses for all aspects of disaster, unusual occurrence and emergency responses. In this regard, we have developed and own several training courses that meet or exceed the requirements for the federal National Incident Management System (“NIMS”) training. These courses assist clients in meeting their obligations to prepare their staff to utilize the NIMS.

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

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

Water Security. We offer NIMS and Incident Command System courses specific to water and wastewater agencies. Our instructors and course facilitators have significant experience in water and wastewater security, emergency preparedness, and business continuity. All courses are DHS-certified. Eligible agencies may use DHS Transit Security Grant Program funds for this approved training. The program is one in a number of comprehensive measures authorized by congress to directly support transportation infrastructure security activities.

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

· *National Railroad Passenger Corporation, Amtrak Security Exercise Program.* The National Railroad Passenger Corporation, (“Amtrak”) selected us, as part of the project team under the direction of the principle contractor, Obsidian Analysis, Inc., to support their 2013-2015 security exercise program. For

this program, we established a corporate multi-year training and exercise program that included workshops, tabletops, drills, functional, and full-scale exercises. These exercises, along with the planning process, involved frontline employees and managers, such as conductors, road foremen, station, and onboard services personnel, management and corporate leadership, and integrated these groups with national and local partners and stakeholders, including local emergency response and management entities, transit agencies and other railroads, regulatory agencies, and private-sector partners.

We provided key support to the program by facilitating all exercise events, engaging local agencies for participation, and developing and conducting exercises in Los Angeles and Oakland, California; Seattle, Washington; San Antonio, Texas, and New Orleans, Louisiana. We facilitated breakout discussion groups during the tabletop exercises that afforded Amtrak personnel with an opportunity to explore their roles and responsibilities during a variety of scenarios that included an active shooter incident, suspicious package in a station, and an improvised explosive device detonation aboard a moving train.

County of Los Angeles, California, Department of Public Health – Medical Countermeasures (“MCM”) Exercise Series. The County of Los Angeles, Department of Public Health selected us to support the development and delivery of the November 2015 Los Angeles County Operational Area (“OA”), MCM Full-Scale Exercise (“FSE”). The FSE, conducted over a two-day period in November, 2015, was designed to challenge all OA emergency management system participants in response to a simulated public health emergency.

Specifically, we were tasked with developing and delivering a two-day FSE which exercised and assessed MCM Distribution (including the receipt, storage, and staging of MCMs from state and federal providers at the County designated Warehouse) and exercised and assessed the management and coordination of MCM Dispensing activities at county designated Points of Dispensing (“POD”) sites, which are established locations throughout Los Angeles County.

We supported all aspects of FSE development and delivery, including the development of exercise player tools & materials (including comprehensive communications plans and directories); development of a comprehensive, region-wide Master Scenario Events List, covering two-days of exercise play; the design and development of all exercise evaluation materials; specific guidance and tools for the various levels of exercise controllers, who had the responsibility to control exercise activities at a wide variety of exercise venues (such as POD Sites, Emergency Operations Centers, & Incident Command Posts); and the facilitation and coordination of planning and exercise activity across the region.

Competitive Strengths

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

Quality of service. We pride ourselves on the quality of service that we provide to our clients. The work for which we compete is awarded primarily based on the company’s qualifications, rather than the fees proposed. We believe that our service levels, experience and expertise satisfy even the most rigorous qualification standards. We have developed a strong reputation for quality, based upon our depth of experience, ability to attract quality professionals, customized technology and software that support our services, local knowledge and the expertise we possess across multiple disciplines. We believe we are well-positioned to serve public sector clients due to our knowledge of the unique reporting processes and operating procedures of public agencies, which differ substantially from the private sector. We believe our high quality of service is a significant reason we currently provide services to approximately 85% of the cities and approximately 91% of the counties in California.

Broad range of services. Our focus on customer service has led us to continually broaden the scope of the services we provide. At different stages in our history, as the needs of our clients have evolved, we have developed

service capabilities complementary to our core engineering business, including building and safety services, financial and economic services, planning services, geotechnical services, code enforcement services, disaster planning and homeland security services, and most recently, energy efficiency and sustainability. Further, because we recognize that local public sector projects and issues often cross departmental lines, we have developed the ability to deliver multiple services in a cohesive manner to better serve our client communities as a whole.

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

Strong, long-term client relationships. We have developed strong relationships with our public agency clients, some of whom we have worked with for over 41 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 37 years of experience in the engineering and consulting industry, and an average of 9 years with our company.

Clients

Our clients primarily consist of public and governmental agencies including cities, counties, redevelopment agencies, water districts, school districts and universities, state agencies, federal agencies, a variety of other special districts and agencies, tribal governments and public utilities. We also provide services to private utilities and private industry. Our primary clients are public agencies serving communities of 10,000 to 300,000 people and public and private utilities. In fiscal year 2015, we served over 888 distinct clients. For fiscal year 2015, we had two clients, the Consolidated Edison Company of New York and the City of Elk Grove that accounted for 25% and 11%, respectively, of our consolidated contract revenue. None of our other clients accounted for over 10% of our consolidated contract revenue. Our clients are primarily based in California and New York, as well as Arizona, Colorado, Florida, Illinois, Kansas, Oregon, Texas, Washington and Washington, DC. In fiscal year 2015, services provided to clients in California accounted for approximately 47% of our contract revenue and services provided to clients in New York accounted for approximately 28% of our contract revenue.

Consolidated Edison SBDI Program. In July 2012, Willdan Energy Solutions entered into an Agreement for a Small Business Direct Install Program with Consolidated Edison Company of New York. The agreement continues our partnership with Consolidated Edison to develop Consolidated Edison's Small Business Direct Install Program, which began in 2009. The initial term of this agreement extends through December 2016.

Contract Structure

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

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

- *Unit based provisions* require the delivery of specific units of work, such as arbitrage rebate calculations, dissemination of municipal securities continuing disclosure reports, or building plan checks, at an agreed price per unit, with the total payment under the contract determined by the actual number of units performed.
- *Fixed price provisions* require all work under a contract to be performed for a specified lump sum, which may be subject to adjustment if the scope of the project changes. Contracts with fixed price provisions carry certain inherent risks, including risks of losses from underestimating costs, delays in project completion, problems with new technologies, price increases for materials, and economic and other changes that may occur over the contract period. Consequently, the profitability, if any, of fixed price contracts can vary substantially.

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

	Fiscal Year	
	2015	2014
Time and materials	31 %	14 %
Unit based	34 %	43 %
Fixed price	35 %	42 %
Monthly retainer	— %	1 %
Total	100 %	100 %

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

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

Competition

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

Doing business with governmental agencies is complex and requires the ability to comply with intricate regulations and satisfy periodic audits. We have been serving cities, counties, special districts and other public agencies for over 50 years. We believe that the ability to understand these requirements and to successfully conduct business with governmental entities and agencies is a barrier to entry for potential competitors.

Our competition varies by type of client, type of service and geography. The range of competitors for any one project can vary depending upon technical specialties, the relative value of the project, geographic location, financial terms, risks associated with the work, and any client imposed restrictions. Unlike most of our competitors, we focus our services on public sector clients. Public sector clients generally choose among competing firms by weighing the quality, experience, innovation and timeliness of the firm's services. When selecting consultants for engineering projects, many government agencies are required to, and others choose to, employ Qualifications Based Selection, or QBS. QBS requires the selection of the most technically qualified firms for a project, while the financial and legal terms of the engagement are generally secondary. QBS applies primarily to work done by our Engineering Services segment.

Contracts in our Energy Efficiency Services segment, the Public Finance Services and Homeland Security Services areas typically are not subject to mandatory QBS standards, and often are awarded through a competitive bid process.

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

We believe that our Energy Efficiency Services segment competes primarily with Lockheed-Martin, EnerPath, KEMA (a division of the DNV Group), Clear Result, Franklin Energy, ICF International, Inc., and Nexant, Inc. We believe that the primary competitors for our Engineering Services segment include Charles Abbott & Associates, Inc., Harris & Associates, RBF Consulting, Tetra Tech, Inc., Stantec, Inc., Michael Baker Corporation, TRC Companies, Inc., AECOM Technology Corporation, CH2M Hill and Jacobs Engineering Group, Inc. Our chief competitors in our Public Finance Services segment include David Taussig & Associates, Harris & Associates, BLX Group, Arbitrage Compliance Specialists, Raftelis Financial Consultants, Inc., FCS Group and the NBS Government Finance Group. We believe the Homeland Security Services segment competes primarily with Leidos (formerly Science Applications International Corporation or SAIC) and IEM, Inc.

Insurance

We currently maintain the following insurance coverage: commercial general liability with limits of \$1.0 million per occurrence and \$2.0 million general aggregate; automobile liability insurance with limits of \$1.0 million per occurrence; employer's liability with limits of \$1.0 million per occurrence. We also carry professional liability insurance with limits of \$7.5 million per claim and \$15.0 million annual aggregate, excess liability insurance with a limit of \$10.0 million, an umbrella/excess liability insurance of \$25.0 million per occurrence and aggregate, and workers' compensation insurance of \$1.0 million. We are liable to pay these claims from our assets if and when the aggregate settlement or judgment amount exceeds our policy limits.

Employees

At January 1, 2016, we had approximately 490 full-time employees and 198 part-time employees. All Public Agency Resources' employees are classified as part-time. Our employees include, among others, licensed electrical, mechanical, structural and civil engineers, land surveyors, certified building officials, licensed geotechnical engineers and engineering geologists, certified inspectors and plans examiners, licensed architects and landscape architects, certified planners, and information technology specialists. We believe that we attract and retain highly skilled personnel with significant industry experience and strong client relationships by offering them challenging assignments in a stable work environment. We believe that our employee relations are good.

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

	As of		
	Fiscal Year End		
	2015	2014	2013
Engineering Services	352	326	294
Energy Efficiency Services	224	204	142
Public Finance Services	62	58	53
Homeland Security Services	9	10	10
Holding Company Employees (Willdan Group, Inc.)	41	39	35
Total	<u>688</u>	<u>637</u>	<u>534</u>

At January 1, 2016, we contracted with approximately 100 former and current public safety officers to conduct homeland security services training courses. These instructors are classified as subcontractors and not employees.

Intellectual Property

The Willdan, Willdan Group, Inc., Willdan Engineering, Willdan Infrastructure, Willdan Financial Services, Willdan Energy Solutions and Willdan Homeland Services names are service marks of ours, and we have obtained a service mark for the Willdan logo. We have also obtained federal servicemark registration with the United States Patent and Trademark Office for the “Willdan” name and the “extending your reach” tagline. We believe we have strong name recognition in the western United States and New York, and that this provides us a competitive advantage in obtaining new business. Consequently, we believe it is important to protect our brand identity through trademark registrations. The name and logo of our proprietary software, MuniMagic®, are registered servicemarks of Willdan Financial Services, and we have registered a federal copyright for the source code for the MuniMagic® software.

Available Information

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

ITEM 1A. RISK FACTORS

Risks Relating to Our Business and Industry

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

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

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

may reduce or eliminate our overall profitability. Further, any defects or errors, or failures to meet our clients' expectations, could result in claims for damages against us. Failure to meet performance standards or complete performance on a timely basis could also adversely affect our reputation.

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

A downturn in construction activity in our geographic service areas may affect demand for our services, which could have a material adverse effect on our results of operations and our financial condition. During fiscal year 2015, a portion of our contract revenue was generated by services rendered to public agencies in connection with private and public sector construction projects.

In the recent past, general economic conditions declined due to a number of factors including slower economic activity, a lack of available credit, decreased consumer confidence and reduced corporate profits and capital spending, leading to a slowdown in construction, particularly residential housing construction, in the western United States. As a result of this slowdown, both our engineering services segment and public finance services segment suffered declines in revenue and operating margin compression and we made several reductions in workforce and facility leases. While economic conditions have improved from fiscal year 2010 through fiscal year 2015, the recovery has been slow with regard to our traditional engineering and public finance services segments. If the economy declines again, we will need to evaluate whether reductions in headcount and facilities in geographic areas that are underperforming are again needed.

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

- Changes in national and local market conditions due to changes in general or local economic conditions and neighborhood characteristics;
- Slow-growth or no-growth initiatives or legislation;
- Adverse changes in local and regional governmental policies on investment in infrastructure;
- Adverse changes in federal and state policies regarding the allocation of funds to local and regional agencies;
- The impact of present or future environmental legislation and compliance with environmental laws and other regulatory requirements;
- Changes in real estate tax rates and assessments;
- Increases in interest rates and changes in the availability, cost and terms of financing;
- Adverse changes in other governmental rules and fiscal policies; and
- Earthquakes and other natural disasters, which can cause uninsured losses, and other factors which are beyond our control.

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

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

Adverse economic and other conditions affecting the local and regional economies of California and New York may reduce the demand for our services, which could have a material adverse effect on our business, financial condition and results of operations. During fiscal year 2015, approximately 47% and 28% of our contract revenue was derived from services rendered to public agencies, utilities, and private industry in California and New York, respectively. California and New York each experienced an economic downturn in fiscal year 2009, which negatively impacted our revenue and profitability. Any future downturns could have similar significant adverse impacts on our results of operations.

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

Our largest client, Consolidated Edison Company of New York, accounted for approximately 25% of our consolidated contract revenue in fiscal year 2015 and 25% in fiscal year 2014. Prior to July 2012, this revenue primarily related to a contract we entered into in fiscal year 2009 with Consolidated Edison, which has terminated. We entered into a new contract with Consolidated Edison in July 2012, but this contract is for fewer services than the 2009 contract with Consolidated Edison. Our top five customers collectively accounted for approximately 46% of our revenue in fiscal year 2015. The loss of, or reduction in orders from, these clients could have a material adverse effect on our business, financial condition and results of operations.

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

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

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

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

- The ability of the public agency to terminate the contract with 30 days' prior notice or less;
- Changes in government spending and fiscal policies which can have an adverse effect on demand for our services;
- Contracts that are subject to government budget cycles, and often are subject to renewal on an annual basis;
- The often wide variation of the types and pricing terms of contracts from agency to agency;
- The difficulty of obtaining change orders and additions to contracts; and
- The requirement to perform periodic audits as a condition of certain contract arrangements.

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

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

We have made and expect to continue to make acquisitions that could disrupt our operations and adversely impact our business and operating results, including our recent acquisition of substantially all of the assets of Genesys Engineering P.C. (“Genesys”). Our failure to conduct due diligence effectively, or our inability to successfully integrate acquisitions, could impede us from realizing all of the benefits of the acquisitions, which could weaken our results of operations.

A key part of our growth strategy, as shown by our recent acquisition of Genesys and our January 2015 acquisitions of Abacus Resource Management Company (“Abacus”) and 360 Energy Engineers, LLC (“360 Energy”), is to acquire other companies that complement our lines of business or that broaden our technical capabilities and geographic presence. We may continue to acquire companies as an element of our growth strategy; however, our ability to make acquisitions is restricted under our amended credit agreement. Acquisitions involve certain known and unknown risks that could cause our actual growth or operating results to differ from our expectations or the expectations of securities analysts. For example:

- we may not be able to identify suitable acquisition candidates or to acquire additional companies on acceptable terms;
- we compete with others to acquire companies, which may result in decreased availability of, or increased price for, suitable acquisition candidates;
- we may not be able to obtain the necessary financing, on favorable terms or at all, to finance any of our potential acquisitions;
- we may ultimately fail to consummate an acquisition even if we announce that we plan to acquire a company; and
- acquired companies may not perform as we expect, and we may fail to realize anticipated revenue and profits.

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

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

expenses, liabilities, and competitive responses, and may cause our stock price to decline. The difficulties of integrating an acquisition include, among others:

- issues in integrating information, communications, and other systems;
- incompatibility of logistics, marketing, and administration methods;
- maintaining employee morale and retaining key employees;
- integrating the business cultures of both companies;
- preserving important strategic client relationships;
- consolidating corporate and administrative infrastructures, and eliminating duplicative operations; and
- coordinating and integrating geographically separate organizations.

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

Further, acquisitions may cause us to:

- issue common stock that would dilute our current stockholders' ownership percentage;
- use a substantial portion of our cash resources;
- increase our interest expense, leverage, and debt service requirements (if we incur additional debt to pay for an acquisition);
- assume liabilities, including environmental liabilities, for which we do not have indemnification from the former owners. Further, indemnification obligations may be subject to dispute or concerns regarding the creditworthiness of the former owners;
- record goodwill and non-amortizable intangible assets that are subject to impairment testing and potential impairment charges;
- experience volatility in earnings due to changes in contingent consideration related to acquisition earn-out liability estimates;
- incur amortization expenses related to certain intangible assets;
- lose existing or potential contracts as a result of conflict of interest issues;
- incur large and immediate write-offs; or
- become subject to litigation.

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

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

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

We anticipate that our current cash, cash equivalents, cash provided by operating activities and borrowing ability under our revolving line of credit will be sufficient to meet our current and anticipated needs for general corporate purposes during the next 12 months. It is possible, however, that we may not generate sufficient cash flow from operations or otherwise have the capital resources to meet our future capital needs.

If we do not generate sufficient cash flow from operations or otherwise, we may need additional financing to execute on our current or future business strategies, including hiring additional personnel, developing new or enhancing existing service lines, expanding our business geographically, enhancing our operating infrastructure, acquiring complementary businesses, or otherwise responding to competitive pressures. We cannot assure you that additional financing will be available to us on favorable terms, or at all. Furthermore, if we raise additional funds through the issuance of convertible debt or equity securities, the percentage ownership of our stockholders could be significantly diluted, and these newly issued securities may have rights, preferences or privileges senior to those of existing stockholders. If adequate funds are not available or are not available on acceptable terms, if and when needed, our ability to fund our operations, meet obligations in the normal course of business, take advantage of strategic opportunities, or otherwise respond to competitive pressures would be significantly limited.

Restrictive covenants in our credit agreement may restrict our ability to pursue certain business strategies.

Our credit agreement limits or restricts our ability to, among other things:

- incur additional indebtedness;
- create liens securing debt or other encumbrances on our assets;
- make loans or advances;
- pay dividends or make distributions to our stockholders;
- purchase or redeem our stock;
- repay indebtedness that is junior to indebtedness under our credit agreement;
- acquire the assets of, or merge or consolidate with, other companies; and
- sell, lease, or otherwise dispose of assets.

Our credit agreement also requires that we maintain certain financial ratios, which we may not be able to achieve. The covenants may impair our ability to finance future operations or capital needs or to engage in other favorable business activities.

Our failure to win new contracts and renew existing contracts with private and public sector clients could adversely affect our profitability.

Our business depends on our ability to win new contracts and renew existing contracts with private and public sector clients. Contract proposals and negotiations are complex and frequently involve a lengthy bidding and selection process, which is affected by a number of factors. These factors include market conditions, financing arrangements, and required governmental approvals. For example, a client may require us to provide a bond or letter of credit to protect the client should we fail to perform under the terms of the contract. If negative market conditions arise, or if we fail to secure adequate financial arrangements or the required government approval, we may not be able to pursue particular projects, which could adversely affect our profitability.

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

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

- the application of the percentage-of-completion method of accounting and revenue recognition on contracts, change orders, and contract claims, including related unbilled accounts receivable;
- unbilled accounts receivable, including amounts related to requests for equitable adjustment to contracts that provide for price redetermination, primarily with the U.S. federal government. These amounts are recorded only when they can be reliably estimated and realization is probable;
- provisions for uncollectible receivables, client claims, and recoveries of costs from subcontractors, vendors, and others;
- provisions for income taxes, valuation allowances, and unrecognized tax benefits;
- value of goodwill and recoverability of other intangible assets;
- valuations of assets acquired and liabilities assumed in connection with business combinations;
- valuation of contingent earn-out liabilities recorded in connection with business combinations;
- valuation of stock-based compensation expense; and
- accruals for estimated liabilities, including litigation and insurance reserves.

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

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

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

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

- our ability to forecast demand for our services and thereby maintain an appropriate headcount in each of our geographies and workforces;
- our ability to manage attrition;
- our need to devote time and resources to training, business development, professional development, and other non-chargeable activities; and
- our ability to match the skill sets of our employees to the needs of the marketplace.

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

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

Legislation is proposed periodically, particularly in the state of California, that attempts to limit the ability of governmental agencies to contract with private consultants to provide services. Should such legislation pass and be upheld, demand for our services may be materially adversely affected. During fiscal year 2015, approximately 57% of our contract revenue was derived from services rendered to public agencies, including public utilities, in California. While attempts at such legislation have failed in the past, such measures could be adopted in the future.

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

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

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

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

For example, the Professional Engineers in California Government, or PECG, a union representing state civil service employees, began challenging Caltrans' hiring of private firms in 1986, and in 2002 began a judicial challenge of Caltrans' hiring practices based on Caltrans' interpretation of the effect of Proposition 35 (*Professional Engineers in California Government, et al. v. Kempton*). The California Supreme Court ruled in favor of Caltrans, concluding that Caltrans may hire private contractors to perform architectural and engineering services on public works. Although Caltrans was successful in this litigation, similar claims may be brought in the future and we cannot predict their outcome. If a state or other public employee union is successful in its challenge and as a result the ability of state agencies to hire private firms is severely limited, such a decision would likely lead to additional litigation challenging the ability of the state, counties, municipalities and other public agencies to hire private engineering, architectural and other

firms, the outcome of which could affect our ability to compete for contracts and may have an adverse effect on our revenue and profitability.

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

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

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

In fiscal year 2015, approximately 35% of our contract revenue was derived from fixed price contracts. Under fixed price contracts, we perform services under a contract at a stipulated price which protects clients but exposes us to a greater number of risks than time-and-materials and unit-based contracts. These risks include:

- Underestimation of costs;
- Ambiguities in specifications;
- Problems with new technologies;
- Unforeseen costs or difficulties;
- Failures of subcontractors;
- Delays beyond our control; and
- Economic and other changes that may occur during the contract period.

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

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

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

If our goodwill or other intangible assets become impaired, then our profits may be significantly reduced.

Because we have historically acquired a significant number of companies, goodwill and other intangible assets represent a substantial portion of our assets. As of January 1, 2016, our goodwill was \$16.1 million and other intangible assets were \$1.5 million. We are required to perform a goodwill impairment test for potential impairment at least on an annual basis. We also assess the recoverability of the unamortized balance of our intangible assets when indications of impairment are present based on expected future profitability and undiscounted expected cash flows and their contribution to our overall operations. The goodwill impairment test requires us to determine the fair value of our reporting units, which are the components one level below our reportable segments. In determining fair value, we make significant judgments and estimates, including assumptions about our strategic plans with regard to our operations. We also analyze current economic indicators and market valuations to help determine fair value. To the extent economic conditions that would impact the future operations of our reporting units change, our goodwill may be deemed to be impaired, and we would be required to record a non-cash charge that could result in a material adverse effect on our financial position or results of operations.

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

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

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

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

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

The market for energy efficiency, engineering and planning, economic and financial consulting and national preparedness and interoperability services is competitive and highly fragmented. Contract awards are based primarily on quality of service, relevant experience, staffing capabilities, reputation, geographic presence, stability and price. Some of our competitors in certain service areas have more personnel and greater financial, technical and marketing resources than us. In particular, our energy efficiency and sustainability consulting services, which represented approximately 55% and 49% of our contract revenue for fiscal years 2015 and 2014, respectively, competes with larger energy efficiency consulting firms such as Lockheed-Martin, EnerPath, KEMA (a division of the DNV Group) Clear Result, Franklin Energy, ICF International, Inc., and Nexant, Inc. Our competitors for engineering related services, which represented approximately 34% and 38% of our contract revenue for fiscal years 2015 and 2014, respectively, include many larger consulting firms such as Charles Abbott & Associates, Inc., Harris & Associates, RBF Consulting, Tetra Tech, Inc.,

Stantec, Inc., Michael Baker Corporation, TRC Companies, Inc., AECOM Technology Corporation, CH2M Hill and Jacobs Engineering Group, Inc. In certain public finance consulting services, we may compete with large accounting firms. We can offer no assurance that we will be able to compete successfully in the future with these or other competitors.

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

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

We currently maintain the following insurance coverage: commercial general liability with limits of \$1.0 million per occurrence and \$2.0 million general aggregate; automobile liability insurance with limits of \$1.0 million per occurrence; employer's liability with limits of \$1.0 million per occurrence. We also carry professional liability insurance with a deductible of \$250,000 and limits of \$7.5 million per claim and \$15.0 million annual aggregate, excess liability insurance with a limit of \$10.0 million, an umbrella/excess liability insurance of \$25.0 million per occurrence and aggregate, and workers' compensation insurance of \$1.0 million. We are liable to pay these claims from our assets if and when the aggregate settlement or judgment amount exceeds our policy limits. We are liable to pay claims from our assets if and when the aggregate settlement or judgment amount exceeds our policy limits. Our professional liability policy is a "claims made" policy. Thus, only claims made during the term of the policy are covered. If we terminate our professional liability policy and do not obtain retroactive coverage, we would be uninsured for claims made after termination even if these 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.

Unavailability or cancellation of third-party insurance coverage would increase our overall risk exposure as well as disrupt the management of our business operations.

We maintain insurance coverage from third-party insurers as part of our overall risk management strategy and because some of our contracts require us to maintain specific insurance coverage limits. If any of our third-party insurers fail, suddenly cancel our coverage, or otherwise are unable to provide us with adequate insurance coverage, then our overall risk exposure and our operational expenses would increase and the management of our business operations would be disrupted. In addition, there can be no assurance that any of our existing insurance coverage will be renewable upon the expiration of the coverage period or that future coverage will be affordable at the required limits.

If our business partners fail to perform their contractual obligations on a project, we could be exposed to legal liability, loss of reputation and profit reduction or loss on the project.

We routinely enter into subcontracts and, occasionally, joint ventures, teaming arrangements, and other contractual arrangements so that we can jointly bid and perform on a particular project. Success under these arrangements depends in large part on whether our business partners fulfill their contractual obligations satisfactorily. In addition, when we operate through a joint venture in which we are a minority holder, we have limited control over many project decisions, including decisions related to the joint venture's internal controls, which may not be subject to the same internal control procedures that we employ. If these unaffiliated third parties do not fulfill their contract obligations, the partnerships or joint ventures may be unable to adequately perform and deliver their contracted services. Under these circumstances, we may be obligated to pay financial penalties, provide additional services to ensure the adequate performance and delivery of the contracted services, and may be jointly and severally liable for the other's actions or contract performance. These additional obligations could result in reduced profits and revenues or, in

some cases, significant losses for us with respect to the joint venture, which could also affect our reputation in the industries we serve.

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

Under some of our contracts, we rely on the efforts and skills of subcontractors for the performance of some of the tasks. Subcontractor services and other direct costs comprised approximately 37% and 33% of our contract revenue in fiscal years 2015 and 2014, respectively. Our use of subcontractors has increased in recent years primarily because of our acquisitions of Abacus and 360 Energy in our energy efficiency services business. Our subsidiary Willdan Energy Solutions generally utilizes a higher percentage of subcontractors than our other subsidiaries. The absence of qualified subcontractors with whom we have a satisfactory relationship could adversely affect the quality of our service offerings and therefore our financial results. Additionally, we may have disputes with our subcontractors arising from, among other things, the quality and timeliness of work performed by the subcontractor or client concerns about the subcontractor.

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

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

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

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

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

We may be required to pay liquidated damages if we fail to meet milestone requirements in our contracts.

We may be required to pay liquidated damages if we fail to meet milestone requirements in our contracts. Failure to meet any of the milestone requirements could result in additional costs, and the amount of such additional costs could exceed the projected profits on the project. These additional costs include liquidated damages paid under contractual penalty provisions, which can be substantial and can accrue on a regular basis.

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

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

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

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

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

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

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

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

Employee, agent, or partner misconduct, or our failure to comply with anti-bribery and other laws or regulations, could harm our reputation, reduce our revenue and profits, and subject us to criminal and civil enforcement actions.

Misconduct, fraud, non-compliance with applicable laws and regulations, or other improper activities by one of our employees, agents, or partners could have a significant negative impact on our business and reputation. Such misconduct could include the failure to comply with government procurement regulations, regulations regarding the protection of classified information, regulations prohibiting bribery and other foreign corrupt practices, regulations regarding the pricing of labor and other costs in government contracts, regulations on lobbying or similar activities, regulations pertaining to the internal controls over financial reporting, environmental laws, and any other applicable laws or regulations. Our policies mandate compliance with these regulations and laws, and we take precautions to prevent and detect misconduct. However, since our internal controls are subject to inherent limitations, including human error, it is possible that these controls could be intentionally circumvented or become inadequate because of changed conditions. As a result, we cannot assure that our controls will protect us from reckless or criminal acts committed by

our employees or agents. Our failure to comply with applicable laws or regulations, or acts of misconduct could subject us to fines and penalties, loss of security clearances, and suspension or debarment from contracting, any or all of which could harm our reputation, reduce our revenue and profits, and subject us to criminal and civil enforcement actions.

Our failure to implement and comply with our safety program could adversely affect our operating results or financial condition.

Our safety program is a fundamental element of our overall approach to risk management, and the implementation of the safety program is a significant issue in our dealings with our clients. We maintain an enterprise-wide group of health and safety professionals to help ensure that the services we provide are delivered safely and in accordance with standard work processes. Unsafe job sites and office environments have the potential to increase employee turnover, increase the cost of a project to our clients, expose us to types and levels of risk that are fundamentally unacceptable, and raise our operating costs. The implementation of our safety processes and procedures are monitored by various agencies and rating bureaus, and may be evaluated by certain clients in cases in which safety requirements have been established in our contracts. Our failure to meet these requirements or our failure to properly implement and comply with our safety program could result in reduced profitability or the loss of projects or clients, and could have a material adverse effect on our business, operating results, or financial condition.

We may be subject to liabilities under environmental laws and regulations.

Our services are subject to numerous U.S. and international environmental protection laws and regulations that are complex and stringent. For example, we must comply with a number of U.S. federal government laws that strictly regulate the handling, removal, treatment, transportation, and disposal of toxic and hazardous substances. Under the Comprehensive Environmental Response Compensation and Liability Act of 1980, as amended (“CERCLA”), and comparable state laws, we may be required to investigate and remediate regulated hazardous materials. CERCLA and comparable state laws typically impose strict, joint and several liabilities without regard to whether a company knew of or caused the release of hazardous substances. The liability for the entire cost of clean-up could be imposed upon any responsible party. Other principal U.S. federal environmental, health, and safety laws affecting us include, but are not limited to, the Resource Conservation and Recovery Act, National Environmental Policy Act, the Clean Air Act, the Occupational Safety and Health Act, the Federal Mine Safety and Health Act of 1977 (the “Mine Act”), the Toxic Substances Control Act, and the Superfund Amendments and Reauthorization Act. Our business operations may also be subject to similar state and international laws relating to environmental protection. Further, past business practices at companies that we have acquired may also expose us to future unknown environmental liabilities. Liabilities related to environmental contamination or human exposure to hazardous substances, or a failure to comply with applicable regulations, could result in substantial costs to us, including clean-up costs, fines, civil or criminal sanctions, and third-party claims for property damage or personal injury or cessation of remediation activities. Our continuing work in the areas governed by these laws and regulations exposes us to the risk of substantial liability.

Delaware law and our charter documents may impede or discourage a merger, takeover, or other business combination even if the business combination would have been in the best interests of our stockholders.

We are a Delaware corporation and the anti-takeover provisions of Delaware law impose various impediments to the ability of a third party to acquire control of us, even if a change in control would be beneficial to our stockholders. In addition, our Board of Directors has the power, without stockholder approval, to designate the terms of one or more series of preferred stock and issue shares of preferred stock, which could be used defensively if a takeover is threatened. Our incorporation under Delaware law, the ability of our Board of Directors to create and issue a new series of preferred stock, and provisions in our certificate of incorporation and bylaws, such as those relating to advance notice of certain stockholder proposals and nominations, could impede a merger, takeover, or other business combination involving us, or discourage a potential acquirer from making a tender offer for our common stock, even if the business combination would have been in the best interests of our current stockholders.

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

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

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

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

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

The price of our common stock is volatile and may fluctuate significantly. For example, during our fiscal year ended January 1, 2016, the closing price of our stock ranged from a high of \$16.17 per share to a low of \$8.06 per share. We cannot assure you as to the prices at which our common stock will trade or that an active trading market in our common stock will be sustained in the future. In addition to the matters discussed in other risk factors included herein, some of the reasons for fluctuations in our stock price could include:

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

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

Cautionary Statement Regarding Forward-Looking Information

In addition to current and historical information, this report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements relate to our future operations,

prospects, potential products, services, developments and business strategies. These statements can, in some cases, be identified by the use of words like “may,” “will,” “should,” “could,” “would,” “intend,” “expect,” “plan,” “anticipate,” “believe,” “estimate,” “predict,” “project,” “potential,” or “continue” or the negative of such terms or other comparable terminology. This report includes, among others, forward-looking statements regarding our:

- Ability to achieve energy savings goals on our contracts;
- Expectations about future customers;
- Expectations regarding the industries and geographies that we primarily serve, including the impact of economic conditions in those industries and geographies;
- Ability to successfully integrate our recent acquisitions;
- Expectations about our service offerings;
- Expectations about our ability to cross-sell additional services to existing clients;
- Expectations about our intended geographical expansion;
- Expectations about our ability to attract and retain executive officers and key employees;
- Expectations about the impact of legislation on our business and that of our customers;
- Evaluation of the materiality of our current legal proceedings; and
- Expectations about positive cash flow generation and existing cash and cash equivalents being sufficient to meet normal operating requirements.

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our corporate headquarters are located in approximately 18,000 square feet of office space that we lease at 2401 East Katella Avenue, Anaheim, California. In addition, we lease office space in 37 other locations nationwide, principally in California and New York. In total, our facilities contain approximately 138,000 square feet of office space and are subject to leases that expire through February 2023. We rent a small portion of this space on a month-to-month basis. We believe that our existing facilities are adequate to meet current requirements and that suitable additional or substitute space will be available as needed to accommodate any expansion of operations and for additional offices.

ITEM 3. LEGAL PROCEEDINGS

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

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

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

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

A complaint was filed against us on July 16, 2014 relating to a project performed by Willdan Financial Services to prepare a Cost of Services Analysis (a “COSA”) for the Department of Water and Power of the City of Glendale, California (the “City of Glendale”). The purpose of the COSA was to assist the City of Glendale in setting water rates for property owners. The lawsuit alleges that the City of Glendale suffered damages due to mistakes in the COSA, as follows: the City of Glendale received less revenue than anticipated in an amount exceeding \$9,000,000; the City of Glendale was required to retain another consultant to prepare a new COSA at the cost of \$130,000; and the City of Glendale incurred costs associated with noticing and conducting public hearings at a cost of \$83,052. We deny the allegations asserted in the lawsuit and will vigorously defend against the claims. Additionally, this matter is covered under our professional liability insurance policy which has limits of \$5,000,000 per claim and \$10,000,000 annual aggregate.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON STOCK, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information for Common Stock

Since November 21, 2006, the common stock of Willdan Group, Inc. has been listed and traded on the NASDAQ Global Market under the symbol "WLDN". The following table sets out the high and low daily closing sale prices as reported on the NASDAQ Global Market for fiscal years 2015 and 2014. These reported prices reflect inter-dealer prices without adjustments for retail markups, markdowns, or commissions.

	2015		2014	
	High	Low	High	Low
1st Quarter	\$15.84	\$11.71	\$ 5.31	\$ 4.44
2 nd Quarter	\$16.17	\$10.66	\$ 8.31	\$ 4.45
3 rd Quarter	\$11.50	\$ 8.22	\$13.82	\$ 7.34
4 th Quarter	\$11.98	\$ 8.06	\$18.42	\$10.80

On March 15, 2016, the closing sales price per share of our common stock, as reported on the NASDAQ Global Market, was \$8.93.

Stockholders

As of March 15, 2016, there were 155 stockholders of record of our common stock.

Dividends

We did not declare or pay cash dividends on our common stock in fiscal years 2015 and 2014. Our revolving credit agreement prohibits the payment of any dividend or distribution on our common stock either in cash, stock or any other property without the lender's consent.

Recent Sales of Unregistered Securities

On January 15, 2015, in connection with our acquisition of Abacus, we issued 75,758 shares of common stock (the "Abacus Stock Issuance") to the selling shareholders of Abacus with an agreed upon value of \$0.9 million (based on the volume-weighted average price of shares of common stock for the ten trading days immediately prior to, but not including, January 15, 2015). Specifically, we issued 37,879 shares of common stock to Mr. Kinzer and 37,879 shares of common stock to Mr. Rubbert.

On January 15, 2015, in connection with our acquisition of 360 Energy, we issued 47,348 shares of common stock (the "360 Energy Stock Issuance") to 360 Energy with an agreed upon value of \$0.6 million (based on the volume-weighted average price of shares of common stock for the ten trading days immediately prior to, but not including, January 15, 2015).

On March 4, 2016, in connection with our acquisition of Genesys, we issued 255,808 shares of common stock (the "Genesys Stock Issuance") to the selling shareholders of Genesys with an agreed upon value of \$2 million (based on the volume-weighted average price of shares of common stock for the ten trading days immediately prior to, but not including February 26, 2016). Specifically, we issued 127,904 shares of common stock to Mr. Mineo and 127,904 shares of common stock to Mr. Braun.

The issuances of common stock in the Abacus Stock Issuance, the 360 Energy Stock Issuance, and the Genesys Stock Issuance were not registered under the Securities Act of 1933, as amended (the "Securities Act"). Such shares

were issued in private placements exempt from the registration requirements of the Securities Act, in reliance on the exemptions set forth in Section 4(a)(2) of the Securities Act.

Issuer Purchases of Equity Securities

None.

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				
	2015	2014	2013	2012	2011
	(in thousands except per share amounts)				
Consolidated Statement of Operations Data:					
Contract revenue	\$ 135,103	\$ 108,080	\$ 85,510	\$ 93,443	\$ 107,165
Direct costs of contract revenue (exclusive of depreciation and amortization shown separately below):					
Salaries and wages	31,880	28,207	24,098	23,218	25,714
Subcontractor services and other direct costs	50,200	35,611	24,831	35,741	39,013
Total direct costs of contract revenue	<u>82,080</u>	<u>63,818</u>	<u>48,929</u>	<u>58,959</u>	<u>64,727</u>
General and administrative expenses:					
Salaries and wages, payroll taxes, employee benefits	25,741	21,394	20,555	22,421	22,594
Facilities and facility related	4,246	4,371	4,654	4,871	4,875
Stock-based compensation	777	258	150	227	201
Depreciation and amortization	2,072	459	517	671	877
Lease abandonment (recovery), net	—	9	30	26	2
Impairment of goodwill	—	—	—	15,208	—
Other	12,657	9,462	8,067	10,315	10,488
Total general and administrative expenses	<u>45,493</u>	<u>35,953</u>	<u>33,973</u>	<u>53,739</u>	<u>39,037</u>
Income (loss) from operations	<u>7,530</u>	<u>8,309</u>	<u>2,608</u>	<u>(19,255)</u>	<u>3,401</u>
Other income (expense):					
Interest income	—	8	10	6	5
Interest expense	(207)	(16)	(94)	(106)	(77)
Other, net	18	125	238	(28)	1
Total other (expense) income, net	<u>(189)</u>	<u>117</u>	<u>154</u>	<u>(128)</u>	<u>(71)</u>
Income (loss) before income tax expense	7,341	8,426	2,762	(19,383)	3,330
Income tax expense (benefit)	3,082	(990)	132	(2,083)	1,500
Net income (loss)	<u>\$ 4,259</u>	<u>\$ 9,416</u>	<u>\$ 2,630</u>	<u>\$ (17,300)</u>	<u>\$ 1,830</u>
Earnings (loss) per common share:					
Basic	\$ 0.54	\$ 1.26	\$ 0.36	\$ (2.37)	\$ 0.25
Diluted	\$ 0.52	\$ 1.22	\$ 0.35	\$ (2.37)	\$ 0.24
Weighted average common shares outstanding:					
Basic	7,834	7,488	7,355	7,310	7,262
Diluted	8,113	7,739	7,495	7,310	7,485
Other Operating Data (unaudited):					
Adjusted EBITDA(1)	\$ 10,167	\$ 8,893	\$ 3,431	\$ (3,338)	\$ 4,346
Employee headcount at period end(2)	688	637	534	534	562

	Fiscal Year Ended				
	January 1, 2016	January 2, 2015	December 27, 2013	December 28, 2012	December 30, 2011
Consolidated Balance Sheet Data:					
Cash and cash equivalents	\$ 16,487	\$ 18,173	\$ 8,134	\$ 10,006	\$ 3,001
Working capital	22,499	27,537	15,706	13,099	13,083
Total assets	72,345	49,330	38,237	41,977	64,311
Total indebtedness(3)	5,823	985	731	3,904	1,232
Total stockholders' equity	37,616	30,413	20,213	17,351	34,293

- (1) Adjusted EBITDA is a supplemental measure used by our management to measure our operating performance. We define Adjusted EBITDA as net income (loss) plus interest expense (income), income tax expense (benefit), goodwill impairment, interest accretion and depreciation and amortization. Adjusted EBITDA is not a measure of net income (loss) determined in accordance with U.S. generally accepted accounting principles, or GAAP. We believe Adjusted EBITDA is useful because it allows our management to evaluate our operating performance and compare the results of our operations from period to period and against our peers without regard to our financing methods, capital structure and non-operating expenses. We use Adjusted EBITDA to evaluate our performance for, among other things, budgeting, forecasting and incentive compensation purposes. Adjusted EBITDA has limitations as an analytical tool and should not be considered as an alternative to, or more meaningful than, net income (loss) as determined in accordance with GAAP. Certain items excluded from Adjusted EBITDA are significant components in understanding and assessing a company's financial performance, such as a company's costs of capital, as well as the historical costs of depreciable assets. Our definition of Adjusted EBITDA may also differ from those of many companies reporting similarly named measures.

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

	Fiscal Year				
	2015	2014	2013	2012	2011
Net income (loss)	\$ 4,259	\$ 9,416	\$ 2,630	\$ (17,300)	\$ 1,830
Interest income	—	(8)	(10)	(6)	(5)
Interest expense	207	16	94	106	77
Income tax (benefit) expense	3,082	(990)	132	(2,083)	1,500
Impairment of goodwill	—	—	—	15,208	—
Interest accretion	547	—	—	—	—
Depreciation and amortization	2,072	459	585	737	944
Adjusted EBITDA	<u>\$ 10,167</u>	<u>\$ 8,893</u>	<u>\$ 3,431</u>	<u>\$ (3,338)</u>	<u>\$ 4,346</u>

- (2) Includes full-time and part-time employees.
- (3) Total indebtedness includes notes payable outstanding under our delayed draw term loan facility and notes payable that we issued to the sellers of Abacus and 360 Energy in connection with our acquisition of each in January 2015. We had no amounts outstanding under our revolving line of credit as of January 1, 2016. Total indebtedness does not include the earn-out payments owed in connection with our acquisitions of 360 Energy, Abacus and Economist LLC.

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

Overview

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

- Energy Efficiency and Sustainability;
- Engineering and Planning;
- Economic and Financial Consulting; and
- National Preparedness and Interoperability.

We operate our business through a network of offices located primarily in California and New York. We also have operations in Arizona, Colorado, Florida, Illinois, Kansas, Oregon, Texas, Washington and Washington, DC. As of January 1, 2016 we had a staff of 688, which includes licensed engineers and other professionals.

We seek to establish close working relationships with our clients and expand the breadth and depth of the services we provide to them over time. Our business with public and private utilities is concentrated primarily in California and New York, but we also have business with utilities in Texas, Illinois, Ohio and Washington State. We currently serve 17 major utility customers across the country. Our business with public agencies is concentrated in California and Arizona. We provide services to many of the cities and counties in California. We also serve special districts, school districts, a range of public agencies and private industry.

We were founded in 1964 and Willdan Group, Inc., a Delaware corporation, was formed in 2006 to serve as our holding company. Historically, our clients have been public agencies in communities with populations ranging from 10,000 to 300,000 people. We believe communities of this size are underserved by large outsourcing companies that tend to focus on securing large federal and state projects, and projects for the private sector. We consist of a family of wholly owned companies that operate within the following segments for financial reporting purposes:

- *Energy Efficiency Services.* Our Energy Efficiency Services segment consists of the business of our subsidiary, Willdan Energy Solutions, which offers energy efficiency and sustainability consulting services to utilities, public agencies and private industry. This segment is currently our largest segment based on contract revenue, representing approximately 55% and 49% of our consolidated contract revenue for fiscal years 2015 and 2014, respectively.
- *Engineering Services.* Our Engineering Services segment includes the operations of our subsidiaries, Willdan Engineering, Willdan Infrastructure and Public Agency Resources ("PARs"). Willdan Engineering provides civil engineering-related and city planning services, geotechnical and other engineering consulting services to our clients. Willdan Infrastructure, which was launched in fiscal year 2013, provides engineering services to larger rail, port, water, mining and other civil engineering projects. PARs primarily provides staffing to Willdan Engineering. Contract revenue for the Engineering Services segment represented approximately 34% and 38% of our overall consolidated contract revenue for fiscal years 2015 and 2014, respectively.
- *Public Finance Services.* Our Public Finance Services segment consists of the business of our subsidiary, Willdan Financial Services, which offers economic and financial consulting services to public agencies. Contract revenue for the Public Finance Services segment represented approximately 9% and 10% of our consolidated contract revenue for fiscal years 2015 and 2014, respectively.
- *Homeland Security Services.* Our Homeland Security Services segment consists of the business of our subsidiary, Willdan Homeland Solutions, which offers national preparedness and interoperability services and communications and technology solutions. Contract revenue for our Homeland Security Services

segment represented approximately 2% and 3% of our consolidated contract revenue for fiscal years 2015 and 2014, respectively.

Recent Developments

Acquisition of Genesys Engineering P.C. On March 4, 2016, following our acquisitions in January 2015 of Abacus Resource Management and 360 Energy Engineers, LLC, we and our wholly-owned subsidiary, Willdan Energy Solutions (“WES”) acquired substantially all of the assets of Genesys Engineering P.C. (“Genesys”) and assumed certain specified liabilities of Genesys (collectively, the “Purchase”) pursuant to an Asset Purchase and Merger Agreement, dated as of February 26, 2016 (the “Agreement”), by and among us, WES, WESGEN (as defined below), Genesys and Ronald W. Mineo (“Mineo”) and Robert J. Braun (“Braun” and, together with Mineo, the “Genesys Shareholders”). On March 5, 2016, pursuant to the terms of the Agreement, WESGEN, Inc., a non-affiliated corporation (“WESGEN”), merged (the “Merger” and, together with the Purchase, the “Acquisition”) with Genesys, with Genesys remaining as the surviving corporation.

Pursuant to the terms of the Agreement, WES or WESGEN, as applicable, paid the Genesys Shareholders an aggregate purchase price (the “Purchase Price”) of approximately \$12.6 million, subject to post closing working capital and tax adjustments. The Purchase Price consists of (i) \$6.0 million in cash, payable at closing, (ii) 255,808 shares of Common Stock, par value \$0.01 per share, of us (the “Common Stock”), equaling \$2.0 million based on the volume-weighted average price of shares of the Common Stock for the ten trading days immediately prior to, but not including, February 26, 2016, and (iii) \$4.6 million in cash, payable in twenty-four (24) equal monthly installments beginning on March 26, 2016 (the “Installment Payments”). Until the third anniversary of the Closing Date (the “Closing Date”), the Genesys Shareholders will be prohibited from transferring or disposing of any Common Stock received in connection with the Acquisition.

The Agreement contains customary representations and warranties regarding us, WES, WESGEN, Genesys and the Genesys Shareholders, indemnification provisions and other provisions customary for transactions of this nature. Pursuant to the terms of the Agreement, we and WES also provided guarantees to the Genesys Shareholders which guarantee certain of WESGEN’s and Genesys’ obligations under the Agreement, including the Installment Payments.

We used cash on hand to pay the \$6.0 million initial purchase price.

Genesys continues to be a professional corporation organized under the laws of the State of New York, wholly-owned by one or more licensed engineers. Pursuant to New York law, we do not own capital stock of Genesys. We have entered into an agreement with the post-Closing Date owners of Genesys pursuant to which such owners will be prohibited from selling, transferring or encumbering their ownership interest in Genesys without our consent. Notwithstanding our rights regarding the transfer of Genesys’ stock, we do not have control over the professional decision making of Genesys. We have entered into an administrative services agreement with Genesys pursuant to which WES will provide Genesys with ongoing administrative, operational and other non-professional support services.

Amendment to Credit Facility. On February 26, 2016, we and our subsidiaries, as guarantors, entered into the Third Amendment (the “Third Amendment”) to the Credit Agreement and Consent (as amended, the “BMO Credit Agreement”), dated as of March 24, 2014, by and between us, the guarantors listed therein, and BMO Harris Bank National Association (“BMO Harris”). The BMO Credit Agreement governs our credit facility that includes a revolving line of credit and a delayed draw term loan facility.

The Third Amendment revised the BMO Credit Agreement to, among other things, extend the maturity date of the BMO Credit Agreement from March 24, 2016 to March 24, 2017, to permit the Acquisition and the Installment Payments and to add Genesys as a guarantor under the BMO Credit Agreement upon the closing of the Merger.

The Third Amendment also permits us to repurchase up to \$7.0 million of shares of Common Stock under certain conditions, including that, at the time of any such repurchase, (a) we have at least \$7.0 million of unrestricted cash (or undrawn availability under our revolving credit facility), (b) the aggregate amount of all repurchases to the date

of such repurchase be less than \$7.0 million and (c) no default exists or would arise under the BMO Credit Agreement after giving effect to such repurchase.

The Third Amendment also revised certain covenants in the BMO Credit Agreement. As a result of the Third Amendment, we must maintain a minimum tangible net worth (as defined in the Third Amendment) of at least the sum of (a) our tangible net worth as of December 31, 2015, plus (b) 50% of net income (only if positive) for each fiscal quarter ending after the effectiveness of the Third Amendment, plus (c) the aggregate proceeds received by us from the issuance or sale of equity interests in us, minus (d) the aggregate dollar amount of stock repurchases after the effectiveness of the Third Amendment, plus or minus, as applicable, (e) 80% of any adjustments to tangible net worth of us arising as a result of the consummation of the Acquisition or certain other acquisitions identified to BMO Harris. Pursuant to the terms of the Third Amendment, our ability to incur permitted indebtedness was also (i) decreased for notes to sellers of acquired businesses from \$4.25 million to \$4.15 million and (ii) increased for cash earn out, performance payments or similar obligations relating to acquisitions permitted by the BMO Credit Agreement from \$7.9 million to \$10.5 million. The Third Amendment also allows us to incur permitted indebtedness relating to the Installment Payments up to a maximum of \$4.6 million and subject to other conditions.

As of March 15, 2016, there are no outstanding borrowings under the revolving line of credit and all \$7.5 million remain available for borrowing.

For further information on our revolving credit facility, see “—Liquidity and Capital Resources—Outstanding Indebtedness” elsewhere in this report.

Components of Revenue and Expense

Contract Revenue

We provide our services under contracts, purchase orders or retainer letters. The contracts we enter into with our clients contain three principal types of pricing provisions: time and materials, unit based, and fixed price. Revenue on our time and materials and unit based contracts are recognized as the work is performed in accordance with specific terms of the contract. Approximately 31% of our contracts are based on contractual rates per hour plus costs incurred. Some of these contracts include maximum contract prices, but the majority of these contracts are not expected to exceed the maximum. Contract revenue on our fixed price contracts is determined on the percentage of completion method based generally on the ratio of direct costs incurred to date to estimated total direct costs at completion. Many of our fixed price contracts are relatively short in duration, thereby lowering the risks of not properly estimating the percent complete.

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

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

Direct Costs of Contract Revenue

Direct costs of contract revenue consist primarily of that portion of technical and nontechnical salaries and wages that have been incurred in connection with revenue producing projects. Direct costs of contract revenue also

include production expenses, subcontractor services, and other expenses that are incurred in connection with revenue producing projects. Direct costs of contract revenue exclude that portion of technical and nontechnical salaries and wages related to marketing efforts, vacations, holidays and other time not spent directly generating revenue under existing contracts. Such costs are included in general and administrative expenses. Additionally, payroll taxes, bonuses and employee benefit costs for all of our personnel are included in general and administrative expenses since no allocation of these costs is made to direct costs of contract revenue. No allocation of facilities costs is made to direct costs of contract revenue.

Other companies may classify as direct costs of contract revenue some of the costs that we classify as general and administrative costs. We expense direct costs of contract revenue when incurred.

General and Administrative Expenses

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

Critical Accounting Policies

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

Contract Accounting

We enter into contracts with our clients that contain various types of pricing provisions, including fixed price, time-and-materials, unit-based, and service related provisions. The following table reflects our four reportable segments and the types of contracts that each most commonly enters into for revenue generating activities.

Segment	Types of Contract (Revenue Recognition Method)
Energy Efficiency Services	Unit-based and time-and-materials (percentage-of-completion method)
Engineering Services	Time-and-materials, unit-based and fixed price (percentage-of-completion method)
Public Finance Services	Service related contracts (proportional performance method)
Homeland Security Services	Service related contracts (proportional performance method)

Revenue on fixed price contracts is recognized on the percentage-of-completion method based generally on the ratio of direct costs (primarily exclusive of depreciation and amortization costs) incurred to date to estimated total direct costs at completion. Revenue on time-and-materials and unit-based contracts is recognized as the work is performed in accordance with the specific terms of the contract. We recognize revenues for time-and-material contracts based upon the actual hours incurred during a reporting period at contractually agreed upon rates per hour and also include in revenue all reimbursable costs incurred during a reporting period for which we have risk or on which the fee was based at the time of bid or negotiation. Certain of our time-and-material contracts are subject to maximum contract values and, accordingly, revenue under these contracts is generally recognized under the percentage-of-completion method, consistent with fixed priced contracts. Revenue on contracts that are not subject to maximum contract values is recognized based on the actual number of hours we spend on the projects plus any actual out-of-pocket costs of materials and other direct incidental expenditures that we incur on the projects. In addition, revenue from overhead percentage recoveries and earned fees are included in revenue. Revenue is recognized as the related costs are incurred. For unit-based contracts, we recognize the contract price of units of a basic production product as revenue when the production product is delivered during a period. Revenue for amounts that have been billed but not earned is deferred and such deferred revenue is referred to as billings in excess of costs and estimated earnings on uncompleted contracts in the accompanying consolidated balance sheets.

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

We consider whether our contracts require combining for revenue recognition purposes. If certain criteria are met, revenues for related contracts may be recognized on a combined basis. With respect to our contracts, it is rare that such criteria are present. We may enter into certain contracts which include separate phases or elements. If each phase or element is negotiated separately based on the technical resources required and/or the supply and demand for the services being provided, we evaluate if the contracts should be segmented. If certain criteria are met, the contracts would be segmented which could result in revenues being assigned to the different elements or phases with different rates of profitability based on the relative value of each element or phase to the estimated total contract revenue.

Applying the percentage-of-completion method of recognizing revenue requires us to estimate the outcome of our long-term contracts. We forecast such outcomes to the best of our knowledge and belief of current and expected conditions and our expected course of action. Differences between our estimates and actual results often occur resulting in changes to reported revenue and earnings. Such changes could have a material effect on future consolidated financial statements. We did not have material revisions in estimates for contracts recognized using the percentage-of-completion method for any of the periods presented in the accompanying condensed consolidated financial statements.

Service-related contracts, including operations and maintenance services and a variety of technical assistance services, are accounted for over the period of performance, in proportion to the costs of performance. Award and incentive fees are recorded when they are fixed and determinable and consider customer contract terms.

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

Goodwill

We test our goodwill at least annually for possible impairment. We complete our annual testing of goodwill as of the last day of the first month of our fourth fiscal quarter each year to determine whether there is impairment. In addition to our annual test, we regularly evaluate whether events and circumstances have occurred that may indicate a potential impairment of goodwill. We did not recognize any goodwill impairment charges in fiscal years 2015, 2014, or 2013. We had goodwill of approximately \$16.1 million as of January 1, 2016, as the result of two acquisitions in January and one in April 2015.

We test our goodwill for impairment at the level of our reporting units, which are components of our operating segments. In September 2011, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update No. 2011-08 (“ASU 2011-08”), *Intangibles—Goodwill and Other (Topic 350): Testing Goodwill for Impairment*. This accounting guidance allows companies to perform a qualitative assessment on goodwill impairment to determine whether a quantitative assessment is necessary. The guidance is for goodwill impairment tests performed in interim and annual periods for fiscal years beginning after December 15, 2011. The process of testing goodwill for impairment, pursuant to ASU 2011-08, now involves an optional qualitative assessment on goodwill impairment of our reporting units to determine whether a quantitative assessment is necessary. If a quantitative assessment is warranted, we then determine the fair value of the applicable reporting units. To estimate the fair value of our reporting units, we use both an income approach based on management’s estimates of future cash flows and other market data and a market approach based upon multiples of EBITDA earned by similar public companies.

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

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

Accounting for Claims Against the Company

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

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

Business Combinations

The acquisition method of accounting for business combinations requires us to use significant estimates and assumptions, including fair value estimates, as of the business combination date and to refine those estimates as necessary during the measurement period (defined as the period, not to exceed one year, in which we may adjust the provisional amounts recognized for a business combination) based upon new information about facts that existed on the business combination date.

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

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

On January 15, 2015, we and our wholly-owned subsidiary, WES, completed two separate acquisitions. We acquired all of the outstanding shares of Abacus, an Oregon-based energy engineering company. In addition, we also acquired substantially all of the assets of 360 Energy, a Kansas-based energy engineering company.

On April 3, 2015, our wholly-owned subsidiary, Willdan Financial Services, acquired substantially all of the assets of Economists LLC, a Texas-based economic analysis and financial solutions firm serving the municipal and public sectors. For further discussion of our acquisitions, see Note 3 “—Business Combinations” of notes to our consolidated financial statements.

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences of temporary differences between the financial reporting basis and tax basis of our assets and liabilities, subject to a judgmental assessment of the recoverability of deferred tax assets. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is recorded when it is more likely than not that some of the deferred tax assets may not be realized. Significant judgment is applied when assessing the need for valuation allowances. Areas of estimation include our consideration of future taxable income and ongoing prudent and feasible tax planning strategies. Should a change in circumstances lead to a change in judgment about the utilization of deferred tax assets in future years, we would adjust the related valuation allowances in the period that the change in circumstances occurs, along with a corresponding increase or charge to income.

During fiscal year 2015, we assessed the available positive and negative evidence to estimate if sufficient future taxable income will be generated to utilize the existing deferred tax assets. We have ultimately determined that it is not more-likely-than-not that the entire California net operating loss will be utilized prior to expiration. Significant pieces of objective evidence evaluated included our history of utilization of California net operating losses in prior years for each of our subsidiaries, as well as our forecasted amount of net operating loss utilization for certain members of the combined group. Based on this evaluation, as of January 1, 2016, we recorded a valuation allowance in the amount of \$73,000 related to California net operating losses.

During the year ended January 2, 2015, management assessed the available positive and negative evidence to estimate if sufficient future taxable income will be generated to utilize the existing deferred tax assets. Based on this evaluation, as of January 2, 2015, the Company reversed the \$4.6 million valuation allowance on its deferred tax assets.

For acquired business entities, if we identify changes to acquired deferred tax asset valuation allowances or liabilities related to uncertain tax positions during the measurement period and they relate to new information obtained about facts and circumstances that existed as of the acquisition date, those changes are considered a measurement period

adjustment and we record the offset to goodwill. We record all other changes to deferred tax asset valuation allowances and liabilities related to uncertain tax positions in current period income tax expense.

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

Results of Operations

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

	Fiscal Year		
	2015	2014	2013
Statement of Operations Data:			
Contract revenue	100 %	100 %	100 %
Direct costs of contract revenue (exclusive of depreciation and amortization shown separately below):			
Salaries and wages	23.6	26.1	28.2
Subcontractor services and other direct costs	37.2	32.9	29.0
Total direct costs of contract revenue	60.8	59.0	57.2
General and administrative expenses:			
Salaries and wages, payroll taxes and employee benefits	19.1	19.8	24.0
Facilities and facility related	3.1	4.1	5.4
Stock-based compensation	0.6	0.2	0.2
Depreciation and amortization	1.5	0.4	0.6
Other	9.4	8.8	9.5
Total general and administrative expenses	33.7	33.3	39.7
Income from operations	5.5	7.7	3.1
Other (expense) income:			
Interest income	—	—	—
Interest expense	(0.2)	—	(0.1)
Other, net	—	0.1	0.3
Total other (expense) income, net	(0.2)	0.1	0.2
Income before income taxes	5.3	7.8	3.3
Income tax expense (benefit)	2.3	(0.9)	0.2
Net income	3.0 %	8.7 %	3.1 %

Fiscal Year 2015 Compared to Fiscal Year 2014

Contract revenue. Our contract revenue was \$135.1 million for fiscal year 2015, with \$74.1 million attributable to the Energy Efficiency Services segment, \$46.0 million attributable to the Engineering Services segment, \$11.9 million attributable to the Public Finance Services segment, and \$3.1 million attributable to the Homeland Security Services segment. Consolidated contract revenue increased \$27.0 million, or 25.0%, to \$135.1 million for fiscal year 2015 from \$108.1 million for fiscal year 2014. This was primarily the result of increases of \$21.2 million, or 40.0%, and \$5.2 million, or 12.8%, in contract revenue from our Energy Efficiency Services and Engineering Services segments, respectively. Contract revenue for our Public Finance Services increased \$1.2 million, or 11.5% to \$11.9 million for fiscal year 2015 from \$10.6 million for fiscal year 2014. Contract revenue for our Homeland Security Services segment decreased by \$0.6 million, or 16.1%, to \$3.1 million for fiscal year 2015 from \$3.7 million for fiscal year 2014. Contract revenue for the Energy Efficiency Services segment increased primarily because of incremental contract revenue of \$23.1 million from acquisitions of Abacus and 360 Energy. Contract revenue for the Energy Efficiency Services segment decreased by \$1.9 million, excluding revenue from Abacus and 360 Energy, primarily as a result of

underperformance on certain programs in the third and fourth quarters of 2015. Contract revenue for the Engineering Services segment increased primarily due to greater demand for our city engineering services in northern California, our building and safety services, and our construction management services. Revenue in the Homeland Security Services segment decreased due to slightly lower levels of activity in the traditional planning, training and exercise consulting services business.

Direct costs of contract revenue. Direct costs of contract revenue were \$82.1 million for fiscal year 2015, with \$49.6 million attributable to the Energy Efficiency Services segment, \$25.9 million attributable to the Engineering Services segment, \$4.8 million attributable to the Public Finance Services segment, and \$1.8 million attributable to the Homeland Security Services segment. Overall, direct costs increased by \$18.3 million, or 28.7%, to \$82.1 million for fiscal year 2015 from \$63.8 million for fiscal 2014. Of this \$18.3 million increase, \$16.3 million were attributable to incremental costs of Abacus and 360 Energy. The additional \$2.0 million of increase in direct costs resulted primarily due to salaries and wages, as a result of increased headcount required for the increase in work. In addition, subcontractor expense increased due to the Elk Grove project. The increase in direct costs was primarily attributable to an increase in direct costs within our Energy Efficiency Services segment of \$14.7 million, or 42.3% for fiscal year 2015. Direct costs of contract revenue also increased within our Engineering Services and Public Finance segments by \$3.5 million, or 15.4%, and \$0.5 million, or 12.6%, respectively. Direct costs of contract revenue in our Homeland Security Services segment decreased by \$0.5 million, or 21.1% to \$1.8 million for fiscal year 2015 from \$2.2 million for fiscal year 2014.

Direct costs increased as a result of increases in subcontractor services and other direct costs of \$14.6 million and an increase in salaries and wages of \$3.7 million. Within direct costs of contract revenue, salaries and wages decreased to 23.6% of contract revenue for fiscal year 2015 as compared to 26.1% for fiscal 2014. Subcontractor services and other direct costs increased to 37.2% of contract revenue for fiscal 2015 from 32.9% of contract revenue for fiscal year 2014. Subcontractor services increased primarily because of our acquisition of Abacus and 360 Energy and the resulting increase in energy efficiency, sustainability and renewable energy services of our subsidiary Willdan Energy Solutions, which generally utilizes a higher percentage of subcontractors than our other subsidiaries.

General and administrative expenses. General and administrative expenses increased by \$9.5 million, or 26.5%, to \$45.5 million for fiscal year 2015 from \$36.0 million for fiscal year 2014. This reflected increases of \$8.9 million, \$0.9 million and \$0.1 million in general and administrative expenses of the Energy Efficiency Services, the Engineering Services and Public Finance segments, respectively. These increases were offset by a decrease of \$0.4 million in the Homeland Security Services segment. General and administrative expenses increased by \$2.7 million as a result of the acquisitions of Abacus and 360 Energy. General and administrative expenses for our Homeland Security Services segments decreased by \$0.1 million. Our unallocated corporate expenses decreased by \$0.3 million. General and administrative expenses as a percentage of contract revenue remained relatively stable 33.7% for fiscal year 2015 as compared to 33.3% for the fiscal year 2014. We were partially able to do this because we were able to more fully utilize some of our employees, which resulted in those salaries and wages being allocated to direct costs. As discussed above under “—Components of Revenue and Expense—Direct Costs of Contract Revenue,” we do not allocate that portion of salaries and wages not related to time spent directly generating revenue to direct costs of contract revenue and instead accrue it under general and administrative expenses.

Of the \$9.5 million increase in general and administrative expenses, approximately \$3.2 million resulted from an increase in other general and administrative expenses, which includes the imputed interest related to the contingent consideration recorded as part of the acquisitions of Abacus and 360 Energy of \$0.5 million. Salaries and wages, payroll taxes and employee benefits and stock-based compensation increased by \$4.2 million and \$0.5 million, respectively. These increases were partially offset by decreases in facility and facilities related expenses and depreciation of \$0.1 million. An increase of \$1.6 million in depreciation and amortization was due to increased amortization expense related to the intangible assets acquired in the acquisitions of Abacus and 360 Energy.

Income from operations. As a result of the above factors, our operating income was \$7.5 million for fiscal year 2015 as compared to \$8.3 million for fiscal year 2014. Income from operations, as a percentage of contract revenue, was 5.5% for fiscal year 2015, as compared to 7.7% for fiscal year 2014.

Other (expense) income. The increase in other expense is due to an increase in interest expense of \$0.2 million in fiscal 2015 as compared to fiscal 2014.

Income tax expense (benefit). We recorded an income tax expense of \$3.1 million for fiscal year 2015, as compared to an income tax benefit of \$1.0 million for fiscal year 2014. The income tax benefit in 2014 was attributable to a reversal of a valuation allowance that occurred during 2014. The effect of the reversal resulted in a total decrease to tax expense of \$4.6 million. For further discussion of our income tax provision, see Note 12 “—Income Taxes” of notes to our consolidated financial statements.

Net income. As a result of the above factors, our net income was \$4.3 million for fiscal year 2015, as compared to net income of \$9.4 million for fiscal year 2014.

Fiscal Year 2014 Compared to Fiscal Year 2013

Contract revenue. Our contract revenue was \$108.1 million for fiscal year 2014, with \$52.9 million attributable to the Energy Efficiency Services segment, \$40.8 million attributable to the Engineering Services segment, \$10.6 million attributable to the Public Finance Services segment, and \$3.7 million attributable to the Homeland Security Services segment. Consolidated contract revenue increased \$22.6 million, or 26.4%, to \$108.1 million for fiscal year 2014 from \$85.5 million for fiscal year 2013. This was primarily the result of increases of \$16.9 million, or 46.9%, and \$5.6 million, or 15.8%, in contract revenue from our Energy Efficiency Services and Engineering Services segments, respectively. Contract revenue for our Public Finance Services increased \$0.8 million, or 8.0% to \$10.6 million for fiscal year 2014 from \$9.8 million for fiscal year 2013. Contract revenue for our Homeland Security Services segment decreased by \$0.7 million, or 15.5%, to \$3.7 million for fiscal year 2014 from \$4.4 million for fiscal year 2013. Contract revenue for the Energy Efficiency Services segment increased primarily because of increased demand for energy efficiency services in the states of New York and California, largely due to a contract modification that expanded an existing SBDI contract with Consolidated Edison. Contract revenue for the Engineering Services segment increased primarily due to greater demand for our city engineering services in northern California, our building and safety services, and our construction management services. Revenue in the Homeland Security Services segment decreased due to slightly lower levels of activity in the traditional planning, training and exercise consulting services business.

Direct costs of contract revenue. Direct costs of contract revenue were \$63.8 million for fiscal year 2014, with \$34.9 million attributable to the Energy Efficiency Services segment, \$22.4 million attributable to the Engineering Services segment, \$4.3 million attributable to the Public Finance Services segment, and \$2.2 million attributable to the Homeland Security Services segment. Overall, direct costs increased by \$14.9 million, or 30.4%, to \$63.8 million for fiscal year 2014 from \$48.9 million for fiscal year 2013. The increase in direct costs was primarily attributable to an increase in direct costs within our Energy Efficiency Services segment of \$11.8 million, or 51.2% for fiscal year 2014. Direct costs of contract revenue also increased within our Engineering Services and Public Finance segments by \$3.4 million, or 17.7%, and \$0.3 million, or 6.2%, respectively. Direct costs of contract revenue in our Homeland Security Services segment decreased by \$0.4 million, or 19.1% to \$2.2 million for fiscal year 2014 from \$2.8 million for fiscal year 2013.

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

General and administrative expenses. General and administrative expenses increased by \$2.0 million, or 5.8%, to \$36.0 million for fiscal year 2014 from \$34.0 million for fiscal year 2013. This reflected increases of \$0.6 million and \$0.4 million in general and administrative expenses of the Energy Efficiency Services and the Public Finance Services segments, respectively. General and administrative expenses for our Engineering Services and Homeland Security Services segments decreased by \$0.4 million and \$0.2 million, respectively. Our unallocated corporate expenses increased by \$1.5 million. General and administrative expenses as a percentage of contract revenue was 33.3% for fiscal year 2014 as compared to 39.7% for the fiscal year 2013. We were able to keep our overall general and administrative expenses relatively stable while our revenues increased by 26.4% during this same period. We were partially able to do

this because we were able to more fully utilize some of our employees, which resulted in those salaries and wages being allocated to direct costs. As discussed above under “—Components of Revenue and Expense—Direct Costs of Contract Revenue,” we do not allocate that portion of salaries and wages not related to time spent directly generating revenue to direct costs of contract revenue and instead accrue it under general and administrative expenses.

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

Income from operations. As a result of the above factors, our operating income was \$8.3 million for fiscal year 2014 as compared to \$2.6 million for fiscal year 2013. Income from operations, as a percentage of contract revenue, was 7.7% for fiscal year 2014, as compared to 3.1% for fiscal year 2013.

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

Income tax expense (benefit). We recorded an income tax benefit of \$990,000 for fiscal year 2014, as compared to an income tax expense of \$132,000 for fiscal year 2013. The income tax benefit is attributable to a reversal of a valuation allowance that occurred during the third quarter. The effect of the release resulted in a total decrease to tax expense of \$4.6 million. For further discussion of our income tax provision, see Note 12 “—Income Taxes” of notes to our consolidated financial statements.

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

Liquidity and Capital Resources

As of January 1, 2016, we had \$16.5 million of cash and cash equivalents. Our primary source of liquidity is cash generated from operations. We also have a revolving line of credit with BMO Harris Bank, N.A., which matures on March 24, 2017. We believe that our cash and cash equivalents on hand, cash generated by operating activities and available borrowings under our revolving line of credit will be sufficient to finance our operating activities for at least the next 12 months.

Cash Flows from Operating Activities

Cash flows provided by operating activities were \$8.1 million for fiscal year 2015, as compared to cash flows provided by operating activities of \$11.9 million and \$1.2 million for fiscal years 2014 and 2013, respectively. Our cash flows provided by operating activities for fiscal year 2015 were due primarily to an increase in depreciation and amortization, a decrease in deferred taxes, and increases in accounts payable and billings in excess of costs and estimated earnings on uncompleted contracts, partially offset by a lower net income, increases in accounts receivable and costs and estimated earnings in excess of billings on uncompleted contracts. Our cash flows provided by operating activities for fiscal year 2014 resulted from a higher net income, increases in accounts payable, accrued liabilities and billings in excess of costs and estimated earnings on uncompleted contracts, partially offset by increases in deferred income taxes, accounts receivable and costs and estimated earnings in excess of billings on uncompleted contracts and decreases in accounts payable. Our cash flows provided by operating activities for fiscal year 2013 were due primarily to a decrease in accounts payable and an increase in costs and estimated earnings in excess of billing on uncompleted contracts, partially offset by a decrease in accounts receivable and an increase in accrued liabilities.

Cash Flows from Investing Activities

Cash flows used in investing activities were \$10.6 million for fiscal year 2015 and \$0.5 million and \$0.3 million for fiscal years 2014 and 2013, respectively. The significant increase in cash used in investing activities during 2015 primarily relates to cash paid in the acquisitions of Abacus and 360 Energy.

Cash Flows from Financing Activities

Cash flows provided by financing activities were \$0.8 million and \$0.1 million for fiscal year 2015 and 2014, respectively, as compared to cash flows used in financing activities of \$3.1 million for fiscal year 2013. Cash flows provided by financing activities for fiscal year 2015 increased by \$0.7 million from fiscal year 2014 primarily due to proceeds received in connection with the \$2.0 million borrowed under our delayed draw term loan facility, stock option exercise and sales of common stock under employee stock purchase plan, partially offset by repayments on outstanding debt and payments on capital leases during fiscal year 2015. The net cash flows provided by financing activities for fiscal year 2014 increased by \$3.2 million from fiscal year 2013 primarily due to a decrease in repayments on our line of credit during fiscal year 2014.

Outstanding Indebtedness

BMO Credit Facility. On March 24, 2014, we and our subsidiaries, as guarantors, entered into a credit agreement (as amended, the “BMO Credit Agreement”) with BMO Harris Bank, N.A., or BMO, that provides for a revolving line of credit of up to \$7.5 million, subject to a borrowing base calculation, and a delayed draw term loan facility of up to \$3.0 million. The \$7.5 million revolving credit facility includes a \$5.0 million standby letter of credit sub-facility. As of January 1, 2016, there were no outstanding borrowings under the revolving line of credit and approximately \$1.85 million in loans outstanding under the term loan facility and, after considering the BMO Credit Agreement’s borrowing base calculation and debt covenants (each as described below), \$7.5 million under the revolving line of credit and \$1.15 million under the delayed draw term loan facility were available for borrowing.

The term loan bears interest, at our option, at (a) the base rate plus an applicable margin ranging between 1.25% and 1.75%, or (b) the LIBOR rate plus an applicable margin ranging between 2.25% and 2.75%. Borrowings under the revolving line of credit bear interest, at our option, at (a) the base rate plus an applicable margin ranging between 0.75% and 1.25%, or (b) the LIBOR rate plus an applicable margin ranging between 1.75% and 2.25%. The applicable margin is determined based on our total leverage ratio. Interest on the term loan is payable quarterly, beginning April 13, 2015 and was 3.1% as of January 1, 2016. Principal on the term loan is payable on the last day of each March, June, September, and December in each year, with the amount of each such principal installment equal to: (i) \$50,000 on the last day of March, June, September and December 2016, and (ii) all of the remaining outstanding principal amount on March 24, 2017. The term loan is governed by the terms of the BMO Credit Agreement.

All borrowings under the revolving line of credit are limited to a borrowing base equal to roughly 75% of the eligible accounts receivable plus 50% of the lower of cost or market value of our eligible inventory, each term as defined in the BMO Credit Agreement. Under the BMO Credit Agreement, as of January 1, 2016, no cash amounts are restricted. The revolving line of credit matures on March 24, 2017 and term loans can be requested at any time prior to February 22, 2017, which would mature March 24, 2017.

Borrowings under the delayed draw term loan facility bear Borrowings under the term loan facility and the revolving line of credit are guaranteed by all of our subsidiaries (the “Guarantors”) and secured by all of our and the Guarantors’ accounts receivable and other rights to payment, general intangibles, inventory and equipment. Pursuant to the BMO Credit Agreement, we also must pay a fee of up to 0.3% on unused commitments and customary fees on any letters of credit drawn under the facility.

The BMO Credit Agreement contains customary representations and affirmative covenants, including financial covenants that require us to maintain (i) a maximum total leverage ratio, measured as total funded debt (measured as the sum of all obligations for borrowed money, including subordinated debt, plus all capital lease obligations) plus capital leases plus financial letters of credit divided by a trailing twelve month EBITDA (as defined in the BMO Credit

Agreement) measured on a rolling basis of not more than 2.25 for the first four fiscal quarters after January 2015, and not more than 2.0 thereafter; (ii) a minimum fixed charge coverage ratio (measured as the sum of EBITDA plus rent expense less unfinanced capital expenditures divided by the sum of rent expense plus principal payments plus cash taxes plus cash interest plus restricted payments plus distributions) of not less than 1.25; and (iii) a minimum tangible net worth of at least the sum of (a) our tangible net worth as of December 31, 2015, plus (b) 50% of net income (only if positive) for each fiscal quarter ending after February 29, 2016, plus (c) the aggregate proceeds received by us from the issuance or sale of equity interests in us after February 29, 2016, minus (d) the aggregate dollar amount of stock repurchases after February 29, 2016, plus or minus, as applicable, (e) 80% of any adjustments to tangible net worth of us arising as a result of certain acquisitions identified to BMO Harris.

The BMO Credit Agreement also includes customary negative covenants, including (i) restrictions on the incurrence of additional indebtedness by us or the Guarantors other than indebtedness existing on the date of the BMO Credit Agreement, (ii) restrictions on the total consideration for all permitted acquisitions (including potential future earn-out obligations) shall not exceed \$1.5 million during the term of the agreement and the total consideration for any individual permitted acquisition shall not exceed \$750,000 without BMO's consent, and (iii) limitations on asset sales, mergers and acquisitions. In addition, the credit agreement includes customary events of default. Upon the occurrence of an event of default, the interest rate may be increased by 2.0%, BMO has the option to make any loans then outstanding under the BMO Credit Agreement immediately due and payable, and BMO is no longer obligated to extend further credit to us under the BMO Credit Agreement. As of March 15, 2016, we were in compliance with the covenants under the BMO Credit Agreement.

Insurance Premiums

We have also financed, from time to time, insurance premiums by entering into unsecured notes payable with insurance companies. During our annual insurance renewals in the fourth quarter of our fiscal year ended January 1, 2016, we elected to finance our insurance premiums for the upcoming fiscal year.

Contractual Obligations

We have certain cash obligations and other commitments which will impact our short- and long-term liquidity. At January 1, 2016, such obligations and commitments consisted of long-term debt, operating leases and capital leases. The following table sets forth our contractual obligations as of January 1, 2016:

Contractual Obligations	Total	Less than			More than
		1 Year	1 - 3 Years	3 - 5 Years	5 Years
Long term debt(1)(2)	\$ 5,124,000	\$ 4,039,000	\$ 1,085,000	\$ —	\$ —
Interest payments on debt outstanding(3)	140,231	117,807	22,424	—	—
Operating leases	8,303,000	2,300,000	3,263,000	1,593,000	1,147,000
Capital leases	717,000	456,000	261,000	—	—
Total contractual cash obligations	\$ 5,234,000	\$ 2,214,000	\$ 1,975,000	\$ 996,000	\$ —

- (1) Long-term debt includes notes payable outstanding under our delayed draw term loan facility and notes payable that we issued to the sellers of Abacus and 360 Energy in connection with our acquisition of each in January 2015. We had no amounts outstanding under our revolving line of credit as of January 1, 2016.
- (2) The table above does not include \$4.6 million of deferred purchase price that we will pay in 24 equal monthly installments beginning on March 26, 2016 as part of the purchase price for substantially all of the assets of Genesys. We also paid \$6.0 million in cash upon closing of the acquisition on March 4, 2016.
- (3) Future interest payments on floating rate debt are estimated using floating rates in effect as of January 1, 2016.

The table above does not include the earn-out payments owed in connection with our acquisitions of 360 Energy, Abacus and Economists LLC. In addition, we are obligated to pay (i) up to \$6.5 million in cash, payable in installments, if certain financial targets of our division made up of the assets acquired from, and former employees of,

360 Energy are met during fiscal years 2015, 2016 and 2017 (ii) up to \$1.4 million in cash, payable in installments, if certain financial targets of Abacus are met during fiscal years 2015 and 2016, and (iii) up to \$0.6 million in cash, payable in installments, if certain financial targets of our division made up of the assets acquired from, and former employees of, Economists LLC are met during fiscal years 2016 and 2017.

Off-Balance Sheet Arrangements

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

Recent Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers* ("ASU 2014-09"), which clarifies existing accounting literature relating to how and when revenue is recognized by an entity. ASU 2014-09 affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets and supersedes the revenue recognition requirements in Topic 605, *Revenue Recognition*, and most industry-specific guidance. ASU 2014-09 requires an entity to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. In doing so, an entity will need to exercise a greater degree of judgment and make more estimates than under the current guidance. These may include identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price, and allocating the transaction price to each separate performance obligation. ASU 2014-09 also supersedes some cost guidance included in Subtopic 605-35, *Revenue Recognition-Construction-Type and Production-Type Contracts*. In August 2015, the FASB issued Update 2015-14, which defers the implementation of ASU 2014-09 for one year from the initial effective date. ASU 2014-09 is effective for public companies for interim and annual reporting periods beginning after December 15, 2017, and is to be applied either retrospectively or using the cumulative effect transition method, with early adoption not permitted. The Company has not yet selected a transition method, and is currently evaluating the impact the adoption of ASU 2014-09 will have on its consolidated financial statements and related disclosures.

In February 2015, the FASB issued Update 2015-02, which amends the consolidation requirements in Accounting Standards Codification 810 and changes the consolidation analysis required under GAAP. The standard is effective for fiscal years, and interim periods within those years, beginning after December 15, 2015, with early adoption permitted. The Company determined that the impact of the new standard on its consolidated financial statements will not be material.

In April 2015, the FASB issued ASU 2015-03, *Simplifying the Presentation of Debt Issuance Costs*. To simplify presentation of debt issuance costs, this new guidance requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. This guidance will become effective for financial statements issued for fiscal years beginning after December 15, 2015 and interim periods within those fiscal years. The Company has determined the potential impacts of the new standard on its existing debt issuance costs are not material.

In September 2015, the FASB issued Update 2015-16, which requires that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The acquirer must record, in the same period's financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. Update 2015-16 further requires an entity to present separately on the face of the income statement or disclose in the notes, the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. The standard is effective for fiscal years, and interim periods within those years, beginning after December 15, 2015, with early adoption permitted. We

have elected early adoption of this standard in fiscal 2015.

In November 2015, the FASB issued ASU 2015-17, Balance Sheet Classification of Deferred Taxes to simplify the presentation of deferred income taxes. The amendments in this update require that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. The Company has elected to early adopt ASU 2015-17 as of January 1, 2016 and retrospectively applied ASU 2015-17 to all periods presented. As of January 2, 2015 the Company reclassified \$3.1 million of deferred tax liabilities from "Other current liabilities" to "Other non-current assets" on the Consolidated Balance Sheets.

In February 2016, the FASB issued ASU No. 2016-02, "Leases" (topic 842). The FASB issued this update to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The updated guidance is effective for annual periods beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption of the update is permitted. The Company is evaluating the impact of the adoption of this update on our consolidated financial statements and related disclosures.

A variety of proposed or otherwise potential accounting standards are currently being studied by standard-setting organizations and certain regulatory agencies. Because of the tentative and preliminary nature of such proposed standards, we have not yet determined the effect, if any, that the implementation of such proposed standards would have on our consolidated financial statements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

We had cash and cash equivalents of \$16.5 million as of January 1, 2016. This amount represents cash on hand in business checking accounts with BMO Harris Bank.

We do not engage in trading activities and do not participate in foreign currency transactions or utilize derivative financial instruments. As of January 1, 2016, we had no outstanding debt under the BMO Harris Bank revolving credit facility.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

Index to Consolidated Financial Statements

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

There were no changes in and/or disagreements with accountants on accounting and financial disclosure during the year ended January 1, 2016.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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

In connection with the preparation of this Annual Report, an evaluation was performed under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures as of January 1, 2016. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective, at a reasonable assurance level, as of January 1, 2016. No change in our internal control over financial reporting occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended). Internal control over financial reporting is a process to provide reasonable assurance regarding the reliability of our financial reporting for external purposes in accordance with accounting principles generally accepted in the United States. Because of its inherent limitations, internal control over financial reporting is not intended to provide absolute assurance that a misstatement of our financial statements would be prevented or detected. Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, assessed the effectiveness of our internal control over financial reporting as of January 1, 2016. In making this assessment, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control—Integrated Framework (2013 Framework). Our management has concluded that, as of January 1, 2016, our internal control over financial reporting was effective based on these criteria.

Report of Independent Registered Public Accounting Firm

KPMG LLP, the independent registered public accounting firm that audited the fiscal 2015 consolidated financial statements included in this Annual Report on Form 10-K, has issued an audit report on the effectiveness of our internal control over financial reporting as of January 1, 2016, which is included herein.

Changes in Internal Controls

Based on our evaluation carried out in accordance with SEC Rule 15d-15(b) under the supervision and with the participation of our management, including our President and Chief Executive Officer and our Chief Financial Officer, we concluded that there were no changes during the fourth fiscal quarter of 2015 of our internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by this item is incorporated by reference to Willdan Group, Inc.'s Proxy Statement for its 2016 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the Company's 2015 fiscal year.

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

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item is incorporated by reference to Willdan Group, Inc.'s Proxy Statement for its 2016 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the Company's 2015 fiscal year.

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

The information required by this item is incorporated by reference to Willdan Group, Inc.'s Proxy Statement for its 2016 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the Company's 2015 fiscal year.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this item is incorporated by reference to Willdan Group, Inc.'s Proxy Statement for its 2016 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the Company's 2015 fiscal year.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this item is incorporated by reference to Willdan Group, Inc.'s Proxy Statement for its 2016 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the Company's 2015 fiscal year.

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

(a) The following documents are filed as part of this report:

1. Financial Statements

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

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2. Financial Statements Schedules

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

3. Exhibits

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

(b) Exhibits.

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

<u>Exhibit Number</u>	<u>Exhibit Description</u>
2.1	Stock Purchase Agreement, by and among Willdan Energy Solutions, Abacus Resource Management Company, Willdan Group, Inc. and the shareholders of Abacus Resource Management Company, dated as of January 15, 2015.(1)
2.2	Asset Purchase Agreement, by and among Willdan Energy Solutions, Willdan Group, Inc. and 360 Energy Engineers, LLC, dated as of January 15, 2015.(1)
2.3 *	Asset Purchase and Merger Agreement, by and among Willdan Group, Inc., Willdan Energy Solutions, WESGEN, Inc., Genesys Engineering P.C., Ronald W. Mineo and Robert J. Braun, dated as of February 26, 2016.
3.1	Articles of Incorporation of Willdan Group, Inc., including amendments thereto(2)
3.2	Amended and Restated Bylaws of Willdan Group, Inc.(3)
4.1	Specimen Stock Certificate for shares of the Registrant's Common Stock(2)

Exhibit Number	Exhibit Description
4.2	The Company agrees to furnish to the Securities and Exchange Commission upon request a copy of each instrument with respect to issues of long-term debt of Willdan Group, Inc. and its subsidiaries, the authorized principal amount of which does not exceed 10% of the consolidated assets of Willdan Group, Inc. and its subsidiaries.
10.1	Credit Agreement, dated March 24, 2014, between Willdan Group, Inc. and BMO Harris Bank, National Association(4)
10.2	First Amendment to the Credit Agreement, dated as of June 3, 2014, between Willdan Group, Inc., BMO Harris Bank, National Association and the parties thereto.(5)
10.3	Second Amendment to the Credit Agreement, dated as of January 14, 2015, by and between Willdan Group, Inc. and BMO Harris Bank National Association.(6)
10.4	Third Amendment to the Credit Agreement and Consent, dated as of February 26, 2016, by and between Willdan Group, Inc. and BMO Harris Bank National Association(7)
10.5	Form of Delayed Draw Term Note for \$2,500,000, dated as of March 24, 2014, by Willdan Group, Inc. in favor of BMO Harris Bank, N.A.(4)
10.6	Revolving Line of Credit Note for \$7,500,000, dated as of March 24, 2014, by Willdan Group, Inc. in favor of BMO Harris Bank, National Association(4)
10.7	Security Agreement, dated as of March 24, 2014, between Willdan Group, Inc. and BMO Harris Bank, National Association (portions of this exhibit have been omitted pursuant to a request for confidential treatment)(4)
10.8†	Willdan Group, Inc. 2006 Stock Incentive Plan(2)
10.9†	Form of Incentive Stock Option Agreement(2)
10.10†	Form of Non-Qualified Stock Option Agreement(2)
10.11†	Amended and Restated Willdan Group, Inc. 2006 Employee Stock Purchase Plan(8)
10.12†	Form of Indemnification Agreement between Willdan Group, Inc. and its Directors and Officers(2)
10.13†	Offer Letter from Willdan Group, Inc. to Daniel Chow dated October 29, 2008 and accepted November 9, 2008(9)
10.14†	Employment Agreement, dated as of May 3, 2011 by and between Willdan Group, Inc. and Thomas D. Brisbin(10)
10.15†	Employment Agreement, dated as of May 3, 2011 by and between Willdan Group, Inc. and Marc Tipermas(10)
10.16†	Willdan Group, Inc. 2008 Performance Incentive Plan(11)
10.17	Agreement for Small Business Direct Install Program, dated July 2, 2012, between Consolidated Edison Company of New York, Inc. and Willdan Energy Solutions (portions of this exhibit have been omitted pursuant to a request for confidential treatment)(12)
10.18	First Amendment, dated September 23, 2014, to Agreement for Small Business Direct Install Program, dated July 2, 2012, between Consolidated Edison Company of New York, Inc. and Willdan Energy Solutions (portions of this exhibit have been omitted pursuant to a request for confidential treatment)(13)
10.19†	Employment Agreement, by and between Willdan Group, Inc. and Mike Bieber, dated as of December 17, 2014. (5)
14.1	Code of Ethical Conduct of Willdan Group, Inc.(8)
21.1*	Subsidiaries of Willdan Group, Inc.

Exhibit Number	Exhibit Description
23.1*	Consent of Independent Registered Public Accounting Firm
23.2*	Consent of Independent Registered Public Accounting Firm
24.1*	Power of Attorney (included on signature page hereto)
31.1*	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to § 302 of the Sarbanes-Oxley Act of 2002
31.2*	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to § 302 of the Sarbanes-Oxley Act of 2002
32.1*	Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002
101	Interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Consolidated Balance Sheets as of January 1, 2016 and January 2, 2015; (ii) the Consolidated Statements of Operations for each of the fiscal years in the three-year period ended January 1, 2016; (iii) the Consolidated Statements of Stockholders' Equity for each of the fiscal years in the three-year period ended January 1, 2016; (iv) the Consolidated Statement of Cash Flows for each of the fiscal years in the three-year period ended January 1, 2016; and (v) the Notes to the Consolidated Financial Statements.

Exhibit Number	Exhibit Description
*	Filed herewith.
†	Indicates a management contract or compensating plan or arrangement.
(1)	Incorporated by reference to Willdan Group, Inc.'s Current Report on Form 8-K, filed with the Securities and Exchange Commission on January 21, 2015.
(2)	Incorporated by reference to Willdan Group, Inc.'s Registration Statement on Form S-1, filed with the Securities and Exchange Commission on August 9, 2006, as amended (File No. 333-136444).
(3)	Incorporated by reference to Willdan Group, Inc.'s Quarterly Report on Form 10-Q, filed with the Securities and Exchange Commission on August 13, 2009.
(4)	Incorporated by reference to Willdan Group, Inc.'s Annual Report on Form 10-K, filed with the Securities and Exchange Commission on March 25, 2014.
(5)	Incorporated by reference to Willdan Group, Inc.'s Quarterly Report on Form 10-Q, filed with the Securities and Exchange Commission on August 7, 2014.
(6)	Incorporated by reference to Willdan Group, Inc.'s Current Report on Form 8-K, filed with the Securities and Exchange Commission on January 7, 2015.
(7)	Incorporated by reference to Willdan Group, Inc.'s Current Report on Form 8-K, filed with the Securities and Exchange Commission on March 3, 2016.
(8)	Incorporated by reference to Willdan Group, Inc.'s Annual Report on Form 10-K, filed with the Securities and Exchange Commission on March 27, 2007.
(9)	Incorporated by reference to Willdan Group, Inc.'s Current Report on Form 8-K, filed with the Securities and Exchange Commission on December 17, 2008.

- (10) Incorporated by reference to Willdan Group, Inc.'s Current Report on Form 8-K, filed with the Securities and Exchange Commission on May 4, 2011.
- (11) Incorporated by reference to Willdan Group, Inc.'s Proxy Statement for its 2012 Annual Meeting of Stockholders, filed with the Securities and Exchange Commission on April 18, 2012.
- (12) Incorporated by reference to Willdan Group, Inc.'s Quarterly Report on Form 10-Q, filed with the Securities and Exchange Commission on November 8, 2011.
- (13) Incorporated by reference to Willdan Group, Inc.'s Quarterly Report on Form 10-Q, filed with the Securities and Exchange Commission on November 6, 2014.

SIGNATURES AND CERTIFICATIONS

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Anaheim, State of California, on March 15, 2016.

WILLDAN GROUP, INC.

/s/ Stacy B. McLaughlin
 Stacy B. McLaughlin
Chief Financial Officer and Vice President
 Date: March 15, 2016

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

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

Signature	Title	Date
<u>/s/ Thomas D. Brisbin</u> Thomas D. Brisbin	Director, President and Chief Executive Officer (chief executive officer)	March 15, 2016
<u>/s/ Stacy B. McLaughlin</u> Stacy B. McLaughlin	Chief Financial Officer and Vice President (chief financial officer and chief accounting officer)	March 15, 2016
<u>/s/ Win Westfall</u> Win Westfall	Director	March 15, 2016
<u>/s/ Keith W. Renken</u> Keith W. Renken	Director	March 15, 2016
<u>/s/ John M. Toups</u> John M. Toups	Director	March 15, 2016
<u>/s/ Raymond W. Holdsworth</u> Raymond W. Holdsworth	Director	March 15, 2016
<u>/s/ Douglas J. McEachern</u> Douglas J. McEachern	Director	March 15, 2016
<u>/s/ Steven A. Cohen</u> Steven A. Cohen	Director	March 15, 2016
<u>/s/ Mohammad Shahidepour</u> Mohammad Shahidepour	Director	March 15, 2016

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheet of Willdan Group, Inc. and subsidiaries as of January 1, 2016, and the related consolidated statements of operations, stockholders' equity, and cash flows for the year ended January 1, 2016. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Willdan Group, Inc. and subsidiaries as of January 1, 2016, and the results of their operations and their cash flows for the year ended January 1, 2016, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 12 to the consolidated financial statements, the Company has adopted on a retrospective basis FASB Accounting Standards Update No. 2015-17, Balance Sheet Classification of Deferred Taxes classifying all deferred tax assets, liabilities and associated valuation allowances as non-current.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Willdan Group Inc.'s internal control over financial reporting as of January 1, 2016, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 15, 2016 expressed an unqualified opinion on the effectiveness of Willdan Group, Inc.'s internal control over financial reporting.

/s/ KPMG LLP

Irvine, California
March 15, 2016

Report of Independent Registered Public Accounting Firm

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

We have audited Willdan Group, Inc.'s internal control over financial reporting as of January 1, 2016, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Willdan Group, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying *Management's Report on Internal Control over Financial Reporting*. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Willdan Group, Inc. maintained, in all material respects, effective internal control over financial reporting as of January 1, 2016, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Willdan Group, Inc. and subsidiaries as of January 1, 2016, and the related consolidated statements of operations, stockholders' equity, and cash flows for the year ended January 1, 2016, and our report dated March 15, 2016 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Irvine, California
March 15, 2016

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
Willdan Group, Inc.

We have audited the accompanying consolidated balance sheet of Willdan Group, Inc. and subsidiaries (the “Company”) as of January 2, 2015, and the related consolidated statements of operations, stockholders’ equity, and cash flows for each of the two years in the period ended January 2, 2015. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company’s internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Willdan Group, Inc. and subsidiaries as of January 2, 2015, and the consolidated results of their operations and their cash flows for each of the two years in the period ended January 2, 2015, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 12 to the consolidated financial statements, the Company changed its method of classifying all deferred tax assets, liabilities and associated valuation allowances as non-current as a result of the adoption on a retrospective basis FASB Accounting Standards Codification resulting from Accounting Standards Update No. 2015-17, “Balance Sheet Classification of Deferred Taxes.” Our opinion is not modified with respect to this matter.

/s/ Ernst & Young LLP

Los Angeles, California
March 31, 2015,
except for Note 12, as to which the date is
March 15, 2016

WILLDAN GROUP, INC. AND SUBSIDIARIES**CONSOLIDATED BALANCE SHEETS**

	January 1, 2016	January 2, 2015
Assets		
Current assets:		
Cash and cash equivalents	\$ 16,487,000	\$ 18,173,000
Accounts receivable, net of allowance for doubtful accounts of \$760,000 and \$662,000 at January 1, 2016 and January 2, 2015, respectively	17,929,000	13,189,000
Costs and estimated earnings in excess of billings on uncompleted contracts	13,840,000	12,170,000
Other receivables	177,000	208,000
Prepaid expenses and other current assets	2,082,000	2,244,000
Total current assets	50,515,000	45,984,000
Equipment and leasehold improvements, net	3,684,000	1,384,000
Goodwill	16,097,000	—
Other intangible assets, net	1,545,000	—
Other assets	504,000	535,000
Deferred income taxes, net	—	1,427,000
Total assets	<u>\$ 72,345,000</u>	<u>\$ 49,330,000</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 5,561,000	\$ 3,237,000
Accrued liabilities	10,334,000	10,668,000
Contingent consideration payable	1,420,000	—
Billings in excess of costs and estimated earnings on uncompleted contracts	6,218,000	3,863,000
Notes payable	4,039,000	355,000
Capital lease obligations	444,000	324,000
Total current liabilities	28,016,000	18,447,000
Contingent consideration payable	4,305,000	—
Notes payable	1,085,000	—
Capital lease obligations, less current portion	255,000	306,000
Deferred lease obligations	737,000	164,000
Deferred income taxes, net	331,000	—
Total liabilities	<u>34,729,000</u>	<u>18,917,000</u>
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$0.01 par value, 10,000,000 shares authorized, no shares issued and outstanding	—	—
Common stock, \$0.01 par value, 40,000,000 shares authorized; 7,904,000 and 7,635,000 shares issued and outstanding at January 1, 2016 and January 2, 2015, respectively	79,000	76,000
Additional paid-in capital	38,377,000	35,436,000
Accumulated deficit	(840,000)	(5,099,000)
Total stockholders' equity	37,616,000	30,413,000
Total liabilities and stockholders' equity	<u>\$ 72,345,000</u>	<u>\$ 49,330,000</u>

See accompanying notes to consolidated financial statements.

WILLDAN GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	Fiscal Year		
	2015	2014	2013
Contract revenue	\$ 135,103,000	\$ 108,080,000	\$ 85,510,000
Direct costs of contract revenue (exclusive of depreciation and amortization shown separately below):			
Salaries and wages	31,880,000	28,207,000	24,098,000
Subcontractor services and other direct costs	50,200,000	35,611,000	24,831,000
Total direct costs of contract revenue	82,080,000	63,818,000	48,929,000
General and administrative expenses:			
Salaries and wages, payroll taxes and employee benefits	25,741,000	21,394,000	20,555,000
Facilities and facility related	4,246,000	4,371,000	4,654,000
Stock-based compensation	777,000	258,000	150,000
Depreciation and amortization	2,072,000	459,000	517,000
Lease abandonment, net	—	9,000	30,000
Other	12,657,000	9,462,000	8,067,000
Total general and administrative expenses	45,493,000	35,953,000	33,973,000
Income from operations	7,530,000	8,309,000	2,608,000
Other (expense) income:			
Interest income	—	8,000	10,000
Interest expense	(207,000)	(16,000)	(94,000)
Other, net	18,000	125,000	238,000
Total other (expense) income, net	(189,000)	117,000	154,000
Income before income taxes	7,341,000	8,426,000	2,762,000
Income tax expense (benefit)	3,082,000	(990,000)	132,000
Net income	\$ 4,259,000	\$ 9,416,000	\$ 2,630,000
Earnings per share:			
Basic	\$ 0.54	\$ 1.26	\$ 0.36
Diluted	\$ 0.52	\$ 1.22	\$ 0.35
Weighted-average shares outstanding:			
Basic	7,834,000	7,488,000	7,355,000
Diluted	8,113,000	7,739,000	7,495,000

See accompanying notes to consolidated financial statements.

WILLDAN GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total
	Shares	Amount			
Balances at December 28, 2012	7,335,000	73,000	34,423,000	(17,145,000)	17,351,000
Shares of common stock issued in connection with employee stock purchase plan	31,000	1,000	72,000	—	73,000
Shares of common stock issued in connection with employee stock option exercise	9,000	—	9,000	—	9,000
Stock-based compensation	—	—	150,000	—	150,000
Net income	—	—	—	2,630,000	2,630,000
Balances at December 27, 2013	7,375,000	74,000	34,654,000	(14,515,000)	20,213,000
Shares of common stock issued in connection with employee stock purchase plan	12,000	—	76,000	—	76,000
Shares of common stock issued in connection with employee stock plans	248,000	2,000	448,000	—	450,000
Stock-based compensation	—	—	258,000	—	258,000
Net income	—	—	—	9,416,000	9,416,000
Balance at January 2, 2015	7,635,000	76,000	35,436,000	(5,099,000)	30,413,000
Shares of common stock issued in connection with employee stock purchase plan	15,000	—	170,000	—	170,000
Shares of common stock issued in connection with employee stock plans	131,000	1,000	511,000	—	512,000
Stock issued to acquire businesses	123,000	2,000	1,483,000	—	1,485,000
Stock-based compensation	—	—	777,000	—	777,000
Net income	—	—	—	4,259,000	4,259,000
Balance at January 1, 2016	7,904,000	\$ 79,000	\$ 38,377,000	\$ (840,000)	\$ 37,616,000

See accompanying notes to consolidated financial statements.

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

	Fiscal Year		
	2015	2014	2013
Cash flows from operating activities:			
Net income	\$ 4,259,000	\$ 9,416,000	\$ 2,630,000
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	2,072,000	460,000	585,000
Deferred income taxes	1,758,000	(1,427,000)	—
Lease abandonment expense (recovery), net	(44,000)	9,000	30,000
(Gain) loss on sale of equipment	(37,000)	11,000	(6,000)
Provision for doubtful accounts	659,000	510,000	101,000
Stock-based compensation	777,000	258,000	150,000
Accretion of contingent consideration	547,000	—	—
Changes in operating assets and liabilities, net of effects from business acquisitions:			
Accounts receivable	(4,354,000)	(532,000)	2,216,000
Costs and estimated earnings in excess of billings on uncompleted contracts	(1,180,000)	(2,535,000)	225,000
Other receivables	31,000	4,000	(117,000)
Prepaid expenses and other current assets	203,000	133,000	(595,000)
Other assets	31,000	(202,000)	(26,000)
Accounts payable	1,842,000	(720,000)	(3,026,000)
Accrued liabilities	(1,320,000)	4,860,000	502,000
Billings in excess of costs and estimated earnings on uncompleted contracts	2,285,000	1,616,000	(1,172,000)
Deferred lease obligations	573,000	35,000	(284,000)
Net cash provided by operating activities	<u>8,102,000</u>	<u>11,896,000</u>	<u>1,213,000</u>
Cash flows from investing activities:			
Purchase of equipment and leasehold improvements	(2,475,000)	(492,000)	(306,000)
Proceeds from sale of equipment	7,000	5,000	27,000
Cash paid for acquisitions, net of cash acquired	(8,168,000)	—	—
Net cash used in investing activities	<u>(10,636,000)</u>	<u>(487,000)</u>	<u>(279,000)</u>
Cash flows from financing activities:			
Payments on notes payable	(2,090,000)	(162,000)	(621,000)
Proceeds from notes payable	2,606,000	—	510,000
Repayments of line of credit	—	—	(3,000,000)
Principal payments on capital lease obligations	(350,000)	(261,000)	(62,000)
Proceeds from stock option exercise	512,000	450,000	9,000
Proceeds from sales of common stock under employee stock purchase plan	170,000	76,000	73,000
Net cash provided by (used in) financing activities	<u>848,000</u>	<u>103,000</u>	<u>(3,091,000)</u>
Net (decrease) increase in cash and cash equivalents	(1,686,000)	11,512,000	(2,157,000)
Cash and cash equivalents at beginning of year	18,173,000	6,661,000	8,818,000
Cash and cash equivalents at end of year	<u>\$ 16,487,000</u>	<u>\$ 18,173,000</u>	<u>\$ 6,661,000</u>
Supplemental disclosures of cash flow information:			
Cash paid during the year for:			
Interest	\$ 203,000	\$ 16,000	\$ 100,000
Income taxes	949,000	134,000	324,000
Supplemental disclosures of noncash investing and financing activities:			
Issuance of notes payable related to business acquisitions	\$ 4,250,000	\$ —	\$ —
Issuance of common stock related to business acquisitions	1,485,000	—	—
Contingent consideration related to business acquisitions	5,178,000	—	—
Equipment acquired under capital leases	420,000	677,000	87,000

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Fiscal Years 2015, 2014 and 2013

1. ORGANIZATION AND OPERATIONS OF THE COMPANY*Nature of Business*

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

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

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

Fiscal Years

The Company operates and reports its annual financial results based on 52 or 53-week periods ending on the Friday closest to December 31, with consideration of business days. The Company operates and reports its quarterly financial results based on the 13-week period ending on the Friday closest to March 31, June 30 and September 30 and the 13 or 14-week period ending on the Friday closest to December 31, as applicable, with consideration of business days. Fiscal years 2015 and 2013 contained 52 weeks. Fiscal year 2014 contained 53 weeks. All references to years in the notes to consolidated financial statements represent fiscal years.

Cash, Cash Equivalents and Liquid Investments

All highly liquid investments purchased with a remaining maturity of three months or less are considered to be cash equivalents. Cash and cash equivalents consisted of the following:

	January 1, 2016	January 2, 2015
BMO Harris Bank Master Control Operating Account	\$ 16,438,000	\$ 18,119,000
Cash on hand in business checking accounts	49,000	54,000
	<u>\$ 16,487,000</u>	<u>\$ 18,173,000</u>

The Company from time to time may be exposed to credit risk with its bank deposits in excess of the FDIC insurance limits and with uninsured money market investments. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

Fair Value of Financial Instruments

As of January 1, 2016 and January 2, 2015, the carrying amounts of the Company's cash and cash equivalents, accounts receivable, costs and estimated earnings in excess of billings on uncompleted contracts, other receivables, prepaid expenses and other current assets, excess of outstanding checks over bank balance, accounts payable, accrued liabilities and billings in excess of costs and estimated earnings on uncompleted contracts, approximate their fair values because of the relatively short period of time between the origination of these instruments and their expected realization or payment. The carrying amounts of debt obligations approximate their fair values since the terms are comparable to terms currently offered by local lending institutions for loans of similar terms to companies with comparable credit risk.

Segment Information

Willdan Group, Inc. ("WGI") is a holding company with six wholly owned subsidiaries. The Company presents segment information externally consistent with the manner in which the Company's chief operating decision maker reviews information to assess performance and allocate resources. WGI performs administrative functions on behalf of its subsidiaries, such as treasury, legal, accounting, information systems, human resources and certain business development activities, and earns revenue that is only incidental to the activities of the enterprise. As a result, WGI does not meet the definition of an operating segment. Three of the six WGI subsidiaries are aggregated into one reportable segment as they have similar economic characteristics including the nature of services, the methods used to provide services and the type of customers. The remaining three subsidiaries each comprise separate reporting segments. See Note 13.

Off-Balance Sheet Arrangements

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

Accounting for Contracts

The Company enters into contracts with its clients that contain various types of pricing provisions, including fixed price, time-and-materials, unit-based and service related provisions. The following table reflects the Company's four reportable segments and the types of contracts that each most commonly enters into for revenue generating activities.

Segment	Types of Contract (Revenue Recognition Method)
Energy Efficiency Services	Unit-based and time-and-materials (percentage-of-completion method)
Engineering Services	Time-and-materials, unit-based and fixed price (percentage-of-completion method)
Public Finance Services	Service related contracts (proportional performance method)
Homeland Security Services	Service related contracts (proportional performance method)

Revenue on fixed price contracts is recognized on the percentage-of-completion method based generally on the ratio of direct costs (primarily exclusive of depreciation and amortization costs) incurred to date to estimated total direct costs at completion. Revenue on time-and-materials and unit-based contracts is recognized as the work is performed in accordance with the specific terms of the contract. The Company recognizes revenues for time-and-material contracts based upon the actual hours incurred during a reporting period at contractually agreed upon rates per hour and also includes in revenue all reimbursable costs incurred during a reporting period for which the Company has risk or on

which the fee was based at the time of bid or negotiation. Certain of the Company's time-and-material contracts are subject to maximum contract values and, accordingly, revenue under these contracts is generally recognized under the percentage-of-completion method, consistent with fixed priced contracts. Revenue on contracts that are not subject to maximum contract values is recognized based on the actual number of hours the Company spends on the projects plus any actual out-of-pocket costs of materials and other direct incidental expenditures that the Company incurs on the projects. In addition, revenue from overhead percentage recoveries and earned fees are included in revenue. Revenue is recognized as the related costs are incurred. For unit-based contracts, the Company recognizes the contract price of units of a basic production product as revenue when the production product is delivered during a period. Revenue for amounts that have been billed but not earned is deferred and such deferred revenue is referred to as billings in excess of costs and estimated earnings on uncompleted contracts in the accompanying consolidated balance sheets.

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

The Company considers whether its contracts require combining for revenue recognition purposes. If certain criteria are met, revenues for related contracts may be recognized on a combined basis. With respect to the Company's contracts, it is rare that such criteria are present. The Company may enter into certain contracts which include separate phases or elements. If each phase or element is negotiated separately based on the technical resources required and/or the supply and demand for the services being provided, the Company evaluates if the contracts should be segmented. If certain criteria are met, the contracts would be segmented which could result in revenues being assigned to the different elements or phases with different rates of profitability based on the relative value of each element or phase to the estimated total contract revenue.

Applying the percentage-of-completion method of recognizing revenue requires the Company to estimate the outcome of its long-term contracts. The Company forecasts such outcomes to the best of its knowledge and belief of current and expected conditions and its expected course of action. Differences between the Company's estimates and actual results often occur resulting in changes to reported revenue and earnings. Such changes could have a material effect on future consolidated financial statements. The Company did not have material revisions in estimates for contracts recognized using the percentage-of-completion method for any of the periods presented in the accompanying condensed consolidated financial statements.

Service-related contracts, including operations and maintenance services and a variety of technical assistance services, are accounted for over the period of performance, in proportion to the costs of performance. Award and incentive fees are recorded when they are fixed and determinable and consider customer contract terms.

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

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

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

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

Retainage is included in accounts receivable in the accompanying consolidated financial statements. Retainage represents the billed amount that is retained by the customer, in accordance with the terms of the contract, generally until performance is substantially complete. At January 1, 2016 and January 2, 2015, the Company had retained accounts receivable of approximately \$748,000 and \$700,000, respectively.

General and Administrative Expenses

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

Leases

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

Equipment and Leasehold Improvements

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

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

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

Long-lived assets

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

Goodwill

Goodwill represents the excess of costs over fair value of the assets acquired. We complete our annual testing of goodwill as of the last day of the first month of our fourth fiscal quarter each year to determine whether there is impairment. Goodwill, which has an indefinite useful life, is not amortized, but instead tested for impairment at least annually or more frequently if events and circumstances indicate that the asset might be impaired. Impairment losses for reporting units are recognized to the extent that a reporting unit's carrying amount exceeds its fair value.

Accounting for Claims Against the Company

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

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

Stock Options

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

Business Combinations

The acquisition method of accounting for business combinations requires the Company to use significant estimates and assumptions, including fair value estimates, as of the business combination date and to refine those estimates as necessary during the measurement period (defined as the period, not to exceed one year, in which the Company may adjust the provisional amounts recognized for a business combination based on new information relating to facts and circumstances that existed as of the acquisition date).

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

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences of temporary differences between the financial reporting basis and tax basis of the Company's assets and liabilities, subject to judgmental assessment of the recoverability of deferred tax assets. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is recorded when it is more likely than not that all or a portion of the deferred tax assets may not be realized. Significant judgment is applied when assessing the need for valuation allowances. Areas of estimation include the Company's consideration of future taxable income and ongoing prudent and feasible tax planning strategies. Should a change in circumstances lead to a change in judgment about the utilization of deferred tax assets in future years, the Company would adjust the related valuation allowances in the period that the change in circumstances occurs, along with a corresponding increase or charge to income.

During fiscal year 2015, the Company assessed the available positive and negative evidence to estimate if sufficient future taxable income will be generated to utilize the existing deferred tax assets. The Company has ultimately determined that it is not more-likely-than-not that the entire California net operating loss will be utilized prior to expiration. Significant pieces of objective evidence evaluated included our history of utilization of California net operating losses in prior years for each of our subsidiaries, as well as our forecasted amount of net operating loss utilization for certain members of the combined group. Based on this evaluation, as of January 1, 2016, the Company recorded a valuation allowance in the amount of \$73,000 related to California net operating losses.

During the year ended January 2, 2015, management assessed the available positive and negative evidence to estimate if sufficient future taxable income will be generated to utilize the existing deferred tax assets. Based on this evaluation, as of January 2, 2015, the Company reversed the \$4.6 million valuation allowance on its deferred tax assets.

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

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

Operating Cycle

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

Use of Estimates

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

Reclassifications

Certain prior year amounts have been reclassified for consistency with the current period presentation. These reclassifications had no effect on the reported results of operations.

New Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers* ("ASU 2014-09"), which clarifies existing accounting literature relating to how and when revenue is recognized by an entity. ASU 2014-09 affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets and supersedes the revenue recognition requirements in Topic 605, *Revenue Recognition*, and most industry-specific guidance. ASU 2014-09 requires an entity to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. In doing so, an entity will need to exercise a greater degree of judgment and make more estimates than under the current guidance. These may include identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price, and allocating the transaction price to each separate performance obligation. ASU 2014-09 also supersedes some cost guidance included in Subtopic 605-35, *Revenue Recognition-Construction-Type and Production-Type Contracts*. In August 2015, the FASB issued Update 2015-14, which defers the implementation of ASU 2014-09 for one year from the initial effective date. ASU 2014-09 is effective for public companies for interim and annual reporting periods beginning after December 15, 2017, and is to be applied either retrospectively or using the cumulative effect transition method, with early adoption not permitted. The Company has not yet selected a transition method, and is currently evaluating the impact the adoption of ASU 2014-09 will have on its consolidated financial statements and related disclosures.

In February 2015, the FASB issued Update 2015-02, which amends the consolidation requirements in Accounting Standards Codification 810 and changes the consolidation analysis required under GAAP. The standard is effective for fiscal years, and interim periods within those years, beginning after December 15, 2015, with early adoption permitted. The Company determined that the impact of the new standard on its consolidated financial statements will not be material.

In April 2015, the FASB issued ASU 2015-03, *Simplifying the Presentation of Debt Issuance Costs*. To simplify presentation of debt issuance costs, this new guidance requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. This guidance will become effective for financial statements issued for fiscal years beginning after December 15, 2015 and interim periods within those fiscal years. The Company has determined the potential impacts of the new standard on its existing debt issuance costs are not material.

In September 2015, the FASB issued Update 2015-16, which requires that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The acquirer must record, in the same period's financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. Update 2015-16 further requires an entity to present separately on the face of the income statement or disclose in the notes, the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. The standard is effective for fiscal years, and interim periods within those years, beginning after December 15, 2015, with early adoption permitted. The Company has elected early adoption of this standard in fiscal 2015.

In February 2016, the FASB issued ASU No. 2016-02, “Leases” (topic 842). The FASB issued this update to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The updated guidance is effective for annual periods beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption of the update is permitted. The Company is evaluating the impact of the adoption of this update on our consolidated financial statements and related disclosures.

A variety of proposed or otherwise potential accounting standards are currently being studied by standard-setting organizations and certain regulatory agencies. Because of the tentative and preliminary nature of such proposed standards, we have not yet determined the effect, if any, that the implementation of such proposed standards would have on our consolidated financial statements.

3. BUSINESS COMBINATIONS

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

Pursuant to the terms of the Stock Purchase Agreement, dated as of January 15, 2015, by and between the Company, WES, Abacus and the selling shareholders of Abacus (the “Abacus Shareholders”), WES will pay the Abacus Shareholders a maximum purchase price of \$6.1 million, consisting of (i) \$2.5 million in cash which was paid at closing, with the balance of \$0.6 million paid after closing, (ii) 75,758 shares of Common Stock, par value \$0.01 per share, of the Company (“Common Stock”) with a fair value of \$0.9 million which were issued at closing, (iii) \$1.25 million aggregate principal amount of promissory notes issued to the Abacus Shareholders at closing and (iv) up to \$0.8 million in cash, based on the achievement of certain financial targets by Abacus at the end of the Company’s 2015 and 2016 fiscal years.

Pursuant to the terms of the Asset Purchase Agreement, dated January 15, 2015, by and between the Company, WES and 360 Energy, WES will pay 360 Energy a maximum purchase price of \$15.0 million, consisting of (i) \$4.9 million in cash which was paid at closing, (ii) 47,348 shares of Common Stock with a fair value of \$0.6 million which were issued at closing, (iii) \$3.0 million aggregate principal amount of promissory note issued to 360 Energy at closing and (iv) up to \$6.5 million in cash, based on the achievement of certain financial targets by WES’s division made up of the assets acquired from, and the former employees of 360 Energy at the end of the Company’s 2015, 2016 and 2017 fiscal years. The Company also provided a guaranty to 360 Energy which guarantees WES’s obligations under the promissory note issued to 360 Energy.

The fair value of the 75,758 and 47,348 shares of common stock issued as part of the consideration paid for Abacus (\$0.9 million) and 360 Energy (\$0.6 million) respectively, was determined on the basis of the price of the Company’s common shares on the acquisition date.

To finance the acquisitions of Abacus and 360 Energy, the Company borrowed \$2.0 million under its delayed draw term loan facility. The Company used cash on hand to pay the remaining \$5.4 million due at closing.

On April 3, 2015, the Company’s wholly-owned subsidiary, Willdan Financial Services (“WFS”) acquired substantially all of the assets of Economists.com, LLC (“Economists LLC”), a Texas-based economic analysis and financial solutions firm serving the municipal and public sectors. Pursuant to the terms of the Asset Purchase Agreement, dated April 3, 2015, by and between WFS and Economists LLC, WFS will pay Economists LLC a maximum purchase price of \$1.1 million, consisting of (i) \$0.5 million in cash which was paid at closing and (ii) up to \$0.6 million in cash, based on the achievement of certain financial targets by the WFS division made up of the assets acquired from, and the former employees of Economists LLC at the end of the Company’s 2015, 2016 and 2017 fiscal years. The Company used cash on hand to pay the \$0.5 million due at closing.

The acquisitions were accounted for as business combinations in accordance with ASC 805. Under ASC 805, the Company recorded the acquired assets and assumed liabilities at their estimated fair value with the excess allocated to goodwill. Goodwill represents the value the Company expects to achieve through the operational synergies and the expansion of the Company into new markets. The Company estimates that the entire \$16.5 million of goodwill resulting from the acquisitions will be tax deductible. Consideration for the acquisitions includes the following:

	<u>360 Energy</u>	<u>Abacus</u>	<u>Economists, LLC</u>	<u>Total</u>
Cash paid	\$ 4,875,000	\$ 3,136,000	\$ 490,000	\$ 8,501,000
Issuance of common stock	571,000	913,000	—	1,484,000
Issuance of notes payable	3,000,000	1,250,000	—	4,250,000
Contingent consideration	4,221,000	589,000	368,000	5,178,000
Total consideration	\$ 12,667,000	\$ 5,888,000	\$ 858,000	\$ 19,413,000

The following table summarizes the amounts for the acquired assets and liabilities recorded at their estimated fair value as of the acquisition date:

	<u>360 Energy</u>	<u>Abacus</u>	<u>Economists, LLC</u>	<u>Total</u>
Cash acquired	\$ —	\$ 332,000	\$ —	\$ 332,000
Property, plant and equipment	166,000	78,000	—	244,000
Liabilities	—	(512,000)	—	(512,000)
License to bid	—	308,000	—	308,000
Backlog	158,000	161,000	29,000	348,000
Tradenname	669,000	323,000	57,000	1,049,000
Non-compete agreements	860,000	128,000	23,000	1,011,000
Other assets, net	41,000	495,000	—	536,000
Goodwill	10,773,000	4,575,000	749,000	16,097,000
Net assets acquired	\$ 12,667,000	\$ 5,888,000	\$ 858,000	\$ 19,413,000

The acquisition date fair value of the intangible asset relating to tradenames was estimated using discounted cash flows based on the relief from royalty method. The liabilities assumed were measured based on the estimated costs related to the remediation of an environmental liability associated with one of the construction projects that was acquired on the date of acquisition in accordance with ASC 450. These assets are deemed to have a finite life. As of January 1, 2016, the Company has contingent consideration payable of \$5.7 million related to these acquisitions, which includes \$0.5 million of accretion related to the contingent consideration. Contingent consideration is subject to change for each reporting period through settlement. The Company measures the contingent earn-out liabilities at fair value on the date of acquisition and on a recurring basis using significant unobservable inputs classified within Level 3 of the fair value hierarchy. The Company uses a probability-weighted discounted income approach as a valuation technique to convert future estimated cash flows to a single present value amount. The significant unobservable inputs used in the fair value measurements are operating income projections over the earn-out period, and the probability outcome percentages assigned to each scenario. Significant increases or decreases to either of these inputs in isolation would result in a significantly higher or lower liability, with a higher liability capped by the contractual maximum of the contingent earn-out obligation. Ultimately, the liability will be equivalent to the amount paid, and the difference between the fair value estimate and amount paid will be recorded in earnings. As of January 1, 2016 the amount recognized for the contingent consideration arrangements was \$5.7 million which reflects a change in the estimated timing of the payments. There were no changes to the ranges of estimated payments or discount rates.

During the fourth quarter of fiscal 2015, the Company obtained further information on the valuation of acquired assets and liabilities assumed and, in accordance with the authoritative guidance for business combinations, recorded purchase price adjustments as of the acquisition date to increase the fair values of intangible assets by \$0.4 million and increased accrued liabilities by \$0.5 million. Purchase price adjustments were also recorded to reduce the fair value of contingent consideration payable by \$0.9 million. These adjustments to the provisional purchase price allocations decreased goodwill by \$0.8 million.

The Company also adjusted its fourth quarter consolidated results of operations and cash flows for the impacts of the adjustments to the provisional purchase price allocations. As a result of the adjustments, net income for the year ended January 1, 2016 increased by \$0.2 million and equity as of January 1, 2016 increased by the same amount.

Acquisition related costs of \$0.2 million and \$0.3 million are included in other general and administrative expense in the consolidated statements of operations for the years ending January 1, 2016 and January 2, 2015, respectively.

The following unaudited pro forma financial information for the twelve months ended January 1, 2016 and January 2, 2015 assumes the acquisitions of Abacus and 360 Energy occurred on December 28, 2013 as follows:

In thousands (except per share data)	Year Ended	
	January 1, 2016	January 2, 2015
Pro forma revenue	\$ 135,576	\$ 130,181
Pro forma income from operations	8,204	12,162
Pro forma net income	\$ 4,759	\$ 12,162
Earnings per share:		
Basic	\$ 0.61	\$ 1.62
Diluted	\$ 0.59	\$ 1.57
Weighted average shares outstanding:		
Basic	7,834	7,488
Diluted	8,113	7,739

This pro forma supplemental information does not purport to be indicative of what the Company's operating results would have been had these transactions occurred on December 28, 2013 and may not be indicative of future operating results.

During the fiscal year ended January 1, 2016, the acquisitions of Abacus, 360 Energy and Economist contributed \$23.8 million in revenue and \$1.3 million of income from operations.

4. GOODWILL AND OTHER INTANGIBLE ASSETS

As of January 1, 2016, the Company had \$16.1 million of goodwill, which primarily relates to the Energy Efficiency Services reporting segment and the acquisitions of Abacus and 360 Energy. The Company had no goodwill outstanding as of January 2, 2015. The changes in the carrying value of goodwill by reporting unit for the twelve months ended January 1, 2016 were as follows:

	January 2, 2015	Additional Purchase Cost	Final Fair Value Adjustment	Impairment	January 1, 2016
Reporting Unit:					
Energy Efficiency Solutions	\$ —	\$ 15,348,000	\$ —	\$ —	\$ 15,348,000
Public Finance Services	—	749,000	—	—	749,000
	<u>\$ —</u>	<u>\$ 16,097,000</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 16,097,000</u>

The gross amounts and accumulated amortization of the Company's acquired identifiable intangible assets with finite useful lives as of January 1, 2016 and January 2, 2015, included in intangible assets, net in the accompanying consolidated balance sheets, were as follows:

	January 1, 2016		January 2, 2015		Amortization Period (yrs)
	Gross Amount	Accumulated Amortization	Gross Amount	Accumulated Amortization	
Backlog	\$ 348,000	\$ 340,000	\$ —	\$ —	1
Tradenname	1,049,000	329,000	—	—	2.5 - 3.5
Non-compete agreements	1,011,000	194,000	—	—	4 - 5
License to bid	308,000	308,000	—	—	1
	<u>\$ 2,716,000</u>	<u>\$ 1,171,000</u>	<u>\$ —</u>	<u>\$ —</u>	

The Company's amortization expense for acquired identifiable intangible assets with finite useful lives was \$1.2 million for the year ended January 1, 2016, and \$0 for the years ended January 2, 2015, and December 27, 2013 respectively. Estimated amortization expense for acquired identifiable intangible assets for fiscal 2016 and the succeeding years is as follows:

Fiscal year:

2016	\$ 553,000
2017	475,000
2018	306,000
2019	202,000
2020	9,000
	<u>\$ 1,545,000</u>

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

The Company tests its goodwill at least annually for possible impairment. The Company completes its annual testing of goodwill as of the last day of the first month of its fourth fiscal quarter each year to determine whether there is impairment. In addition to the Company's annual test, it regularly evaluates whether events and circumstances have occurred that may indicate a potential impairment of goodwill. No impairment was recorded during the years ended January 1, 2016, January 2, 2015 or December 27, 2013.

5. EARNINGS PER SHARE ("EPS")

Basic EPS is computed by dividing net income available to common stockholders by the weighted-average number of common shares outstanding. Diluted EPS is computed by dividing net income by the weighted-average number of common shares outstanding and dilutive potential common shares for the period. Potential common shares include the weighted-average dilutive effects of outstanding stock options using the treasury stock method.

The following table sets forth the number of weighted-average shares used to compute basic and diluted EPS:

	Fiscal Year		
	2015	2014	2013
Net income	\$ 4,259,000	\$ 9,416,000	\$ 2,630,000
Weighted-average common shares outstanding	7,834,000	7,488,000	7,355,000
Effect of dilutive stock options and restricted stock awards	279,000	251,000	140,000
Weighted-average common stock outstanding-diluted	8,113,000	7,739,000	7,495,000
Earnings per share:			
Basic	\$ 0.54	\$ 1.26	\$ 0.36
Diluted	\$ 0.52	\$ 1.22	\$ 0.35

For the fiscal year ended January 1, 2016, 314,500 options were excluded from the calculation of dilutive potential common shares, compared to 251,000 and 459,000 options, for fiscal 2014 and fiscal 2013, respectively. These options were not included in the computation of dilutive potential common shares because the assumed proceeds per share exceeded the average market price per share for the respective periods. Accordingly, the inclusion of these options would have been anti-dilutive. For periods in which the Company incurs net losses, dilutive potential common shares are excluded as they would be anti-dilutive.

6. ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following at January 1, 2016 and January 2, 2015:

	January 1, 2016	January 2, 2015
Billed	\$ 17,941,000	\$ 13,151,000
Unbilled	13,840,000	12,170,000
Contract retentions	748,000	700,000
	32,529,000	26,021,000
Allowance for doubtful accounts	(760,000)	(662,000)
	<u>\$ 31,769,000</u>	<u>\$ 25,359,000</u>

The movements in the allowance for doubtful accounts consisted of the following for fiscal years 2015, 2014 and 2013:

	Fiscal Year		
	2015	2014	2013
Balance as of the beginning of the year	\$ 662,000	\$ 385,000	\$ 303,000
Provision for doubtful accounts	586,000	486,000	189,000
Write-offs of uncollectible accounts	(488,000)	(209,000)	(107,000)
Recoveries of accounts written off	—	—	—
Balance as of the end of the year	<u>\$ 760,000</u>	<u>\$ 662,000</u>	<u>\$ 385,000</u>

Billed accounts receivable represent amounts billed to clients that have yet to be collected. Unbilled accounts receivable represent revenue recognized but not yet billed pursuant to contract terms or accounts billed after the period end. Substantially all unbilled receivables as of January 1, 2016 and January 2, 2015 are or were expected to be billed and collected within twelve months of such date. Contract retentions represent amounts invoiced to clients where payments have been withheld pending the completion of certain milestones, other contractual conditions or upon the completion of the project. These retention agreements vary from project to project and could be outstanding for several months.

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

As of January 1, 2016, one client accounted for 15% of outstanding receivables, as compared to 17% of the Company's outstanding receivables as of January 2, 2015.

7. EQUIPMENT AND LEASEHOLD IMPROVEMENTS

Equipment and leasehold improvements consisted of the following at January 1, 2016 and January 2, 2015:

	January 1, 2016	January 2, 2015
Furniture and fixtures	\$ 2,270,000	\$ 2,994,000
Computer hardware and software	6,496,000	5,667,000
Leasehold improvements	1,072,000	785,000
Equipment under capital leases	1,266,000	919,000
Automobiles, trucks, and field equipment	984,000	677,000
	<u>12,088,000</u>	<u>11,042,000</u>
Accumulated depreciation and amortization	(8,404,000)	(9,658,000)
Equipment and leasehold improvements, net	<u>\$ 3,684,000</u>	<u>\$ 1,384,000</u>

Included in accumulated depreciation and amortization is \$259,000 and \$176,000 of amortization expense related to equipment held under capital leases in fiscal years 2015 and 2014, respectively.

8. ACCRUED LIABILITIES

Accrued liabilities consisted of the following at January 1, 2016 and January 2, 2015:

	January 1, 2016	January 2, 2015
Accrued bonuses	\$ 922,000	\$ 1,450,000
Accrued interest	4,000	—
Paid leave bank	1,710,000	1,404,000
Compensation and payroll taxes	1,494,000	1,371,000
Accrued legal	523,000	556,000
Accrued workers' compensation insurance	268,000	192,000
Accrued rent	169,000	149,000
Employee withholdings	942,000	637,000
Client deposits	106,000	79,000
Unvouchered accounts payable	3,061,000	4,462,000
Other	1,135,000	368,000
Total accrued liabilities	<u>\$ 10,334,000</u>	<u>\$ 10,668,000</u>

9. EQUITY PLANS

As of January 1, 2016, the Company had two share-based compensation plans, which are described below. The Company may no longer grant awards under the 2006 Stock Incentive Plan. The compensation expense that has been recognized for stock options issued under these plans was \$777,000, \$258,000 and \$150,000 for fiscal years 2015, 2014 and 2013, respectively.

2006 STOCK INCENTIVE PLAN

In June 2006, the Company's board of directors adopted the 2006 Stock Incentive Plan ("2006 Plan") and it received stockholder approval. The Company re-submitted the 2006 Plan to its stockholders for post-IPO approval at the 2007 annual meeting of the stockholders and it was approved. The 2006 Plan will terminate in June 2016 and no additional awards were or will be granted under the 2006 Plan after the Company's shareholders approved the 2008 Plan (as defined below) in June 2008. The 2006 Plan had 300,000 shares of common stock reserved for issuance to the Company's directors, executives, officers, employees, consultants and advisors and currently has 168,500 shares of common stock reserved for issuance. Approximately 70,333 shares that were available for award grant purposes under the 2006 Plan have become available for grant under the 2008 Plan following shareholder approval of the 2008 Plan. Options granted under the 2006 Plan could be "non-statutory stock options" which expire no more than ten years from the date of grant or "incentive stock options" as defined in Section 422 of the Internal Revenue Code of 1986, as amended. Upon exercise of non-statutory stock options, the Company is generally entitled to a tax deduction on the exercise of the option for an amount equal to the excess over the exercise price of the fair market value of the shares at the date of exercise. The Company is generally not entitled to any tax deduction on the exercise of an incentive stock option. Through January 1, 2016, options granted, net of forfeitures and expirations, under the 2006 Plan consisted of 154,000 shares and 6,000 shares for incentive stock options and non-statutory stock options, respectively.

2008 PERFORMANCE INCENTIVE PLAN

In March 2008, the Company's board of directors adopted the 2008 Performance Incentive Plan ("2008 Plan"), and it received stockholder approval at the 2008 annual meeting of the stockholders in June 2008. The 2008 Plan will terminate ten years after the board of directors approved it. The 2008 Plan initially had 450,000 shares of common stock reserved for issuance (not counting any shares originally available under the 2006 Plan that "poured over.") At the 2010 and 2012 annual meetings of the stockholders, the stockholders approved 350,000 and 500,000 share increases, respectively, to the 2008 Plan. The maximum number of shares of the Company's common stock that may be issued or transferred pursuant to awards under the 2008 Plan can also be increased by any shares subject to stock options granted under the 2006 Plan and outstanding as of June 9, 2008 which expire, or for any reason are cancelled or terminated, after June 9, 2008 without being exercised. The 2008 Plan currently has 239,000 shares of common stock reserved for issuance. Awards authorized by the 2008 Plan include stock options, stock appreciation rights, restricted stock, stock bonuses, stock units, performance stock, and other share-based awards. No participant may be granted an option to purchase more than 100,000 shares in any fiscal year. Options generally may not be granted with exercise prices less than fair market value at the date of grant, with vesting provisions and contractual terms determined by the compensation committee of the board of directors on a grant-by-grant basis. Options granted under the 2008 Plan may be "nonqualified stock options" or "incentive stock options" as defined in Section 422 of the Internal Revenue Code of 1986, as amended. The maximum term of each option shall be 10 years. Upon exercise of nonqualified stock options, the Company is generally entitled to a tax deduction on the exercise of the option for an amount equal to the excess over the exercise price of the fair market value of the shares at the date of exercise. The Company is generally not entitled to any tax deduction on the exercise of an incentive stock option. For awards other than stock options, the Company is generally entitled to a tax deduction at the time the award holder recognizes income with respect to the award equal to the amount of compensation income recognized by the award holder. Option and other awards provide for accelerated vesting if there is a change in control (as defined in the 2008 Plan) and the outstanding awards are not substituted or assumed in connection with the transaction. Through January 1, 2016, awards granted, net of forfeitures and exercises, under the 2008 Plan consisted of 629,000 shares, 176,000 shares and 38,000 shares for incentive stock options, non-statutory stock options and restricted stock grants, respectively.

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

	2015	2014	2013
Expected volatility	38 % - 42 %	38 % - 40 %	40 %
Expected dividends	0 %	0 %	0 %
Expected term (in years)	6	6	- 6
Risk-free rate	1.33 % - 1.75 %	1.63 % - 1.73 %	1.31% % - 1.36 %

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

Summary of Stock Option Activity

A summary of option activity under the 2006 Plan and 2008 Plan as of January 1, 2016 and changes during the fiscal years ended January 1, 2016, January 2, 2015 and December 27, 2013 is presented below. The intrinsic value of the fully-vested options is \$2,291,000, based on the Company’s closing stock price of \$8.38 on January 1, 2016.

	Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)
Outstanding at January 2, 2015	926,000	\$ 5.84	6.44
Granted	165,000	12.33	—
Exercised	(103,000)	3.72	—
Forfeited or expired	(24,000)	3.94	—
Outstanding at January 1, 2016	<u>964,000</u>	<u>\$ 7.22</u>	6.04
Vested at January 1, 2016	<u>624,000</u>	<u>\$ 5.24</u>	4.53
Exercisable at January 1, 2016	<u>624,000</u>	<u>\$ 5.24</u>	4.53

	Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)
Outstanding at December 27, 2013	978,000	\$ 3.95	3.35
Granted	235,000	10.23	—
Exercised	(198,000)	2.24	—
Forfeited or expired	(89,000)	2.57	—
Outstanding at January 2, 2015	<u>926,000</u>	<u>\$ 5.84</u>	6.44
Vested at January 2, 2015	<u>595,000</u>	<u>\$ 4.47</u>	4.92
Exercisable at January 2, 2015	<u>595,000</u>	<u>\$ 4.47</u>	4.92

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

A summary of the status of the Company's nonvested options and changes in nonvested options during the fiscal years ended January 1, 2016, January 2, 2015 and December 27, 2013, is presented below:

	<u>Options</u>	<u>Weighted- Average Grant- Date Fair Value</u>
Nonvested at January 2, 2015	331,000	\$ 3.37
Granted	165,000	4.92
Vested	(132,000)	3.67
Forfeited	(24,000)	3.94
Nonvested at January 1, 2016	<u>340,000</u>	<u>3.77</u>

	<u>Options</u>	<u>Weighted- Average Grant- Date Fair Value</u>
Nonvested at December 27, 2013	207,000	\$ 3.55
Granted	235,000	4.15
Vested	(108,000)	3.41
Forfeited	(3,000)	3.85
Nonvested at January 2, 2015	<u>331,000</u>	<u>3.37</u>

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

Summary of Restricted Stock Activity

A summary of restricted stock activity under the 2008 Plan as of January 1, 2016 and changes during the fiscal years ended January 1, 2016 and January 2, 2015, is presented below. The intrinsic value of the fully-vested restricted stock is \$354,000 and \$144,000, based on the Company's average grant date price of \$13.91 and \$7.13 for fiscal 2015 and 2014, respectively.

	<u>Restricted Stock</u>	<u>Weighted-Average Grant Date Fair Value</u>
Outstanding at January 2, 2015	38,000	\$ 5.74
Awarded	25,000	13.91
Vested	(25,000)	5.05
Forfeited	—	—
Outstanding at January 1, 2016	<u>38,000</u>	<u>\$ 11.66</u>
Outstanding at December 27, 2013	25,000	2.96
Awarded	25,000	7.13
Vested	(12,000)	2.96
Forfeited	—	—
Outstanding at January 2, 2015	<u>38,000</u>	<u>\$ 5.74</u>

The total unrecognized compensation expense related to non-vested stock options and restricted stock grants was \$1,280,000 and \$322,000, and \$422,000 and \$142,000 as of January 1, 2016 and January 2, 2015, respectively. That expense is expected to be recognized over a weighted-average period of 2.18 years. There were no options granted that were immediately vested during the fiscal years ended January 1, 2016, January 2, 2015 and December 27, 2013.

AMENDED AND RESTATED 2006 EMPLOYEE STOCK PURCHASE PLAN

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

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

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

The Company's Amended and Restated 2006 Employee Stock Purchase Plan is a non-compensatory plan. As a result, stock-based compensation expense is not recognized in relation to this plan. As of January 1, 2016, there were 66,483 shares available for issuance under the plan.

10. DEBT OBLIGATIONS

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

	2016	2015
Outstanding borrowings on delayed draw term loan	\$ 1,850,000	\$ —
Notes payable for 360 Energy Engineers, LLC, 35 month term, bearing interest at 4%, payable in monthly principal and interest installments of \$88,752 through November 2017.	2,033,000	—
Notes payable for Abacus, 24 month term, bearing interest at 4%, payable in monthly principal and interest installments of \$54,281 through January 2017.	690,000	—
Notes payable for insurance, 11 month term, bearing interest at 2.773%, payable in monthly principal and interest installments of \$55,868 through October 2016.	551,000	352,000
Other	—	3,000
	<u>5,124,000</u>	<u>355,000</u>
Less current portion	4,039,000	355,000
Debt obligations, less current portion	<u>\$ 1,085,000</u>	<u>\$ —</u>

To finance the acquisitions of Abacus and 360 Energy, the Company borrowed \$2.0 million under its delayed draw term loan facility pursuant to the BMO Credit Agreement described below. The term loan bears interest at the LIBOR rate plus an applicable margin ranging between 2.25% and 2.75%, set at the LIBOR rate plus 2.50% as of January 1, 2016, and matures on March 24, 2017. Interest on the term loan is payable quarterly, beginning April 13, 2015. Principal on the term loan is payable on the last day of each March, June, September and December in each year, with the amount of each such principal installment equal to: (i) \$50,000 on the last day of each March, June, September and December 2016 and (ii) all of the remaining outstanding principal amount on March 24, 2017. The term loan is governed by the terms of the BMO Credit Agreement.

On January 15, 2015, in connection with the completion of the acquisition of Abacus, WES issued promissory notes to Mark Kinzer (the “Kinzer Note”) and Steve Rubbert (the “Rubbert Note”) and, together with the Kinzer Note, the “Abacus Notes”). The initial outstanding principal amounts of the Kinzer Note and the Rubbert Note were \$625,000 and \$625,000, respectively. The Abacus Notes provide for a fixed interest rate of 4% per annum. The Abacus Notes are fully amortizing and payable in equal monthly installments between January 15, 2015 and their January 15, 2017 maturity date. The Abacus Notes contain events of default provisions customary for documents of this nature. Mr. Kinzer and Mr. Rubbert have entered into a Subordination Agreement, dated as of January 15, 2015, in favor of BMO Harris, pursuant to which any indebtedness under the Abacus Notes is subordinated to any indebtedness under the BMO Credit Agreement. Through January 1, 2016 the Company had made payments of approximately \$280,000 on each of the Abacus Notes and as of January 1, 2016, the outstanding balance was \$345,000 on each of the Abacus Notes.

On January 15, 2015, in connection with the completion of the acquisition of 360 Energy, WES issued a promissory note to 360 Energy (the “360 Energy Note”). The initial outstanding principal amount of the 360 Energy Note was \$3,000,000. The 360 Energy Note provides for a fixed interest rate of 4% per annum. The 360 Energy Note is fully amortizing and payable in equal monthly installments between January 15, 2015 and its January 15, 2018 maturity date. The 360 Energy Note contains events of default provisions customary for documents of this nature. 360 Energy has entered into a Subordination Agreement, dated as of January 15, 2015, in favor of BMO Harris, pursuant to which any indebtedness under the 360 Energy Note is subordinated to any indebtedness under the BMO Credit Agreement. Through January 1, 2016 the Company had made payments of approximately \$967,000 on the 360 Energy Note and the outstanding balance was \$2,033,000 as of January 1, 2016.

BMO Credit Facility. On March 24, 2014, the Company and its subsidiaries, as guarantors, entered into a credit agreement (as amended, the “BMO Credit Agreement”) with BMO Harris Bank, N.A., or BMO, that provides for a revolving line of credit of up to \$7.5 million, subject to a borrowing base calculation, and a delayed draw term loan facility of up to \$3.0 million. The \$7.5 million revolving credit facility includes a \$5.0 million standby letter of credit sub-facility. As of January 1, 2016, there were no outstanding borrowings under the revolving line of credit and approximately \$1.85 million in loans outstanding under the term loan facility and, after considering the BMO Credit Agreement’s borrowing base calculation and debt covenants (each as described below), \$7.5 million under the revolving line of credit and \$1.15 million under the delayed draw term loan facility were available for borrowing.

The term loan bears interest, at the Company's option, at (a) the base rate plus an applicable margin ranging between 1.25% and 1.75%, or (b) the LIBOR rate plus an applicable margin ranging between 2.25% and 2.75%. Borrowings under the revolving line of credit bear interest, at the Company's option, at (a) the base rate plus an applicable margin ranging between 0.75% and 1.25%, or (b) the LIBOR rate plus an applicable margin ranging between 1.75% and 2.25%. The applicable margin is determined based on the Company's total leverage ratio. Interest on the term loan is payable quarterly, beginning April 13, 2015 and was 3.1% as of January 1, 2016. Principal on the term loan is payable on the last day of each March, June, September, and December in each year, with the amount of each such principal installment equal to: (i) \$50,000 on the last day of March, June, September and December 2016, and (ii) all of the remaining outstanding principal amount on March 24, 2017. The term loan is governed by the terms of the BMO Credit Agreement.

All borrowings under the revolving line of credit are limited to a borrowing base equal to roughly 75% of the eligible accounts receivable plus 50% of the lower of cost or market value of the Company's eligible inventory, each term as defined in the BMO Credit Agreement. Under the BMO Credit Agreement, as of January 1, 2016, no cash amounts are restricted. The revolving line of credit matures on March 24, 2017 and term loans can be requested at any time prior to February 22, 2017, which would mature March 24, 2017.

Borrowings under the delayed draw term loan facility bear Borrowings under the term loan facility and the revolving line of credit are guaranteed by all of the Company's subsidiaries (the "Guarantors") and secured by all of the Company's and the Guarantors' accounts receivable and other rights to payment, general intangibles, inventory and equipment. Pursuant to the BMO Credit Agreement, the Company also must pay a fee of up to 0.3% on unused commitments and customary fees on any letters of credit drawn under the facility.

The BMO Credit Agreement contains customary representations and affirmative covenants, including financial covenants that require the Company to maintain (i) a maximum total leverage ratio, measured as total funded debt (measured as the sum of all obligations for borrowed money, including subordinated debt, plus all capital lease obligations) plus capital leases plus financial letters of credit divided by a trailing twelve month EBITDA (as defined in the BMO Credit Agreement) measured on a rolling basis of not more than 2.25 for the first four fiscal quarters after January 2015, and not more than 2.0 thereafter; (ii) a minimum fixed charge coverage ratio (measured as the sum of EBITDA plus rent expense less unfinanced capital expenditures divided by the sum of rent expense plus principal payments plus cash taxes plus cash interest plus restricted payments plus distributions) of not less than 1.25; and (iii) a minimum tangible net worth of at least the sum of (a) the Company's tangible net worth as of December 31, 2015, plus (b) 50% of net income (only if positive) for each fiscal quarter ending after February 29, 2016, plus (c) the aggregate proceeds received by the Company from the issuance or sale of equity interests in the Company after February 29, 2016, minus (d) the aggregate dollar amount of stock repurchases after February 29, 2016, plus or minus, as applicable, (e) 80% of any adjustments to tangible net worth of the Company arising as a result of certain acquisitions identified to BMO Harris.

The BMO Credit Agreement also includes customary negative covenants, including (i) restrictions on the incurrence of additional indebtedness by the Company or the Guarantors other than indebtedness existing on the date of the BMO Credit Agreement, (ii) restrictions on the total consideration for all permitted acquisitions (including potential future earn-out obligations) shall not exceed \$1.5 million during the term of the agreement and the total consideration for any individual permitted acquisition shall not exceed \$750,000 without BMO's consent, and (iii) limitations on asset sales, mergers and acquisitions. In addition, the credit agreement includes customary events of default. Upon the occurrence of an event of default, the interest rate may be increased by 2.0%, BMO has the option to make any loans then outstanding under the BMO Credit Agreement immediately due and payable, and BMO is no longer obligated to extend further credit to us under the BMO Credit Agreement. As of March 15, 2016, the Company was in compliance with the covenants under the BMO Credit Agreement.

Insurance Premiums. The Company has also financed, from time to time, insurance premiums by entering into unsecured notes payable with insurance companies. During the Company's annual insurance renewals in the fourth quarter of its fiscal year ended January 1, 2016, the Company elected to finance its insurance premiums for the upcoming fiscal year. The unpaid balance of the financed premiums totaled \$551,000 and \$352,000 for fiscal 2015 and 2014, respectively.

11. COMMITMENTS

Leases

The Company is obligated under capital leases for certain furniture and office equipment that expire at various dates through the year 2018.

The Company also leases certain office facilities under non-cancelable operating leases that expire at various dates through the year 2023.

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

	<u>Capital</u>	<u>Operating</u>
Fiscal year:		
2016	\$ 456,000	2,300,000
2017	190,000	1,925,000
2018	71,000	1,338,000
2019	—	1,035,000
2020	—	558,000
Thereafter	—	1,147,000
Total future minimum lease payments	<u>717,000</u>	<u>\$ 8,303,000</u>
Amount representing interest (at rates ranging from 3.25% to 3.75%)	<u>(18,000)</u>	
Present value of net minimum lease payments under capital leases	699,000	
Less current portion	444,000	
	<u>\$ 255,000</u>	

During the fiscal year ended January 2, 2015, the Company moved certain offices to new locations and closed certain virtual offices. As a result of the office closures and relocations, the Company recorded lease abandonment expense, net, of \$9,000. This expense includes future rental obligations and other costs associated with the leased space net of the fair value of subleases.

Rent expense and related charges for common area maintenance for all facility operating leases for fiscal years 2015, 2014 and 2013 was approximately \$2,842,000, \$3,004,000 and \$3,405,000, respectively.

The following is a reconciliation of the liability for lease abandonment expense for fiscal years 2015 and 2014

	<u>Fiscal 2015</u>	<u>Fiscal 2014</u>
Liability for abandoned leases as of beginning of year	\$ 44,000	\$ 122,000
Lease abandonment expense, net	—	9,000
Lease payments on abandoned leases, net of sublease payments	(11,000)	(153,000)
Other	(33,000)	66,000
Liability for abandoned leases as of the end of the year	<u>\$ —</u>	<u>\$ 44,000</u>

Employee Benefit Plans

The Company has a qualified profit sharing plan (the Plan) pursuant to Code Section 401(a) and qualified cash or deferred arrangement pursuant to Code Section 401(k) covering substantially all employees. Employees may elect to contribute up to 50% of compensation limited to the amount allowed by tax laws. Company contributions are made solely at the discretion of the Company's board of directors. The Company made matching contributions of approximately \$777,000, \$624,000 and \$507,000 during fiscal years 2015, 2014 and 2013, respectively.

The Company has a discretionary bonus plan for regional managers, division managers and others as determined by the Company president. Bonuses are awarded if certain financial goals are achieved. The financial goals are not stated in the plan; rather they are judgmentally determined each year. In addition, the board of directors may declare discretionary bonuses to key employees and all employees are eligible for what the Company refers to as the “hot hand” bonus program, which pays awards for outstanding performance. The Company’s compensation committee of the board of directors determines the compensation of the president and chief executive officer. Bonus expense for fiscal years 2015, 2014 and 2013 totaled approximately \$1,268,000, \$1,500,000 and \$262,000, respectively, of which approximately \$922,000 and \$1,450,000 is included in accrued liabilities at January 1, 2016 and January 2, 2015, respectively.

Post employment health benefits

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

Included in accrued liabilities in the accompanying consolidated balance sheets related to this obligation is the present value of expected payments for health insurance coverage, \$126,000 as of January 1, 2016 and \$139,000 as of January 2, 2015.

12. INCOME TAXES

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

	Fiscal Year		
	2015	2014	2013
Current federal taxes	\$ 983,000	\$ 274,000	\$ 88,000
Current state taxes	340,000	164,000	44,000
Deferred federal taxes (benefit)	1,295,000	(782,000)	—
Deferred state taxes (benefit)	464,000	(646,000)	—
	<u>\$ 3,082,000</u>	<u>\$ (990,000)</u>	<u>\$ 132,000</u>

The provision (benefit) for income taxes reconciles to the amounts computed by applying the statutory federal tax rate of 34% to our income (loss) before income taxes. The sources and tax effects of the differences for fiscal years 2015, 2014 and 2013 are as follows:

	2015	2014	2013
Computed “expected” federal income tax expense (benefit)	\$ 2,496,000	\$ 2,864,000	\$ 940,000
Permanent differences	90,000	139,000	93,000
Incentive stock options	205,000	—	—
Energy efficient commercial building deduction	(281,000)	—	—
Current and deferred state income tax expense (benefit), net of federal benefit	482,000	586,000	(19,000)
Change in valuation allowances on deferred tax assets	73,000	(4,576,000)	(897,000)
Other	17,000	(3,000)	15,000
	<u>\$ 3,082,000</u>	<u>\$ (990,000)</u>	<u>\$ 132,000</u>

Differences between the Company's effective income tax rate and what would be expected if the federal statutory rate was applied to income before income tax from continuing operations are primarily due to permanent tax adjustments such as incentive stock options which are not deductible for federal or state income tax purposes, energy efficient commercial building deduction, and a valuation allowance adjustment related to state net operating losses not expected to be utilized.

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

	January 1, 2016	January 2, 2015	December 27, 2013
Deferred tax assets:			
Accounts receivable allowance	\$ 303,000	\$ 265,000	\$ 156,000
Other accrued liabilities	1,618,000	1,482,000	764,000
Federal and state net operating losses	156,000	244,000	3,157,000
Intangible assets	3,891,000	4,016,000	4,571,000
Other	224,000	409,000	64,000
	<u>6,192,000</u>	<u>6,416,000</u>	<u>8,712,000</u>
Valuation allowance	(73,000)	—	(4,576,000)
Net deferred tax assets	<u>6,119,000</u>	<u>6,416,000</u>	<u>4,136,000</u>
Deferred tax liabilities:			
Deferred revenue	(5,510,000)	(4,878,000)	(4,125,000)
Fixed assets	(696,000)	(111,000)	(11,000)
Other	(244,000)	—	—
	<u>(6,450,000)</u>	<u>(4,989,000)</u>	<u>(4,136,000)</u>
Net deferred tax (liability) asset	<u>\$ (331,000)</u>	<u>\$ 1,427,000</u>	<u>\$ —</u>

At January 1, 2016, the Company had state operating loss carryovers of \$2.8 million. The carryovers expire through 2035.

During 2015 management assessed the available positive and negative evidence to estimate if sufficient future taxable income will be generated to utilize the existing deferred tax assets. Management has ultimately determined that it is not more-likely-than-not that the entire California net operating loss will be utilized prior to expiration. Significant pieces of objective evidence evaluated included the Company's utilization of California net operating losses in prior years for each of its subsidiaries. Based on this evaluation, as of January 1, 2016, the Company recorded a valuation allowance in the amount of \$73,000 related to California net operating losses. With the exception of the valuation allowance on the California net operating loss carryforward, management believes that it is more likely than not that the deferred tax assets at January 1, 2016 will be realized.

In November 2015, the FASB issued ASU 2015-17, Balance Sheet Classification of Deferred Taxes to simplify the presentation of deferred income taxes. The amendments in this update require that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. The Company has elected to early adopt ASU 2015-17 as of January 1, 2016 and retrospectively applied ASU 2015-17 to all periods presented. As of January 2, 2015 the Company reclassified \$3.1 million of deferred tax liabilities from "Current liabilities" to "Non-current assets" on the Consolidated Balance Sheets.

During the year ended January 2, 2015 management assessed the available positive and negative evidence to estimate if sufficient future taxable income will be generated to utilize the existing deferred tax assets. Significant pieces of objective positive evidence evaluated were the cumulative earnings generated over the three-year period ended January 2, 2015 and the Company's strong future earnings projections. Based on this evaluation, as of January 2, 2015, the Company reversed \$4.6 million of its valuation allowance.

Management believes that there are no material uncertain tax positions that would impact the accompanying consolidated financial statements. The Company's policy is to recognize interest and penalties related to unrecognized tax benefits in income tax expense. As of January 1, 2016 and January 2, 2015, there was no unrecognized tax benefit. The Company may be subject to examination by the Internal Revenue Service for calendar years 2012 through 2015. The Company may also be subject to examination on certain state and local jurisdictions for the years 2011 through 2015.

13. SEGMENT INFORMATION

The Company has four reporting segments: Energy Efficiency Services, Engineering Services, Public Finance Services and Homeland Security Services. The Engineering Services segment consists of Willdan Engineering and Public Agency Resources. The Energy Efficiency Services segment, which consists of Willdan Energy Solutions, provides energy efficiency consulting services to utilities, state agencies, municipalities, private industry and non-profit organizations. The Engineering Services segment offers a broad range of engineering and planning services to our public and private sector clients. The Public Finance Services segment, which consists of Willdan Financial Services, provides expertise and support for the various financing techniques employed by public agencies to finance their operations and infrastructure along with the mandated reporting and other requirements associated with these financings. The Homeland Security Services segment, which consists of Willdan Homeland Solutions, provides national preparedness, homeland security consulting, public safety and emergency response services to cities, related municipal service agencies and other entities.

The accounting policies applied to determine the segment information are the same as those described in the summary of significant accounting policies. There were no intersegment sales in any of the three fiscal years ended January 1, 2016. Management evaluates the performance of each segment based upon income or loss from operations before income taxes. Certain segment asset information including expenditures for long-lived assets has not been presented as it is not reported to or reviewed by the chief operating decision maker. In addition, enterprise-wide service line contract revenue is not included as it is impracticable to report this information for each group of similar services.

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

	Engineering Services	Energy Efficiency Services	Public Finance Services	Homeland Security Services	Unallocated Corporate	Intersegment	Consolidated Total
Fiscal Year 2015							
Contract revenue	\$ 45,997,000	\$ 74,123,000	\$ 11,857,000	\$ 3,126,000	\$ —	\$ —	\$ 135,103,000
Depreciation and amortization	359,000	1,525,000	159,000	29,000	—	—	2,072,000
Interest (expense) income	(10,000)	(194,000)	(2,000)	(1,000)	—	—	(207,000)
Segment profit (loss) before income tax expense	4,666,000	2,499,000	1,148,000	418,000	(1,390,000)	—	7,341,000
Income tax (benefit) expense	1,959,000	1,049,000	482,000	176,000	(584,000)	—	3,082,000
Net income (loss)	2,707,000	1,450,000	666,000	242,000	(806,000)	—	4,259,000
Segment assets(1)	13,641,000	34,686,000	5,377,000	894,000	40,877,000	(23,130,000)	72,345,000
Fiscal Year 2014							
Contract revenue	\$ 40,783,000	\$ 52,941,000	\$ 10,630,000	\$ 3,726,000	\$ —	\$ —	\$ 108,080,000
Depreciation and amortization	191,000	212,000	39,000	18,000	—	—	459,000
Interest (expense) income	17,000	(33,000)	2,000	(2,000)	—	—	(16,000)
Segment profit (loss) before income tax expense	4,008,000	4,814,000	661,000	443,000	(1,500,000)	—	8,426,000
Income tax (benefit) expense	(454,000)	(599,000)	(64,000)	(49,000)	176,000	—	(990,000)
Net income (loss)	4,462,000	5,413,000	725,000	492,000	(1,676,000)	—	9,416,000
Segment assets(1)	11,166,000	11,769,000	3,944,000	708,000	44,873,000	(23,130,000)	49,330,000
Fiscal Year 2013							
Contract revenue	\$ 35,217,000	\$ 36,041,000	\$ 9,845,000	\$ 4,407,000	\$ —	\$ —	\$ 85,510,000
Depreciation and amortization	214,000	223,000	41,000	39,000	—	—	517,000
Interest (expense) income	(68,000)	(25,000)	(3,000)	2,000	—	—	(94,000)
Segment profit before income tax expense	1,125,000	710,000	535,000	392,000	—	—	2,762,000
Income tax expense (benefit)	53,000	45,000	17,000	17,000	—	—	132,000
Net income	1,072,000	665,000	518,000	375,000	—	—	2,630,000
Segment assets(1)	10,436,000	10,305,000	3,528,000	1,406,000	35,692,000	(23,130,000)	38,237,000

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

The following sets forth the assets that are included in Unallocated Corporate as of January 1, 2016, January 2, 2015 and December 27, 2013.

	2015	2014	2013
Assets:			
Cash and cash equivalents	\$ 14,385,000	\$ 20,371,000	\$ 7,341,000
Prepaid expenses	758,000	1,404,000	1,206,000
Intercompany receivables	82,845,000	85,259,000	114,800,000
Other receivables	49,000	19,000	73,000
Equipment and leasehold improvements, net	2,231,000	440,000	177,000
Investments in subsidiaries	23,130,000	23,130,000	23,130,000
Other	53,000	4,640,000	3,765,000
	<u>\$ 123,451,000</u>	<u>\$ 135,263,000</u>	<u>\$ 150,492,000</u>

14. CONTINGENCIES

Claims and Lawsuits

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

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

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

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

A complaint was filed against the Company on July 16, 2014 relating to a project performed by Willdan Financial Services to prepare a Cost of Services Analysis (a "COSA") for the Department of Water and Power of the City of Glendale, California (the "City of Glendale"). The purpose of the COSA was to assist the City of Glendale in setting water rates for property owners. The lawsuit alleges that the City of Glendale suffered damages due to mistakes in the COSA, as follows: the City of Glendale received less revenue than anticipated in an amount exceeding \$9,000,000; the City of Glendale was required to retain another consultant to prepare a new COSA at the cost of \$130,000; and the City of Glendale incurred costs associated with noticing and conducting public hearings at a cost of \$83,052. The Company denies the allegations asserted in the lawsuit and will vigorously defend against the claims. Additionally, this matter is covered under the Company's professional liability insurance policy which has limits of \$5,000,000 per claim and \$10,000,000 annual aggregate.

15. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

The tables below reflect selected quarterly information for the fiscal years ended January 1, 2016 and January 2, 2015.

	Fiscal Three Months Ended			
	April 3, 2015	July 3, 2015	October 2, 2015	January 1, 2016
	(in thousands except per share amounts)			
Contract revenue	\$ 33,297	\$ 36,773	\$ 33,511	\$ 31,522
Income from operations	2,629	2,804	1,641	456
Income tax expense	1,138	1,108	626	210
Net income	1,495	1,602	782	380
Earnings per share:				
Basic	\$ 0.19	\$ 0.20	\$ 0.10	\$ 0.05
Diluted	\$ 0.18	\$ 0.20	\$ 0.10	\$ 0.05
Weighted-average shares outstanding:				
Basic	7,765	7,824	7,862	7,888
Diluted	8,103	8,136	8,102	8,132

	Fiscal Three Months Ended			
	March 28, 2014	June 27, 2014	September 26, 2014	January 2, 2015
	(in thousands except per share amounts)			
Contract revenue	\$ 22,686	\$ 26,970	\$ 28,187	\$ 30,237
Income from operations	1,312	1,941	2,651	2,405
Income tax expense (benefit)	44	64	(1,464)	366
Net income	1,315	1,893	4,161	2,047
Earnings per share:				
Basic	\$ 0.18	\$ 0.26	\$ 0.55	\$ 0.27
Diluted	\$ 0.17	\$ 0.25	\$ 0.53	\$ 0.26
Weighted-average shares outstanding:				
Basic	7,397	7,405	7,507	7,618
Diluted	7,609	7,661	7,855	7,986

In the fourth quarter of fiscal 2015, the Company recorded measurement period adjustments for changes in its acquisition accounting (see Note 3). Included in these adjustments is a decrease in direct costs of contract revenue related to the identification of a pre-existing liability as of the acquisition date of \$512,000 that should have been recorded in the second quarter.

16. SUBSEQUENT EVENTS

Acquisition of Genesys Engineering P.C. On March 4, 2016, following the Company's acquisitions in January 2015 of Abacus Resource Management and 360 Energy Engineers, LLC, the Company and the Company's wholly-owned subsidiary, Willdan Energy Solutions ("WES") acquired substantially all of the assets of Genesys Engineering P.C. ("Genesys") and assumed certain specified liabilities of Genesys (collectively, the "Purchase") pursuant to an Asset Purchase and Merger Agreement, dated as of February 26, 2016 (the "Agreement"), by and among the Company, WES, WESGEN (as defined below), Genesys and Ronald W. Mineo ("Mineo") and Robert J. Braun ("Braun" and, together with Mineo, the "Genesys Shareholders"). On March 5, 2016, pursuant to the terms of the Agreement, WESGEN, Inc., a non-affiliated corporation ("WESGEN"), merged (the "Merger" and, together with the Purchase, the "Acquisition") with Genesys, with Genesys remaining as the surviving corporation.

Pursuant to the terms of the Agreement, WES or WESGEN, as applicable, paid the Genesys Shareholders an aggregate purchase price (the "Purchase Price") of approximately \$12.6 million, subject to post closing working capital and tax adjustments. The Purchase Price consists of (i) \$6.0 million in cash, payable at closing, (ii) 255,808 shares of Common Stock, par value \$0.01 per share, of the Company (the "Common Stock"), equaling \$2.0 million based on the volume-weighted average price of shares of the Common Stock for the ten trading days immediately prior to, but not including, February 26, 2016, and (iii) \$4.6 million in cash, payable in twenty-four (24) equal monthly installments beginning on March 26, 2016 (the "Installment Payments"). Until the third anniversary of the Closing Date (the "Closing Date"), the Genesys Shareholders will be prohibited from transferring or disposing of any Common Stock received in connection with the Acquisition.

The Agreement contains customary representations and warranties regarding the Company, WES, WESGEN, Genesys and the Genesys Shareholders, indemnification provisions and other provisions customary for transactions of this nature. Pursuant to the terms of the Agreement, the Company and WES also provided guarantees to the Genesys Shareholders which guarantee certain of WESGEN's and Genesys' obligations under the Agreement, including the Installment Payments.

The Company used cash on hand to pay the \$6.0 million initial purchase price.

Genesys continues to be a professional corporation organized under the laws of the State of New York, wholly-owned by one or more licensed engineers. Pursuant to New York law, the Company does not own capital stock of Genesys. The Company has entered into an agreement with the post-Closing Date owners of Genesys pursuant to which such owners will be prohibited from selling, transferring or encumbering their ownership interest in Genesys without the Company's consent. Notwithstanding the Company's rights regarding the transfer of Genesys' stock, the Company does not have control over the professional decision making of Genesys. The Company has entered into an administrative services agreement with Genesys pursuant to which WES will provide Genesys with ongoing administrative, operational and other non-professional support services.

Amendment to Credit Facility. On February 26, 2016, the Company and the Company's subsidiaries, as guarantors, entered into the Third Amendment (the "Third Amendment") to the Credit Agreement and Consent (as amended, the "BMO Credit Agreement"), dated as of March 24, 2014, by and between the Company, the guarantors listed therein, and BMO Harris Bank National Association ("BMO Harris"). The BMO Credit Agreement governs the Company's credit facility that includes a revolving line of credit and a delayed draw term loan facility.

The Third Amendment revised the BMO Credit Agreement to, among other things, extend the maturity date of the BMO Credit Agreement from March 24, 2016 to March 24, 2017, to permit the Acquisition and the Installment Payments and to add Genesys as a guarantor under the BMO Credit Agreement upon the closing of the Merger.

The Third Amendment also permits the Company to repurchase up to \$7.0 million of shares of Common Stock under certain conditions, including that, at the time of any such repurchase, (a) the Company has at least \$7.0 million of unrestricted cash (or undrawn availability under the Company's revolving credit facility), (b) the aggregate amount of all repurchases to the date of such repurchase be less than \$7.0 million and (c) no default exists or would arise under the BMO Credit Agreement after giving effect to such repurchase.

The Third Amendment also revised certain covenants in the BMO Credit Agreement. As a result of the Third Amendment, the Company must maintain a minimum tangible net worth (as defined in the Third Amendment) of at least the sum of (a) the Company's tangible net worth as of December 31, 2015, plus (b) 50% of net income (only if positive) for each fiscal quarter ending after the effectiveness of the Third Amendment, plus (c) the aggregate proceeds received by the Company from the issuance or sale of equity interests in the Company, minus (d) the aggregate dollar amount of stock repurchases after the effectiveness of the Third Amendment, plus or minus, as applicable, (e) 80% of any adjustments to tangible net worth of the Company arising as a result of the consummation of the Acquisition or certain other acquisitions identified to BMO Harris. Pursuant to the terms of the Third Amendment, the Company's ability to incur permitted indebtedness was also (i) decreased for notes to sellers of acquired businesses from \$4.25 million to \$4.15 million and (ii) increased for cash earn out, performance payments or similar obligations relating to acquisitions permitted by the BMO Credit Agreement from \$7.9 million to \$10.5 million. The Third Amendment also allows the Company to incur permitted indebtedness relating to the Installment Payments up to a maximum of \$4.6 million and subject to other conditions.

As of March 15, 2016, there are no outstanding borrowings under the revolving line of credit and all \$7.5 million remain available for borrowing.

ASSET PURCHASE AND MERGER AGREEMENT

BY AND AMONG

WILLDAN GROUP, INC.,

WILLDAN ENERGY SOLUTIONS,

WESGEN, INC.,

GENESYS ENGINEERING P.C.,

RONALD W. MINEO

AND

ROBERT J. BRAUN

FEBRUARY 26, 2016

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ASSET PURCHASE AND MERGER AGREEMENT

This ASSET PURCHASE AND MERGER AGREEMENT (this “**Agreement**”) is made and entered into as of February 26, 2016, by and among Willdan Group, Inc., a Delaware corporation (the “**Parent**”), Willdan Energy Solutions, a California corporation and wholly-owned subsidiary of the Parent (the “**Asset Purchaser**”), WESGEN, INC., a New York corporation (“**WESGEN**”) and Affiliate of the Parent and the Asset Purchaser (Parent, Asset Purchaser, and WESGEN shall be collectively referred to as the “**Purchasing Parties**”), Genesys Engineering P.C., a New York professional service corporation (the “**Company**”), and Ronald W. Mineo and Robert J. Braun (collectively the “**Shareholders**.” Capitalized terms used but not otherwise defined herein shall have the meanings set forth in Appendix A attached hereto.

RECITALS

WHEREAS, the Asset Purchaser and WESGEN desire to acquire the Company and its assets through a transaction in which, first, the Asset Purchaser will purchase from the Company certain of the Company’s assets, and immediately thereafter, WESGEN will be merged with and into the Company, with the Company surviving, all on the terms and conditions set forth in this Agreement; and

WHEREAS, the respective boards of directors of each of the Parent, the Asset Purchaser, WESGEN and the Company deems it advisable and in the best interests of its respective shareholders to consummate the Transaction and has approved this Agreement and the Transaction.

NOW, THEREFORE, in consideration of the mutual representations, warranties and agreements contained in this Agreement, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties agree as follows:

ARTICLE I

PURCHASE OF CERTAIN ASSETS

Section 1.1 Purchase of Assets. Subject to the terms and conditions of this Agreement, at the Purchase Closing, the Company shall sell, transfer, convey, assign and deliver to the Asset Purchaser, and the Asset Purchaser shall purchase from the Company, all of the Company’s right, title and interest in, to and under the assets, properties, goodwill and rights of the Company of every nature, kind and description, tangible and intangible, wherever located, whether or not carried on the books of the Company (other than the Excluded Assets) (collectively, the “**Purchased Assets**”), including the following:

(a) Leased Real Property. All rights in, to and under the real estate leases listed on Section 1.1(a) of the Asset Schedules (the “**Leased Real Property**”), together with all of the Company’s right, title and interest in and to all land, buildings, structures, easements, appurtenances, improvements (including construction in progress) and fixtures located thereon, subject to the provisions of said leases.

(b) Personal Property. All personal property, office furnishings and furniture, display racks, shelves, decorations, supplies and all other tangible personal property (collectively, the “**Personal Property**”), including the Personal Property listed on Section 1.1(b) of the Asset Schedules.

(c) Vehicles. All automobiles, trucks, automotive equipment, and other

vehicles owned or used by the Company (collectively, the “**Vehicles**”), including, but not limited to, those Vehicles listed on Section 1.1(c) of the Asset Schedules, segregated by whether such Vehicles are owned or leased.

(d) Prepaid Expenses. All right, title, and interest of the Company in and to any prepaid expenses and deposits (collectively, the “**Prepaid Expenses**”), set forth on Section 1.1(d) of the Asset Schedules.

(e) Assumed Contracts. All right, title, and interest of the Company under all contracts and agreements other than the Excluded Contracts (collectively, the “**Assumed Contracts**”), including, but not limited to, those contracts set forth on Section 1.1(e) of the Asset Schedules and the exclusive right and obligation to service and fulfill all the Assumed Contracts in effect at the time of the Purchase Closing. For the purpose of clarification only, Assumed Contracts means all contracts of Genesys other than professional engineering services contracts.

(f) Records. All of the Company’s books, records, files, and papers pertaining to the Purchased Assets which are maintained in the ordinary course of business and are required, necessary, or advisable in order for the Asset Purchaser to use and operate the Purchased Assets and Assumed Liabilities from and after the Purchase Closing in substantially the same manner in which they are being used and operated by the Company immediately prior to the Purchase Closing, including but not limited to, accounting and financial records, personnel records, environmental records, and reports, contract forms, technical data, graphic materials, pricing and information manuals, drawings, patterns, fixtures, designs, sales literature, or other sales aids, customer files, customer credit histories and other data related or pertaining to the Purchased Assets (collectively, the “**Transferred Records**”). Asset Purchaser shall maintain such records for seven (7) years after the Closing.

(g) Claims and Benefits. All of the Company’s rights, claims, or causes of action against third parties relating to the Purchased Assets arising out of transactions occurring prior to the Closing Date and all insurance benefits (to the extent assignable), including rights and proceeds, relating to the Purchased Assets and the Assumed Liabilities arising out of transactions occurring prior to the Closing Date unless such rights, claims or causes of action or such insurance benefits arise out of transactions that relate to Excluded Assets or Excluded Liabilities.

(h) Intangibles and Goodwill. All Company Intellectual Property and the Company’s other intangible rights, assets and property, including customer relationships, going concern value and goodwill, and all rights that the Company may have to institute or maintain any action for infringement or to protect the same and recover damages for any misappropriation or misuse thereof.

(i) Accounts Receivable. All of the Company’s accounts and notes receivable from customers and others, including all trade accounts receivable and all rights to payment for goods sold or leased or services provided (collectively, the “**Accounts Receivable**”).

(j) Cash. All of the Company’s cash and cash equivalents as of the Closing Date.

Section 1.2 Excluded Assets. Notwithstanding Section 1.1, the following assets of the Company shall remain with the Company and shall not be included in the Purchased Assets (collectively, the “**Excluded Assets**”):

(a) Excluded Professional Services Contracts. All right, title, and interest of the Company under all contracts and agreements for the performance of professional engineering services set forth on Section 1.2(a) of the Asset Schedules (collectively, the “**Excluded Contracts**”). It is the

intention of the parties that all prime contracts for professional services between the Company and its clients, all subcontracts between the Company and its subcontractors relating to such services and all related expenses shall remain with the Company through the merger described in Article II.

(b) Excluded Accounts Receivable. Any excluded accounts receivable identified on Section 1.2(b) of the Asset Schedules (collectively, the “**Excluded Accounts Receivable**”) be assigned prior to the Closing to the Shareholders and shall not be assigned to the Asset Purchaser nor retained by the Company.

(c) Corporate Documents. Corporate seals, the Company’s Organizational Documents, minute books, stock transfer records, or other records related to the corporate organization of the Company.

(d) Employee Benefit Contracts. Company Employee Plans and contracts of insurance for employee group medical, dental and life insurance plans and will be terminated in accordance with business practices.

(e) Insurance Policies. All insurance policies except key man life insurance policies. The Company shall transfer existing key man life insurance policies to the Shareholders prior to the Closing.

(f) Bank Accounts. All bank accounts of the Company.

(g) Other. All such other rights, assets or property of the Company required to be retained by a professional engineering services corporation pursuant to applicable Law.

Section 1.3 Assumed Liabilities. Subject to the terms and conditions of this Agreement, at the Purchase Closing, the Company shall assign, and the Asset Purchaser shall assume, only the Assumed Liabilities and Asset Purchaser shall use reasonable efforts to enter into novation agreements transferring all rights, obligations, and liabilities of the Assume Contracts to Asset Purchaser. Thereafter, the Asset Purchaser shall pay and discharge all such Assumed Liabilities as and when such Assumed Liabilities become due and owing. For the purposes of this Agreement, the “**Assumed Liabilities**” shall mean the Company’s Liabilities under the Assumed Contracts. It is the understanding of the Parties that the Assumed Contracts shall not include contracts between Company and its clients and between Company its subcontractors/subconsultants that can only be performed under the supervision of professional engineers under the laws of the State of New York, it being the intent that those contracts shall remain with Genesys through the Merger.

Section 1.4 Excluded Liabilities. Except for the Assumed Liabilities, the Asset Purchaser shall not assume and shall not be liable or responsible for any Liability of the Company, any direct or indirect subsidiary of the Company or any Affiliate of the Company (collectively, the “**Excluded Liabilities**”). Except to the extent covered by Purchasing Parties’ insurance policies, and as required herein, Company’s Liabilities incurred prior to the Purchase Closing relating to Taxes or relating to violations of environmental, labor, business or other Laws by the Company prior to the Closing, if any, shall be assumed by the Shareholders effective upon the Purchase Closing and shall not be assumed by the Asset Purchaser nor retained by the Company. Purchasing Parties, individually and collectively, shall indemnify and defend existing Shareholders from and against any claims made by Company employees related to such employee's re-employment by Asset Purchaser or in any way related to the Transaction contemplated herein.

Section 1.5 Asset Purchase Consideration; Allocation (a)

(a) Subject to the terms and conditions of this Agreement, as full consideration for the sale, assignment, transfer and delivery of the Purchased Assets and the assumption of the Assumed Liabilities (the “**Asset Purchase**”), the Asset Purchaser shall deliver or cause to be delivered directly to each of the Shareholders each Shareholders’ Pro Rata Portion of the Asset Purchase Consideration, in accordance with the payment procedures of Section 1.7 below.

(b) As soon as practicable after the Purchase Closing, the Asset Purchaser shall provide to the Company (or the Surviving Corporation) and the Shareholders an allocation of the Asset Purchase Consideration and the Assumed Liabilities among the various classes of Purchased Assets (as such classes are defined for the purposes of Section 1060 of the Code). All allocations made pursuant to this Section 1.5(b) shall be made in accordance with the requirements of Section 1060 of the Code. Neither the Company (or the Surviving Corporation) nor the Shareholders shall take a position on any Tax Return (including IRS Form 8594), before any Tax Authority or in any judicial proceeding that is in any manner inconsistent with such allocation without the written consent of the Asset Purchaser or unless specifically required pursuant to a determination by an applicable Tax Authority.

(c) The Asset Purchaser, the Company and the Shareholders hereby agree that the Asset Purchase shall be attributable to a Pre-Closing Tax Period and reflected on a Pre-Closing Return of the Company.

(d) The following allocations shall apply to the Asset Purchase:

- (i) Tangible Net Assets - \$3,988,246;
- (ii) Goodwill and Intangibles - \$9,009,338;
- (iii) Covenant Not To Compete - \$860,000.

(e) The following allocation shall apply to the Merger:

- (i) Backlog and Business License - \$1,700,000.

Section 1.6 Closing of Asset Purchase. The purchase and sale of the Purchased Assets and assumption of the Assumed Liabilities (the “**Purchase Closing**”) provided for in this Agreement will take place at the offices of Lavoie & Jarman, 2401 E. Katella Ave., Suite 310, Anaheim, CA 92806, at 1:00 p.m., local time, as soon as practical following the date of this Agreement, but no later than three Business Days following the date which all conditions to the obligations of the Parties set forth in Section 8.1, Section 8.2 and Section 8.3 are satisfied or waived (other than such conditions that by their nature must be satisfied simultaneously with the Purchase Closing), or at such other time and place as the Parties may agree (the “**Closing Date**”). On the Closing Date, the Parties shall deliver, or cause to be delivered, to the applicable Parties the documents and instruments set forth in Section 8.2(e) and Section 8.3(c).

Section 1.7 Delivery of Asset Purchase Consideration. At the applicable times, the Asset Purchaser shall cause the Asset Purchase Consideration deliverable to the Company to be paid over and delivered directly to the Shareholders on behalf of the Company pursuant to the terms of this Section 1.7 (the “**Asset Purchase Distribution**”). The Asset Purchase Distribution shall be made as follows:

(a) At the Purchase Closing, with respect to the Shareholders, (i) a cash

payment equal to such Shareholder's Pro Rata Portion of the Asset Cash Consideration and (ii) a stock certificate evidencing the number of shares of Parent Common Stock equal to such Shareholder's Pro Rata Portion of the Closing Stock Consideration, with the number of shares issuable to such Shareholder rounded down to the nearest whole share;

(b) At the applicable times the amounts, if any, at the times and in accordance with Section 3.4(d), Section 3.5 and Section 7.9, in each case without interest; and

(c) Notwithstanding anything in this Agreement to the contrary, the Asset Purchase Consideration shall be recorded in the Books and Records of the Company as having been delivered to the Company on the Closing Date, and the Asset Purchase Distribution as thereafter distributed to the Shareholders on the Company's behalf.

Section 1.8 Further Assurances. If, at any time after the Purchase Closing, any further action is necessary or desirable to carry out the purposes of this Article I and to vest the Asset Purchaser with full right, title, ownership and possession to the Purchased Assets, the Parties hereto will take all appropriate action and execute any documents, instruments or conveyances of any kind that may be reasonably requested by the Asset Purchaser to vest the Asset Purchaser with full right, title, ownership and possession to the Purchased Assets.

Section 1.9 Insurance; Indemnification. Purchasing Parties shall maintain the following insurance:

(a) Workers' Compensation with limits of not less than \$1,000,000.

(b) Commercial General Liability with limits of not less than \$1,000,000 per occurrence/\$2,000,000 general aggregate including: (i) premises and operations coverage; (ii) independent contractor's coverage, (iii) contractual liability; (iv) products and completed operations coverage; (v) broad form property damage liability; and (vi) personal and advertising injury liability.

(c) General Automobile Liability with a minimum single limit of \$1,000,000 each accident for bodily injury and property damage and \$2,000,000 aggregate.

(d) Professional Liability with a limit of not less than \$7,500,000 per claim and \$15,000,000 annual aggregate. Should the Professional Liability policy terminate for any reason, such policy shall either be replaced by a new policy with a retroactive date preceding this Agreement or the Purchasing Parties shall obtain tail coverage for the benefit of Shareholders.

(e) Directors and Officers Liability with limits of not less than \$1,000,000.

(f) Employer Practice Liability Insurance with limits of not less than \$1,000,000.

(g) Excess Liability Insurance (Umbrella) with limits of not less than \$10,000,000.

(h) The above policies shall include provisions or endorsements including Asset Purchaser, Company, the Surviving Corporation, and their parent, divisions, affiliates, subsidiary companies, officers, directors, employees, and Shareholders as insureds. The professional liability policy shall include prior acts coverage. Purchasing Parties shall be responsible for policy deductibles for claims arising from work performed by the Shareholders. The obligations to provide coverage under Subsections (a), (b), (c) (e), (f) and (g) of Section 1.9 shall continue until Shareholders have received full payment of the Purchase Price. The obligations to maintain insurance pursuant to Section 1.9 (d) shall continue indefinitely.

(i) The Shareholders' Employment Agreements shall include a provision

requiring that the Surviving Corporation indemnify the Shareholders for work performed by the Shareholders on behalf of the Purchasing Parties and/or the Surviving Corporation.

ARTICLE II

THE MERGER

Section 2.1 The Merger. Subject to and upon the terms and conditions of this Agreement and the applicable provisions of the New York Business Corporation Law (the “*NYBCL*”), WESGEN shall be merged with and into the Company (the “*Merger*”), the separate corporate existence of WESGEN shall cease and the Company shall continue as the surviving corporation and as an Affiliate of the Parent and the Asset Purchaser. The Company, as the surviving corporation after the Merger, is sometimes referred to hereinafter as the “*Surviving Corporation*”.

Section 2.2 The Merger Closing. The closing of the Merger (the “*Merger Closing*”) provided for in this Agreement will take place at the offices of Lavoie & Jarman, 2401 E. Katella Ave., Suite 310, Anaheim, CA 92806, at 12:01 a.m., local time, on the calendar day immediately following the Purchase Closing (the “*Merger Closing Date*”).

Section 2.3 Effective Time of the Merger. Upon the terms and subject to the provisions of this Agreement, if the Merger Closing Date is on a business day, on the Merger Closing Date, the Parties shall cause the Merger to be consummated by filing the Certificate of Merger with the Secretary of State of the State of New York in accordance with the relevant provisions of the NYBCL. If the Merger Closing Date is not on a business day, on the first business day following the Merger Closing Date, the Parties shall cause the Merger to be consummated by filing the Certificate of Merger with the Secretary of State of the State of New York in accordance with the relevant provisions of the NYBCL. The Merger shall become effective upon the filing of the Certificate of Merger, in substantially the form attached hereto as Exhibit A (the “*Certificate of Merger*”), with the Secretary of State of the State of New York, or such later date and time specified in the Certificate of Merger (the effective time of the Merger being hereinafter referred to as, the “*Effective Time*”). The costs associated with such filing shall be paid by the Asset Purchaser. It shall be the responsibility of the Purchasing Parties to satisfy the relevant provisions of the NYBCL to ensure that Company shall survive as a New York professional corporation through the Closing.

Section 2.4 Effect of the Merger. At the Effective Time, (a) the separate corporate existence of WESGEN shall cease and WESGEN shall be merged with and into the Company, (b) the bylaws of WESGEN in effect at the Effective Time shall be the bylaws of the Surviving Corporation until amended in accordance with applicable Law, (c) the directors of WESGEN shall be the directors of the Surviving Corporation until their respective successors are duly elected or appointed and qualified, or until the earlier of their death, resignation or removal, (d) the officers of the Surviving Corporation shall be the individuals set forth on Appendix C to this Agreement until their respective successors are duly elected or appointed and qualified, or until the earlier of their death, resignation or removal and (e) the Merger shall, from and after the Effective Time, have all the effects provided by applicable provisions of the NYBCL. Without limiting the generality of the foregoing and subject thereto, at the Effective Time all the properties, rights, privileges, powers and franchises of WESGEN shall vest in the Surviving Corporation, and all debts, obligations, liabilities and duties of WESGEN shall become the debts, obligations, liabilities and duties of the Surviving Corporation. All debts, obligations, liabilities and duties of the Company shall remain the debts, obligations, liabilities and duties

of the Surviving Corporation. Stockholders shall cooperate with the Purchasing Parties and execute such documents as may reasonably be required to effect the Merger contemplated in this Transaction; provide however, that Shareholders shall have no liability for the effectiveness of such efforts in transferring or vesting of any the rights or obligations listed above.

Section 2.5 Conversion of Capital Stock. At the Effective Time, by virtue of the Merger and without any action on the part of WESGEN, the Company or any holder of any shares of Common Stock or any shares of stock of WESGEN:

(a) Capital Stock of WESGEN. Each issued and outstanding share of capital stock of WESGEN immediately prior to the Effective Time of the Merger shall be converted into one share of validly issued, fully paid and non-assessable Common Stock of the Surviving Corporation.

(b) Company Common Stock

(i) All shares of Common Stock issued and outstanding immediately prior to the Effective Time of the Merger that are owned directly or indirectly by the Parent, the Asset Purchaser, WESGEN, the Company or by any entity controlled by the Company shall be canceled and extinguished, and no consideration shall be delivered in exchange therefor.

(ii) Each share of Common Stock issued and outstanding immediately prior to the Effective Time of the Merger (other than shares of Common Stock cancelled and extinguished pursuant to Section 2.5(b)(i)) shall be canceled and extinguished and be converted into and become a right to receive the Per Share Closing Amount, without interest.

Section 2.6 Surrender of Certificates

(a) Exchange Procedures. At the Merger Closing, each Shareholder shall surrender the Company Stock Certificate(s) representing all shares of Common Stock held by such Shareholder, together with a duly completed and validly executed Letter of Transmittal, in substantially the form attached hereto as Exhibit B (the "Letter of Transmittal"), and WESGEN and the Surviving Corporation shall deliver, or cause to be delivered, in exchange therefor by wire transfer of immediately available funds for the portion of the Closing Merger Consideration applicable to such shares that such holder shall have the right to receive as set forth in Section 2.5(b) of this Agreement with respect to such Shareholder's Common Stock, and the Company Stock Certificate so surrendered shall forthwith be canceled.

(b) Lost, Stolen or Destroyed Certificates. In the event that any Company Stock Certificates for Common Stock shall have been lost, stolen or destroyed, WESGEN and the Surviving Corporation shall cause to be paid in exchange for such lost, stolen or destroyed Company Stock Certificates, upon the making of an affidavit of that fact by the holder thereof, which is satisfactory in form and content to WESGEN or the Surviving Corporation, as applicable, such payment of the portion of the Closing Merger Consideration, as applicable, as may be required pursuant to this Section 2.6; *provided, however*, that WESGEN or the Surviving Corporation, as applicable may, in its sole discretion and as a condition precedent to the payment of such amounts, require the owner of such lost, stolen or destroyed Company Stock Certificates to deliver a bond in such sum as it may reasonably direct as indemnity against any claim that may be made against WESGEN or the Surviving Corporation with respect to the Company Stock Certificates alleged to have been lost, stolen or destroyed.

(c) No Liability. Notwithstanding anything to the contrary in this Section 2.6, neither WESGEN nor the Surviving Corporation nor any Party hereto shall be liable to any Person for any

ARTICLE III

TRANSACTION CONSIDERATION

Section 3.1 Transaction Consideration. In full consideration for the Transaction, the aggregate amount payable by the Asset Purchaser and WESGEN shall be an amount equal to the sum of (the “**Purchase Price**”) (a) the Closing Cash Consideration, *plus* (b) the Estimated Tax Gross Up, *plus* (c) the Closing Stock Consideration, *plus* (d) the amount (if any) by which the Estimated Closing Date Net Working Capital exceeds the Target Net Working Capital, *minus* (e) the amount (if any) by which the Estimated Closing Date Net Working Capital is less than the Target Net Working Capital, *plus* or *minus* (f) the Closing Date Net Working Capital Adjustment, *plus* or *minus* (g) adjustment to the Estimated Tax Gross Up, *plus* (h) the Installment Payments, payable in accordance with Section 3.5. Exhibit C (the “**Calculation of Transaction Consideration**”) is attached hereto as an illustration only of the manner in which the Purchase Price would be calculated pursuant to this Section 3.1 with the understanding that the values included in Exhibit C are not intended to be represent the actual applicable to this Agreement. (See Attached Exhibit C)

Section 3.2 Payment Schedule. At least three Business Days prior to the Closing Date, the Company and the Shareholders shall jointly deliver to the Asset Purchaser and WESGEN a memo (the “**Closing Consideration Schedule**”) that shall set forth:

(i) the aggregate amount of the Asset Purchase Distribution payable to each Shareholder pursuant to Section 1.7, including each Shareholder’s Pro Rata Portion of the Asset Cash Consideration and the Closing Stock Consideration shares to be issued to each Shareholder,

(ii) the wire instructions for each of the payees pursuant to Section 3.2, together with authorization for the Asset Purchaser and/or WESGEN, as applicable, to make the payments set forth herein to be made at the Purchase Closing,

(iii) the calculation of the Per Share Closing Amount (and the calculation of each component included in such amount),

(iv) the aggregate amount to be paid to each Shareholder as of the Closing Date (assuming the closing of the Transaction) and each Shareholder’s Pro Rata Portion and

(v) the Estimated Closing Date Net Working Capital determined in accordance with Section 3.3.

The Closing Consideration Schedule shall be updated by the Company and the Shareholders on the Closing Date. Upon acceptance of the Closing Consideration Schedule by the Asset Purchaser and WESGEN, the Closing Consideration Schedule shall be determinative of the amounts to be paid under this Agreement in connection with the Transaction at the Purchase Closing and the Merger Closing.

Section 3.3 Closing Date Net Working Capital. Three Business Days prior to the Closing Date, the Company will deliver to the Asset Purchaser and WESGEN a statement setting forth a good faith estimate of the aggregate amount of the Net Working Capital of the Company as of immediately prior to the Purchase Closing, but without giving effect to the Transaction (the “**Closing Date Net Working Capital**”), which shall be updated on the Closing

Date. The Asset Purchaser and WESGEN will have the right to review the Company's relevant personnel, work papers and books and records to the extent necessary for reviewing such calculation. Such estimated Closing Date Net Working Capital is referred to herein as the "***Estimated Closing Date Net Working Capital***."

Section 3.4 Calculation of Final Adjustments. The Closing Date Net Working Capital Adjustment will be calculated and finally determined as follows:

(a) Post-Closing Calculation. No later than 120 days following the Closing Date, the Asset Purchaser and the Surviving Corporation will cause to be prepared and delivered to the Shareholders: (i) a consolidated balance sheet of the Company as of immediately prior to the Purchase Closing, but without giving effect to the Transaction (the "***Closing Balance Sheet***"); and (ii) a certificate setting forth the Asset Purchaser's and the Surviving Corporation's good faith calculation of the Closing Date Net Working Capital (the Closing Balance Sheet and the calculations of the Closing Date Net Working Capital are referred to as the "***Closing Financial Data***"). The Closing Financial Data will be prepared in accordance with GAAP using, to the extent consistent with GAAP, the same accounting principles, on a consistent basis, that were employed in preparing the Financial Statements and the calculations of the Estimated Closing Date Net Working Capital.

(b) Disputes. After receipt of the Closing Financial Data, the Shareholders will have 30 days (the "***Review Period***") to review the Closing Financial Data, together with the books and records and work papers and assumptions used in the preparation thereof. The Shareholders may dispute items reflected in the Closing Balance Sheet or in the calculation of the Closing Financial Data on the basis that it was not prepared in accordance with historical practices applied on a basis consistent with the preparation of the Financial Statements or that the calculations contain mathematical errors. Unless the Shareholders deliver written notice to the Asset Purchaser and the Surviving Corporation on or prior to the end of the Review Period specifying in reasonable detail the amount, nature and basis of each disputed item, the Shareholders will be deemed to have accepted and agreed to the Closing Balance Sheet and the calculation of the Closing Financial Data. If the Shareholders so notify the Asset Purchaser and the Surviving Corporation of its objection to any portion of the Closing Balance Sheet or the calculation of any of the Closing Financial Data, the Shareholders, the Asset Purchaser and the Surviving Corporation must, for 15 days (or such longer period as the Shareholders, the Asset Purchaser and the Surviving Corporation may agree in writing) following such notice (the "***Resolution Period***"), attempt in good faith to resolve their differences and any resolution by them as to any disputed amounts is final, binding and conclusive on the Parties.

(c) Independent Accountants. If, at the conclusion of the Resolution Period, there are any amounts remaining in dispute as to the Closing Balance Sheet or Closing Financial Data, then all amounts remaining in dispute will be submitted to an independent regional accounting firm mutually selected by the Shareholders, on the one hand, and the Asset Purchaser and the Surviving Corporation, on the other hand, (the "***Independent Accountants***") within ten days after the expiration of the Resolution Period. If the Shareholders, the Asset Purchaser and the Surviving Corporation are unable to agree on the choice of an accounting firm, they will each select one regionally recognized accounting firm and those two firms will mutually select a third regionally recognized accounting firm to be the Independent Accountants. The Asset Purchaser, the Surviving Corporation and the Shareholders will execute, if requested by the Independent Accountants, a reasonable engagement letter. All fees and expenses relating to the work, if any, to be performed by the Independent Accountants will be shared as between the Shareholders, on the one hand, and the Asset Purchaser and the Surviving Corporation, on the other hand, in inverse proportion as they may prevail on the allocation of the dollar amount of the amounts remaining in dispute between the Shareholders, on the one hand, and the Asset Purchaser and the Surviving Corporation, on the other hand, as determined by the Independent Accountants. The Independent

Accountants will act as an arbitrator to determine, based solely on the provisions of this Section 3.4(c) and the presentations by the Shareholders, the Asset Purchaser and the Surviving Corporation, and not by independent review, only those issues still in dispute and only as to whether such amounts were arrived at in accordance with this Agreement. In resolving any disputed item, the Independent Accountants may not assign a value to any item greater than the greatest value for such item claimed by either Party or less than the smallest value for such item claimed by either Party. The Independent Accountants' determination must be made within 30 days of their selection, must be set forth in a written statement delivered to the Shareholders, the Asset Purchaser and the Surviving Corporation and will be final, binding and conclusive on the Parties, absent fraud or error.

(d) Closing Date Net Working Capital Adjustment. If the amount of the Closing Date Net Working Capital (as finally determined pursuant to this Section 3.4) is less than the amount of the Estimated Closing Date Net Working Capital (the "**Working Capital Shortfall**"), then the Shareholders, on a *pro rata* basis, shall pay to the Asset Purchaser and the Surviving Corporation an aggregate amount equal to such Working Capital Shortfall within the time period set forth in the last sentence of this Section 3.4(d). If the amount of the Closing Date Net Working Capital (as finally determined pursuant to this Section 3.4) exceeds the amount of the Estimated Closing Date Net Working Capital, then the Asset Purchaser and the Surviving Corporation shall pay or cause to be paid to the Shareholders an amount equal to such excess (with each Shareholder entitled to its Pro Rata Portion thereof) within the time period set forth in the last sentence of this Section 3.4(d); *provided, however*, that the Asset Purchaser shall only be liable for an amount equal to such excess *multiplied by* the Asset Portion and the Surviving Corporation shall only be liable for an amount equal to such excess *multiplied by* the Merger Portion. The difference referred to in the first sentence of this Section 3.4(d) or the excess referred to in the second sentence of this Section 3.4(d), as applicable, is referred to as the "**Closing Date Net Working Capital Adjustment**." Any payment required by this Section 3.4(d) must be paid by wire transfer of immediately available funds to the account or accounts specified by, in the case of payments to the Asset Purchaser or the Surviving Corporation, by the Asset Purchaser and the Surviving Corporation, or in the case of payments to be made to the Shareholders, by the Shareholders, in each case within ten Business Days after the amount of the Closing Date Net Working Capital Adjustment is finally determined pursuant to this Section 3.4; *provided*, that any Working Capital Shortfall owed to the Asset Purchaser and the Surviving Corporation may, in the Asset Purchaser's or the Surviving Corporation's sole discretion, be withheld from any Installment Payments payable to the Shareholders pursuant to Section 3.5 below. Any Working Capital Shortfall shall be distributed to the Asset Purchaser and the Surviving Corporation as follows: (i) The Asset Purchaser shall be paid an amount equal to the Working Capital Shortfall *multiplied by* the Asset Portion, and the Surviving Corporation shall be paid an amount equal to the Working Capital Shortfall *multiplied by* the Merger Portion. Any amounts withheld from the Installment Payments in satisfaction of the portion of a Working Capital Shortfall that is owed to the Asset Purchase shall be promptly paid over by the Surviving Corporation to the Asset Purchaser.

(e) Tax Gross Up. The Closing Amount includes an Estimated Tax Gross Up in the amount of \$1,069,338. Concurrently with the calculation of the Closing Date Net Working Capital as described in Section 3.4(d), the Asset Purchaser shall calculate the Tax Gross Up related to this Transaction. If the calculation of the Tax Gross Up exceeds the Estimated Tax Gross Up, the Asset Purchaser shall pay each Shareholders their Pro Rata Portion of the difference. If the calculation of the Estimated Tax Gross Up Tax Gross Up exceeds the Tax Gross Up, each of the Shareholders shall pay the Asset Purchaser their Pro Rata Portion of the difference. Such payment shall be due and payable at the same time and in the same manner as the Closing Date Net Working Capital Adjustment is payable. The Tax Gross Up shall be determined in accordance with the following formula:

$$\text{Tax Gross Up} = \text{Net Working Capital} (19.6\%) / (1 - 28.82\%)$$

Transaction.

(f) Sales Taxes. Willdan shall be responsible to pay any sales taxes resulting from this

Section 3.5 Installment Payments. The Surviving Corporation shall pay, or cause to be paid as additional consideration to the Shareholders, by wire transfer of immediately available funds on the applicable date, the following aggregate amount of \$4,600,000.00 (collectively, the “*Installment Payments*”) in twenty-four (24) monthly installments in the amount of \$191,666.67 (\$95,833.00 each Shareholder) commencing one month after the Closing date if such date is a Business Day, if not, then on the first Business Day, and continuing thereafter until paid in full. Said Installment Payments shall include federal interest at the rate of 0.65%.

Section 3.6 Asset Purchaser and Parent Guaranty. The Asset Purchaser and Parent hereby irrevocably guaranty and agree to perform promptly, and in full, all of WESGEN’s and the Surviving Corporation’s obligations to the Shareholders under Section 3.1, Section 3.4(d) and Section 3.5, to the same extent WESGEN and the Surviving Corporation are obligated to perform such obligations under this Agreement to the extent WESGEN or the Surviving Corporation does not so perform them in full; *provided*, that the Asset Purchaser’s and Parent’s obligations under this Section 3.6 shall terminate and be of no further force and effect upon full payment and satisfaction of the payment obligations under Section 3.1, Section 3.4(d) and Section 3.5.

Section 3.7 Shareholders’ Representative

(a) Appointment. The Parties hereto agree that in the event after execution of this Agreement either Shareholders dies or becomes sufficiently incapacitated such that he cannot perform the obligations of a Shareholder as required by the terms of this Agreement, the other Shareholder shall become the representative of the Shareholders, and the representative of their successors, heirs and assigns, and act as their attorney-in-fact (the “*Shareholders’ Representative*”), with full power of substitution to act on behalf of all shareholders of Company to the extent and in the manner set forth in this Agreement, including: delivering to the Asset Purchaser and WESGEN the Closing Consideration Schedule pursuant to Section 3.2; delivering to the Asset Purchaser and WESGEN the Closing Date Net Working Capital pursuant to Section 3.3; the determination of the Closing Date Net Working Capital pursuant to Section 3.4, act on behalf of the Shareholders on Tax matters pursuant to Section 7.9, and administering claims for indemnification pursuant to Article X. All decisions, actions, consents and instructions by the Shareholders’ Representative with respect to this Agreement shall be binding upon all of the shareholders of the Company, and no such shareholder of the Company shall have the right to object to, dissent from, protest or otherwise contest the same. The Asset Purchaser and the Surviving Corporation shall be entitled to rely on any decision, action, consent or instruction of the Shareholders’ Representative as being the decision, action, consent or instruction of all shareholders of the Company, and the Asset Purchaser and the Surviving Corporation are hereby relieved from any Liability to any Person for acts done by them in accordance with any such decision, act, consent or instruction. By way of example and not limitation, as the Shareholders’ Representative, the Shareholders’ Representative shall be authorized and empowered, as agent of and on behalf of all the shareholders of the Company to give and receive notices and communications as provided herein, to object to any claims of an Indemnified Person, to agree to, negotiate, enter into settlements and compromises of, and demand arbitration and comply with orders of courts and awards of arbitrators with respect to, such claims or Damages, to determine and finally resolve any disputes with respect to the Closing Financial Data, to waive after the Purchase Closing or Merger Closing, as applicable, any breach or default of the Asset Purchaser or the Surviving Corporation of any obligation to be performed by it under this Agreement, to receive service of process on behalf of all shareholders of the Company in connection with any claims against such shareholders arising under or in connection with this

Agreement, any document or instrument provided for hereby or any of the transactions contemplated hereby or under any other Transaction Document, and to take all other actions that are either (i) necessary or appropriate in the judgment of the Shareholders' Representative for the accomplishment of the foregoing or (ii) specifically mandated by the terms of this Agreement. Notices or communications to or from the Shareholders' Representative shall constitute notice to or from the shareholders.

(b) Authority. The grant of authority provided for in Section 3.7(a) is coupled with an interest and is being granted, in part, as an inducement to the Parent, the Asset Purchaser and WESGEN to enter into this Agreement, and shall be irrevocable and survive the dissolution, liquidation or bankruptcy of the Company or the death, incompetency, liquidation or bankruptcy of any Shareholder, shall be binding on any successor thereto and (ii) shall survive the assignment by any Shareholder of the whole or any portion of his, her or its interest in the Installment Payments or any other amounts payable to such Shareholder in connection with this Agreement.

Section 3.8 Shareholder Dilution. Should the Parent issue or repurchase its shares during the Shareholder Lock-Up Period described in Section 7.12 of this Agreement, there shall be no adjustment for the resulting dilutions or anti-dilution, except as provided to holders of Parent's common stock holders universally.

ARTICLE IV

REPRESENTATIONS AND WARRANTIES REGARDING THE COMPANY

The Company and the Shareholders hereby represent and warrant to the Parent, the Asset Purchaser and WESGEN as of the date hereof and as of the Closing Date, subject to such exceptions as are specifically disclosed with respect to this Article IV in the disclosure schedules and schedule of exceptions delivered to the Asset Purchaser and WESGEN on the date hereof (the "Company Disclosure Schedules"), and which are numbered with corresponding numbered and lettered sections and subsections, as follows:

Section 4.1 Organization, Standing and Power. The Company is a professional services corporation duly organized, validly existing and in good standing under the Laws of the State of New York. The Company has the requisite corporate power to own its properties and to carry on its business as now being conducted and as currently proposed to be conducted and is duly qualified to do business and is in corporate and tax good standing in the State of New York and in each other jurisdiction in which the nature of its business, the operation of its assets or the ownership or leasing of its properties requires such qualification. The Company Disclosure Schedules sets forth each state or other jurisdiction in which the Company is qualified to do business. The Company has delivered a true and correct copy of the Company's Organizational Documents, each as amended to date and as currently in effect, to the Asset Purchaser and WESGEN. The Company is not in violation of any of the provisions of the Company's Organizational Documents.

Section 4.2 Subsidiaries. The Company does not directly or indirectly own any equity or similar interest in, or any interest convertible, exchangeable, or exercisable for any equity or similar interest in, any corporation, association, partnership, joint venture, limited liability company, business association or other entity.

Section 4.3 Capitalization

(a) The authorized capital stock of the Company consists of two hundred (200) shares of Common Stock, all of which are issued and outstanding. There are no authorized or outstanding shares of preferred stock and there are no outstanding options, warrants, rights (including

conversion or preemptive rights) or Contracts for the purchase or acquisition from the Company of, or that could require the Company to issue or sell, any Common Stock or any other securities of the Company. In addition, the Company has not reserved any additional shares of the Common Stock for issuance for any reason.

(b) None of the outstanding Equity Interests are: (i) entitled or subject to any preemptive right, right of participation, right of maintenance or any similar right; or (ii) subject to any right of first refusal or similar right in favor of the Company or any other Person.

(c) There are no Contracts restricting any Person from purchasing, selling, pledging or otherwise disposing of (or granting any option or similar right with respect to), any Equity Interests.

(d) The Company is not under any obligation, and is not bound by any Contract pursuant to which it may become obligated, to repurchase, redeem or otherwise acquire any outstanding Equity Interests or any other securities.

(e) Section 4.3 of the Company Disclosure Schedules sets forth a list of each holder of record of the Common Stock, the number of shares of Common Stock owned by each such holder and the current mailing address of such holder. All of the issued and outstanding shares of the Common Stock are held, beneficially and of record, by the Shareholders, and there are no other Equity Interests outstanding other than the shares of Common Stock owned by the Shareholders. All of the issued and outstanding shares of the Common Stock have been duly authorized, are validly issued, fully paid and non-assessable, are free of any Encumbrances, and are held of record by the respective Shareholders set forth in Section 4.3 of the Company Disclosure Schedules. All outstanding shares of the Common Stock have been issued and granted in compliance with all applicable securities laws and other applicable Laws in effect as of the time of issuance. There are no declared or accrued but unpaid dividends with respect to any shares of the Common Stock.

(f) There are no outstanding or authorized stock appreciation rights, phantom stock, profit participation or similar rights (or otherwise entitling any Person to consideration in respect of the sale or appreciation in value of any Common Stock) with respect to the Company.

(g) There are no registration rights with respect to any Common Stock and there are no shareholder agreements, voting trusts, proxies, or other agreements or understandings with respect to the voting of any Common Stock.

Section 4.4 Authority. The execution, delivery and performance of this Agreement and the Transaction Documents to which the Company will become a party have been duly and validly authorized by the Company by all necessary corporate action. Each of the Shareholders have the full power and authority to execute, deliver and perform this Agreement and the Transaction Documents to which each of them will become a party. This Agreement and each Transaction Document to which the Company will become a party have been duly executed and delivered by the Company and constitute valid and binding obligations of the Company enforceable in accordance with their terms. This Agreement and each Transaction Document to which any of the Shareholders will become a party have been duly executed and delivered by such Shareholder and constitutes valid and binding obligations of such Shareholder enforceable in accordance with their terms. The Company's board of directors, by unanimous written consent or at a meeting duly called and held at which a quorum was present throughout, by the requisite vote of the directors, has unanimously determined that this Agreement, the Transaction Documents and the Transaction to be advisable and fair to and in the best interest of the Company and its shareholders, approved this Agreement and the

Transaction Documents in accordance with the NYBCL, and no such declaration, approval, adoption or recommendation has been changed, withdrawn or revoked. The Shareholders have unanimously approved this Agreement and the Merger.

Section 4.5 Required Consents; No Conflicts. Section 4.5 of the Company Disclosure Schedules sets forth all third party consents under any Contract and all Governmental Authorizations necessary or reasonably desirable for the consummation of the Transaction or that could, if not obtained, result in or reasonably be expected to result in a Material Adverse Effect on the conduct of the business of the Company as it is conducted or proposed to be conducted ("**Consents**"). Except as set forth on Section 4.5 of the Company Disclosure Schedules, the execution, delivery and performance of this Agreement and the Transaction Documents to which the Company will become a party will not (i) violate, conflict with or contravene any provision of the Company's Organizational Documents, (ii) to Company's Knowledge, result in the creation of any Encumbrance upon the Company or any of the assets of the Company; (iii) to Company's Knowledge, require any Governmental Authorization.

Section 4.6 Financial Statements

(a) The Company has delivered to the Asset Purchaser and WESGEN the following financial statements (collectively, the "**Financial Statements**"): (i) the audited balance sheet, and the related statement of income and cash flows, of the Company as of and for the fiscal year ended December 31, 2014, together with the notes, if any, thereto; and (ii) the unaudited balance sheet, and the related statement of income and cash flows, of the Company (the "**Interim Balance Sheet**") as of and for the twelve months and the year ended December 31, 2015 and for the month of January, 2016 (the "**Interim Balance Sheet Date**").

(b) To the Knowledge of Shareholders and Company, all of the Financial Statements (i) are true, accurate and complete in all respects; (ii) are consistent with the Books and Records of the Company; (iii) present fairly and accurately the financial condition of the Company as of the respective dates thereof and the results of operations, changes in shareholder's equity and cash flows of the Company for the periods covered thereby; and (iv) have been applied on a consistent basis throughout the periods covered; *provided, however*, that the Interim Balance Sheet is subject to year-end adjustments consistent with past practice (which will not be material individually or in the aggregate) and do not contain all of the footnotes required by GAAP. The 2014 Financial Statements and Closing Balance Sheet have been prepared in accordance with GAAP.

(c) The Company Disclosure Schedules set forth an accurate, correct and complete breakdown and aging of each of the Company's accounts payable as of January 31, 2016.

Section 4.7 Absence of Certain Changes. Since the Interim Balance Sheet Date, (i) the Company has conducted its business in the ordinary course of business; (ii) no event or circumstance has occurred that could reasonably be expected to have a Material Adverse Effect on the Company; and (iii) the Company has not taken any action, agreed to take any action, or omitted to take any action that would constitute a breach of Section 7.1 or Section 7.2 if such action or omission were taken between the date of this Agreement and the Closing Date.

Section 4.8 Absence of Undisclosed Liabilities. To the Best of Company's knowledge, Company has no liabilities (whether accrued, absolute, contingent, unliquidated or otherwise, whether due or to become due, and regardless of when asserted) that would have a Material Adverse Effect on the operation of the Company arising out of transactions or events heretofore entered into, or any action or inaction, or any state of facts existing, with respect to

or based upon transactions or events heretofore occurring, other than (i) those set forth in the Interim Balance Sheet; (ii) those incurred in the ordinary course of business and not required to be set forth in the Interim Balance Sheet under GAAP; (iii) those incurred in the ordinary course of business since the date of the Interim Balance Sheet; and (iv) those incurred in connection with the execution of any of the Transaction Agreements.

Section 4.9 Litigation. Except as identified in Section 4.9 of the Company Disclosure Schedules, there is no private or governmental action, suit, proceeding, inquiry, claim, arbitration or investigation pending before any agency, court or tribunal, foreign or domestic, or threatened against the Company, any of its properties or any of its officers, directors or the Shareholders (in their capacities as such), or which questions or challenges the validity of this Agreement, any of the Transaction Documents or any of the transactions contemplated hereby or thereby, and there is no valid basis for any such action, suit, proceeding, claim, arbitration or investigation. There is no judgment, decree or order against the Company, or any of its directors, officers or the Shareholders (in their capacities as such), that could prevent, enjoin, or materially alter or delay the Transaction or the Transaction Documents or otherwise affects the Company's properties, assets or the right of the Company to operate its business. The Company does not have any litigation pending against any other party. The Company has delivered to the Asset Purchaser and WESGEN true, accurate and complete copies of all pleadings, correspondence and other documents relating to any such private or governmental action, suit, proceeding, inquiry, claim, arbitration or investigation. No insurance company has asserted that any such private or governmental action, suit, proceeding, inquiry, claim, arbitration or investigation is not covered by the applicable policy related thereto.

Section 4.10 Restrictions on Business Activities. There is no agreement, judgment, injunction, order or decree binding upon the Company which has or could reasonably be expected to have the effect of prohibiting or impairing any current business practice of the Company, any acquisition of property by the Company or the conduct of business by the Company as currently conducted and as proposed to be conducted.

Section 4.11 Governmental Authorization. The Company has obtained each federal, state, county, local or foreign governmental consent, license, permit, grant, or other authorization of a Governmental Entity (a) pursuant to which the Company currently operates or holds (or currently proposes to operate or hold) any interest in any of its properties or (b) that is required for the operation of the business of the Company or the holding of any such interest ((a) and (b) are herein collectively called, the "***Company Authorizations***"). Each Shareholder has obtained each federal, state, county, local or foreign governmental consent, license, permit, grant, or other authorization of a Governmental Entity (a) to own and operate a professional engineering services corporation in the State of New York under applicable Law and (b) to practice professional engineering services in each federal, state and local jurisdiction in which the Company performs services (the "***Shareholder Authorizations***"). Section 4.11 of the Company Disclosure Schedules contains an accurate, correct and complete list and summary description of each such Company Authorization and Shareholder Authorization. Each such Company Authorization and Shareholder Authorization is valid and in full force and effect, and there is not pending or threatened any private or governmental action, suit, proceeding, inquiry, claim, arbitration or investigation before any agency, court or tribunal, foreign or domestic, which could result in the suspension, termination, revocation, cancellation, limitation or impairment of any such Company Authorization or Shareholder Authorization. No violations have been recorded in respect of any Company Authorization or Shareholder Authorization, and neither the Company nor the Shareholders know of any meritorious basis

therefor. No fines or penalties are due and payable in respect of any Company Authorization, Shareholder Authorization or any violation thereof.

Section 4.12 Title to Property. The Company has good and marketable title to all of its properties, interests in properties and assets that it owns or purports to own (tangible and intangible), including all the properties and assets reflected on the Interim Balance Sheet or acquired after the date of the Interim Balance Sheet free and clear of all Encumbrances. All tangible assets owned by the Company are (a) in good operating condition and repair, ordinary wear and tear excepted; (b) suitable and adequate for continued use in the manner in which they are presently being used; (c) adequate to meet all present and reasonably anticipated future requirements of the Company's business; and (d) free of defects (latent and patent). The assets, properties and rights of the Company reflected in the Financial Statements (including the notes thereto) or acquired since the Interim Balance Sheet Date comprise all assets, properties and rights necessary and sufficient for the conduct of its business as currently conducted and as proposed to be conducted as of immediately prior to the Purchase Closing. Except as disclosed on Section 4.12 of the Company Disclosure Schedule, none of the Shareholders own any assets, properties or rights (including, but not limited to, the Company Intellectual Property, goodwill, customer lists, Contracts, or warranties) that are used in, related to or necessary for the conduct of the business of the Company. For purposes of this Section 4.12 only, the terms "property" and "assets" do not include the Company Intellectual Property.

Section 4.13 Accounts Receivable. To the best of the Shareholder's knowledge, Section 4.13 of the Company Disclosure Schedule sets forth an accurate and complete list of all Accounts Receivable existing as of January 31, 2016. Except as noted in Section 4.13 of the Company Disclosure Schedule, each item in the Accounts Receivable is (a) a valid and legally binding obligation of the account debtor enforceable in accordance with its terms, free and clear of all Encumbrances, and not subject to setoffs, adverse claims, counterclaims, assessments, defaults, prepayments, defenses, and conditions precedent; (b) a true and correct statement of the account for merchandise actually sold and delivered to, or for services actually performed for and accepted by, such account debtor; and (c) fully collectible and will be collected within 180 days subject to trade discounts provided in the ordinary course of business and any allowance for doubtful accounts contained in the Interim Balance Sheet. If any identified doubtful accounts are collected more than 180 days after closing, Asset Purchaser shall pay the proceeds to Shareholders.

Section 4.14 Intellectual Property. Section 4.14 of the Company Disclosure Schedules is a full and complete listing of all Company Intellectual Property, specifying in each case whether such Company Intellectual Property is owned or controlled by or for, licensed to, or otherwise held by or for the benefit of the Company. The Company Intellectual Property constitutes all the Intellectual Property Rights used in and/or necessary to the conduct of the Company's business as it is currently conducted, and as it is currently proposed to be conducted by the Company prior to the Closing. The Company owns, possesses, or can acquire on commercially reasonable terms sufficient legal rights to all Company Intellectual Property without any conflict with, or infringement of, the rights of others. No product or service marketed or sold (or proposed to be marketed or sold) by the Company violates or will violate any license or infringes or will infringe any intellectual property rights of any other party. Other than with respect to commercially available Software products under standard end-user object code license agreements, there are no outstanding options, licenses, agreements, claims, encumbrances or shared ownership interests of any kind relating to the Company Intellectual Property, nor is the Company bound by or a party to any options, licenses or agreements of any kind with respect to the patents, trademarks, service marks, trade names, copyrights, trade

secrets, licenses, information, proprietary rights and processes of any other Person. The Company has not received any communications alleging that the Company has violated, or by conducting its business, would violate any of the Intellectual Property Rights of any other Person. The Company has obtained and possesses valid licenses to use all of the Software programs present on the computers and other Software-enabled electronic devices that it owns or leases or that it has otherwise provided to its employees for their use in connection with the Company's business (the "**Company Software**"). To the Company's Knowledge, it will not be necessary for the Company to use any inventions of any of its employees or consultants (or Persons it currently intends to hire) made prior to their employment by the Company. The Company has (i) taken all necessary action to maintain and protect the Company Intellectual Property, and (ii) taken all reasonable precautions to protect the secrecy, confidentiality, value and the Company's rights in the Company's confidential information and Trade Secrets and its business and those provided by any Person to the Company. Each employee and consultant assigned to the Company all intellectual property rights he or she owns that are related to the Company's business as now conducted and as presently proposed to be conducted. In each case in which the Company has acquired any Intellectual Property Rights from any Person, the Company has obtained a valid and enforceable written assignment sufficient to irrevocably transfer all rights in such Intellectual Property Rights (including the right to seek past and future damages with respect thereto) to the Company, and wherever possible to transfer such rights on a "work made for hire" basis.

Section 4.15 Environmental Matters. The Company has obtained all Governmental Authorizations relating to any applicable Environmental Law necessary for operation of the Company. All Governmental Authorizations relating to any applicable Environmental Law will be valid and in full force and effect upon consummation of the Transaction. The Company has filed all reports and notifications required to be filed under and pursuant to any applicable Environmental Law. All sites, locations and facilities of the Company (each, a "**Property**") have at all times been used and operated in compliance with all applicable Environmental Laws. There has not been any release of any Materials of Environmental Concern on, under, about, from or in connection with any Property, including the presence of any Materials of Environmental Concern that have come to be located on or under any property from another location.

Section 4.16 Taxes

(a) The Company has filed all Tax Returns required to be filed by it, and all such Tax Returns were true, complete and correct in all respects. All Taxes required to be paid by the Company (whether or not shown on its Tax Returns) have been timely paid other than those being contested in good faith by appropriate proceedings and for which adequate reserves have been established in the books and records of the Company and appearing in the Financial Statements.

(b) There are no Encumbrances for Taxes upon any property or assets of the Company.

(c) The Company has not received a ruling from any taxing authority, signed an agreement with respect thereto, or signed any closing agreement with respect to any Tax year.

(d) The Company has complied in all respects with all applicable Laws, rules and regulations relating to the payment and withholding of Taxes with respect to employees, creditors, shareholders and any other Persons (including withholding of Taxes pursuant to Sections 1441 and 1442 of the Code or similar provisions under any foreign Laws) and has, within the time and the manner prescribed

by Law, withheld and paid over to the proper taxing authorities all amounts required to be so withheld and paid over under applicable Laws.

(e) No Tax Returns have been subject to an Audit, and no Audits are presently pending with regard to any Taxes or Tax Returns of the Company. No written notification has been received by the Company that such an Audit is pending or threatened with respect to any Taxes due from or with respect to or attributable to the Company or any Tax Return filed by or with respect to the Company.

(f) All Tax deficiencies that have been claimed, proposed or asserted against the Company have been fully paid or finally settled, and no issue has been raised in any examination by any taxing authority that, by application of similar principles, could reasonably be expected to result in the proposal or assertion of a Tax deficiency for another year not so examined.

(g) There are no outstanding requests, agreements, consents or waivers to extend the statutory period of limitations applicable to the assessment of any Taxes or deficiencies against the Company.

(h) No power of attorney has been granted by or with respect to the Company with respect to any matter relating to Taxes.

(i) To the Company's Knowledge, there are no unresolved questions or claims concerning Tax Liability of the Company.

(j) Other than any Tax Returns that have not yet been required to be filed, the Company has delivered to the Asset Purchaser and WESGEN true, correct and complete copies of the United States federal income Tax Return, any state, local or foreign Tax Return for the Company for any jurisdiction in which the Company is required to file Tax Returns, and other records and workpapers related to Taxes, for each of the taxable periods since the Company's formation.

(k) The Company has not received notice of any claim made by an authority in a jurisdiction where the Company does not file Tax Returns, which the Company is or may be subject to taxation by that jurisdiction.

(l) The Company has been an "S corporation" within the meaning of Section 1361 of the Code for all federal, state and local Tax purposes at all times since the Company's formation.

Section 4.17 Employee Benefit Plans

(a) Section 4.17(a) of the Disclosure Schedules, to the best of Shareholder's Knowledge, contains a true and complete list of each pension, benefit, retirement, compensation, employment, consulting, profit-sharing, deferred compensation, incentive, bonus, performance award, phantom equity, stock or stock-based, change in control, retention, severance, vacation, paid time off, welfare, fringe-benefit and other similar agreement, plan, policy, program or arrangement (and any amendments thereto), in each case whether or not reduced to writing and whether funded or unfunded, including each "employee benefit plan" within the meaning of Section 3(3) of ERISA, whether or not tax-qualified and whether or not subject to ERISA, which is or has been maintained, sponsored, contributed to, or required to be contributed to by the Company for the benefit of any current or former employee, officer, director, retiree, independent contractor or consultant of the Company's business or any spouse or dependent of such individual, or under which the Company or any of its affiliates has or may have any Liability (as listed on Section 4.17(a) of the Disclosure Schedules, each, a "**Company Employee Plan**".) With respect to all employees and former employees of the Company and all dependents and beneficiaries

of such employees and former employees, (i) as of the Closing, the Company will not maintain or contribute to any nonqualified deferred compensation or retirement plans, contracts or arrangements; and (ii) the Company does not maintain or contribute to any qualified defined benefit plans (as defined in Section 3(35) of ERISA or Section 414(j) of the Code).

(b) To the extent required (either as a matter of law or to obtain the intended tax treatment and tax benefits), all Company Employee Plans which the Company does maintain or to which it does contribute comply in all respects with the requirements of ERISA, the Code and all other applicable Laws. With respect to the Company Employee Plans, (i) all required contributions which are due have been made and a proper accrual has been made for all contributions due in the current fiscal year; (ii) there are no actions, suits or claims pending, other than routine uncontested claims for benefits; and (iii) there have been no prohibited transactions (as defined in Section 406 of ERISA or Section 4975 of the Code).

(c) The Company has delivered to the Asset Purchaser and WESGEN a copy of each of the Company Employee Plans and related material plan documents (including trust documents, insurance policies or Contracts, employee booklets, summary plan descriptions, summary of material modifications, prospectuses and other authorizing documents) and has, with respect to each Company Employee Plan that is subject to ERISA reporting requirements, made available copies of the Form 5500 reports (including all applicable schedules) filed for the last three (3) plan years.

(d) With respect to each Company Employee Plan, the Company has complied with (i) the applicable requirements of the Family Medical and Leave Act of 1993 and the regulations thereunder and (ii) the applicable requirements of the Health Insurance Portability and Accountability Act of 1996 and the regulations thereunder.

(e) The Company does not maintain, sponsor, participate in or contribute to, nor has it ever maintained, established, sponsored, participated in, or contributed to, any pension plan (within the meaning of Section 3(2) of ERISA) which is subject to Section 302 of ERISA, Title IV of ERISA or Section 412 of the Code.

(f) The Company is not a party to, nor has it made any contribution to or otherwise incurred any obligation to contribute to, any "multi-employer plan" as defined in Section 3(37) of ERISA.

(g) All contributions for all periods ending prior to the Closing Date (including periods from the first day of the current plan year to the Closing Date) have been made prior to the Closing Date by the Company.

(h) All insurance premiums have been paid in full, subject only to normal retrospective adjustments in the ordinary course, with regard to the Company Employee Plans for plan years ending on or before the Closing Date.

(i) With respect to each Company Employee Plan:

(i) no prohibited transactions (as defined in Section 406 or 407 of ERISA or Section 4975 of the Code) have occurred for which a statutory exemption is not available;

(ii) no action or claims (other than routine claims for benefits made in the ordinary course of the Company Employee Plan administration for which the Company Employee Plan administrative review procedures have not been exhausted) are pending, threatened or imminent against or with respect to the Company Employee Plan, any employer who is participating (or who has

participated) in any Company Employee Plan or any fiduciary (as defined in Section 3(21) of ERISA), of the Company Employee Plan;

(iii) neither the Company nor any fiduciary has any Knowledge of any facts that could give rise to any such action or claim; and

(iv) it provides that it may be amended or terminated at any time and, except for benefits protected under Section 411(d) of the Code, all benefits payable to current, terminated employees or any beneficiary may be amended or terminated by the Company at any time without Liability.

(j) The Company has no Liability and is not threatened with any Liability (whether joint or several) (A) for any excise tax imposed by Sections 4971, 4975, 4976, 4977 or 4979 of the Code or (B) to a fine under Section 502 of ERISA.

(k) All of the Company Employee Plans, to the extent applicable, comply with the continuation of group health coverage provisions contained in Section 4980B of the Code and Sections 601 through 608 of ERISA or other applicable Law.

(l) All expenses and Liabilities related to all of the Company Employee Plan have been, and will on the Closing Date be fully and properly accrued on the Company's Books and Records and disclosed in accordance with generally accepted accounting principles and in the Company Employee Plan financial statements.

(m) Neither the execution of this Agreement nor the Transaction will (either alone or upon the occurrence of any additional or subsequent events): (i) entitle any current or former director, officer, employee, independent contractor or consultant of the Company to severance pay or any other payment; (ii) accelerate the time of payment, funding or vesting, or increase the amount of compensation due to any such individual; (iii) increase the amount payable under or result in any other obligation pursuant to any Company Employee Plan; (iv) result in "excess parachute payments" within the meaning of Section 280G(b) of the Code; or (v) require a "gross-up" or other payment to any "disqualified individual" within the meaning of Section 280G(c) of the Code.

(n) Parent, Asset Purchaser, or the Surviving Corporation shall be solely responsible for enrolling the pre-closing employees of the Company in the employee plans of Parent, Asset Purchaser or WESGEN, as the case may be, subsequent to the Closing.

Section 4.18 Employee Matters

(a) Section 4.18(a) of the Company Disclosure Schedules sets forth a true and complete list identifying all current employees of the Company, setting forth the job title and exempt/nonexempt status of, and salary (including bonuses and commissions) payable to each such Person; the date of last salary increase; service credit date; active employment or leave status; annual paid-time-off and vacation accrual and any current amount of accrued, unused paid-time-off; and remuneration. The employment of each of the Company's employees is "at will." No employee has indicated that he/she intends to leave the Company's employment. The salary of any person listed on Section 4.18(a) of the Company Disclosure Schedules has not been increased since the date indicated on the Company Disclosure Schedule as the date of last salary increase. There are no employment agreements with any employees of the Company. The Company does not have any obligation (i) to provide any particular form or period of notice prior to termination, or (ii) except as provided in the Company's employee manual, to pay any employees or other service providers any severance in connection with their termination of employment or service with the Company.

(b) The Company is and has at all times been in compliance with all applicable Laws and regulations respecting employment, discrimination in employment, terms and conditions of employment, termination of employment, wages, hours, record keeping, postings, occupational safety and health, employee whistle-blowing, immigration, employee privacy, employment practices and classification of employees, consultants and independent contractors, and is not and has not been engaged in any unfair labor practice, as defined in the National Labor Relations Act or other applicable Law within the last three years.

(c) The Company has withheld all amounts, and timely made all payments of such amounts, required by Law or by agreement to be withheld from the wages, salaries, and other payments to employees or consultants and is not liable for any arrears of wages or any taxes or any penalty for failure to comply with any of the foregoing. The Company is not liable for any payment to any trust or other fund or to any governmental or administrative authority, with respect to unemployment compensation benefits, social security or other benefits or obligations for employees (other than routine payments to be made in the normal course of business, consistent with past practice). There are no pending claims against the Company under any workers compensation plan or policy or for long-term disability.

(d) There are no charges, complaints or controversies pending or threatened, between the Company and any of its employees, former employees, consultants, independent contractors or applicants which charges, complaints or controversies have resulted or could reasonably be expected to result in an action, suit, proceeding, claim, grievance, arbitration or investigation before any Governmental Entity. The Company has not received notice of, nor to the Company's Knowledge does any Governmental Entity responsible for the enforcement of labor or employment Laws intend to conduct an investigation with respect to the Company, and to the Company's Knowledge, no such investigation is in progress.

(e) True and complete copies of all of the Company's personnel manuals, handbooks, policies, rules or procedures applicable to employees of the Company have been delivered to the Asset Purchaser and WESGEN.

(f) No employees of the Company are in violation of any term of any employment Contract, invention assignment agreement, patent disclosure agreement, non-competition agreement, non-solicitation agreement, or any restrictive covenant to a former employer relating to the right of any such employee to be employed by the Company because of the nature of the business conducted by the Company or to the use of trade secrets or proprietary information of others.

(g) The Company does not have any (i) Liability for compensation to ex-employees; (ii) obligation to re-instate or re-employ any ex-officer or ex-employee of the Company; or (iii) Knowledge of grounds for dismissal of any employee of the Company.

(h) The Company is in full compliance with the Worker Readjustment and Notification Act (the "*WARN Act*") (29 USC §2101), including all obligations to promptly and correctly furnish all notices required to be given thereunder in connection with any "plant closing" or "mass layoff" to "affected employees", "representatives" and any state dislocated worker unit and local government officials. No reduction in the notification period under the WARN Act is being relied upon by the Company.

(i) The Company has no collective bargaining agreements with any of its employees. There currently is no labor union organizing or election activity pending or threatened with respect to the Company and there has not been any labor union organizing or election activity pending or threatened with respect to the Company during the past five (5) years.

Section 4.19 Interested Party Transactions. Except as set forth on Section 4.19 of

the Company Disclosure Schedules, the Company is not indebted to any director, officer, employee, consultant or shareholder (including the Shareholders) of the Company (except for current amounts due as normal salaries and bonuses and in reimbursement of ordinary expenses), and no such Person is indebted to the Company. No officer, director or shareholder of the Company (including the Shareholders) owns or holds, directly or indirectly, any interest in (excepting holdings solely for passive investment purposes of securities of publicly held and traded entities constituting less than five percent (5%) of the equity of any such entity), or is an officer, director, employee or consultant of any Person that is, a competitor, real estate lessor or lessee, or major customer or supplier of the Company or which conducts a business similar to any business conducted by the Company. No officer, director or shareholder (including the Shareholders) of the Company (a) owns or holds, directly or indirectly, in whole or in part, any Company Intellectual Property, (b) has any claim, charge, action or cause of action against the Company, except for claims for reasonable unreimbursed travel or entertainment expenses, accrued vacation pay or accrued benefits under any employee benefit plan existing on the date hereof, (c) has made, on behalf of the Company, any payment or commitment to pay any commission, fee or other amount to, or to purchase or obtain or otherwise contract to purchase or obtain any goods or services from, any other Person of which any officer, director or shareholder (including the Shareholders) of the Company (or, to the Knowledge of the Company, a relative of any of the foregoing) is a partner or shareholder (except holdings solely for passive investment purposes of securities of publicly held and traded entities constituting less than five percent (5%) of the equity of any such entity) or (d) has any material interest in any property, real or personal, tangible or intangible, used in or pertaining to the business of the Company.

Section 4.20 Leased Property. Section 4.20 of the Company Disclosure Schedules sets forth a complete list of the real property leased by the Company and a description of the terms of each lease (the “*Lease Agreements*”). Each Lease Agreement is valid, binding and enforceable in accordance with its terms and the Company has a valid and binding leasehold interest in, and enjoys peaceful possession of, the real property described in Section 4.20 of the Company Disclosure Schedule. The Company does not lease any real property other than the real property subject to the Lease Agreements. There are no disputes, oral agreements, or forbearance programs in effect as to the Lease Agreements. There are no existing defaults by the Company under any Lease Agreement, and no event has occurred that (with the giving of notice, lapse of time or both) would constitute a default by the Company under any Lease Agreement. The Company has not assigned, transferred, conveyed, mortgaged, deeded in trust, or encumbered any interest in the leasehold or any of its rights under any Lease Agreement, and the leasehold estate created by each such lease is free and clear of all Liens. The Company is not engaged in any negotiation for the reviewing of the rent payable under any Lease Agreement. The Company does not own, and has never owned, any real property. Shareholders shall assist in obtaining all consents as may be required under the Lease Agreements to transfer the existing leases.

Section 4.21 Compliance with Laws. The Company has complied in a timely manner and in all respects with all statutes, laws, codes, ordinances, regulations, rules, orders, judgments, writs, injunctions, acts, guidelines, policies, directions or decrees of any Governmental Entity, whether or not having the force of law (“*Law*” or “*Laws*”) that affect the business, properties or assets of the Company, and no notice, charge, claim, action or assertion has been received by the Company or, to the Company’s Knowledge, has been filed, commenced or threatened against the Company alleging any violation of any of the foregoing. The Company has not at any time received any notice or direction from any Governmental Entity challenging or questioning the legal right of the Company to design, market, offer or sell

any of its products or services or the use of its assets in the present manner or style thereof.

Section 4.22 Books and Records

(a) The minute books of the Company have been delivered to the Asset Purchaser.

(b) The books of account and records of the Company (the “**Books and Records**”) are complete and correct and have been maintained in accordance with sound business practices. Each transaction and disposition of assets of the Company is properly and accurately recorded on the Books and Records of the Company, and each document upon which entries in the Company’s Books and Records are based is complete and accurate in all respects. The Company (i) records transactions as necessary to permit preparation of true and accurate financial statements in accordance with past practice consistently applied, (ii) makes receipts and expenditures only in accordance with general or specific authorizations of management and directors of the Company, (iii) permits access to its assets only in accordance with general or specific authorizations of management and directors of the Company, (iv) compares the reported accounting for its assets and liabilities with existing assets and liabilities at reasonable intervals, and (v) maintains a system of internal accounting controls adequate to insure that it maintains no off-the-books accounts.

Section 4.23 Brokers’ and Finders’ Fees. The Parties have not incurred, nor will it incur, directly or indirectly, any Liability for brokerage or finders’ fees or agents’ commissions or investment bankers’ fees or any similar charges in connection with this Agreement or the Transaction.

Section 4.24 Material Contracts

(a) Except for the Contracts and agreements described in Section 4.24 of the Company Disclosure Schedules (the “**Material Contracts**”), the Company is not a party to or bound by any Contract, as follows:

(i) Any employment or any other Contract providing any employee with severance or other rights to payment upon termination of employment, except as may be included in the Company’s employee handbook;

(ii) Any Contract involving the leasing of personal property;

(iii) Any insurance Contracts;

(iv) Contracts affecting any Company Intellectual Property or Company Software, including any Contract for the development or licensing of any of the foregoing;

(v) Contracts with independent contractors or consultants, except subcontracts in the ordinary course of business;

(vi) Company Employee Plans;

(vii) Any Contract for capital expenditures or for the purchase of goods or services in excess of \$10,000.00;

(viii) To Company’s Knowledge, any Contract obligating the Company to sell or deliver any product or service at a price which does not cover the cost (including labor, materials and production overhead) plus the customary profit margin associated with such product or service;

(ix) Any Contract involving financing or borrowing of money, or evidencing indebtedness, any Liability for borrowed money, any obligation for the deferred purchase price of property in excess of \$10,000.00 (excluding normal trade payables) or guaranteeing in any way any Contract in connection with any Person;

(x) Any joint venture, partnership, cooperative arrangement or any other Contract involving a sharing of profits;

(xi) Any advertising Contract not terminable without payment or penalty on 30 days (or less) notice;

(xii) Any Contract affecting any right, title or interest in or to real property;

(xiii) Any Contract relating to any license or royalty arrangement;

(xiv) Any power of attorney, proxy or similar instrument;

(xv) Any Contract among shareholders of the Company;

(xvi) Any Contract for the purchase or sale of any assets other than in the ordinary course of business or for the option or preferential rights to purchase or sell any assets;

(xvii) Other than indemnity provisions included in the Assumed Contracts, the Asset Schedule, or completed project client contracts, any Contract to indemnify any Person or to share in or contribute to the Liability of any Person;

(xviii) Any Contract applicable to any employee of or contractor with the Company containing covenants not to compete in any line of business or with any Person in any geographical area;

(xix) Any Contract related to the acquisition of a business or the equity of any other Person;

(xx) Any other Contract that involves future payments, performance of services or delivery of goods or materials to or by the Company of an aggregate amount or value in excess of \$10,000.00, on an annual basis, or that otherwise is material to the business or prospects of the Company; and

(xxi) Any proposed arrangement of a type that, if entered into, would be a Contract described in any of (i) through (xxi) above.

(b) The Company has delivered to the Asset Purchaser and WESGEN accurate, correct and complete copies of all Material Contracts (or written summaries of the material terms thereof, if not in writing), including all amendments, supplements, modifications and waivers thereof. All Material Contracts are in writing.

(c) Each Material Contract is currently valid and in full force and effect, and is enforceable by the Company in accordance with its terms.

(d) (i) The Company is not in default, and no party has notified the Company that it is in default, under any Material Contract. No event has occurred, and no circumstance or condition exists, that might (with or without notice or lapse of time) (A) result in a violation or breach of any of the provisions of any Material Contract; (B) give any Person the right to declare a default or exercise

any remedy under any Material Contract; (C) give any Person the right to accelerate the maturity or performance of any Material Contract or to cancel, terminate or modify any Material Contract; or (D) otherwise have a Material Adverse Effect on the Company in connection with any Material Contract;

(i) The Company has not waived any of its rights under any Material Contract;

(ii) Each Person against which the Company has or may acquire any rights under any Material Contract is (i) solvent and (ii) able to satisfy such Person's material obligations and Liabilities to the Company; and

(iii) The performance of the Material Contracts will not result in any violation of or failure by the Company to comply with any Law.

Section 4.25 Bank Accounts. Section 4.25 of the Company Disclosure Schedules sets forth a true and accurate complete list showing the name and address of each bank in which the Company has an account or safe deposit box, the number of any such account or any such box and the names of all Persons authorized to draw thereon or to have access thereto.

Section 4.26 Insurance. The Company has policies of insurance and bonds of the type and in the amounts customarily carried by Persons conducting businesses or owning assets similar to those of the Company. The Company has at all times had valid workers compensation insurance covering all of its employees. Section 4.26 of the Company Disclosure Schedules contains a complete list of the policies and Contracts of insurance maintained by the Company other than the Company Employee Plans. All such policies and bonds are in full force and effect, all premiums due and payable to date under all such policies and bonds have been paid and the Company is otherwise in compliance with the terms of such policies and bonds. There is no claim pending under any such policies or bonds as to which coverage has been questioned, denied or disputed by the underwriters of such policies or bonds. The Company has not received any notice of cancellation or non-renewal of any such policies or bonds from any of its insurance carriers, nor to the Company's Knowledge, is the termination of any such policies or bonds threatened. The Company has not received any notice from any of its insurance carriers that any insurance premiums will be increased in the future or that any insurance coverage presently provided will not be available to the Company in the future on substantially the same terms as now in effect.

Section 4.27 Customers; Distributors; Suppliers

(a) All Contracts with customers were entered into by or on behalf of the Company and were entered into in the ordinary course of business for usual services and at normal prices.

(b) Except as set forth on Section 4.27(b) of the Company Disclosure Schedules, the Company has not entered into any Contract under which the Company is restricted from selling, licensing or otherwise providing services to any class of customers, in any geographic area, during any period of time or in any segment of the market. There is no purchase commitment which provides that any supplier will be the exclusive supplier of the Company.

(c) The Company has not received any notice or other communication, has not received any other information indicating, and otherwise has no Knowledge, that any current customer, supplier or distributor identified in the Company Disclosure Schedules may cease dealing with the Company, may otherwise materially reduce the volume of business transacted by such Person with the Company or otherwise is materially dissatisfied with the service the Company provides such Person. The

Company has no reason to believe that any such Person will cease to do business with the Company after, or as a result of, consummation of the Transaction, or that such Person is threatened with bankruptcy or insolvency. The Company has no Knowledge of any fact, condition or event which may, by itself or in the aggregate, adversely affect its relationship with any such Person.

(d) Neither the Company nor any of its directors, officers or employees has directly or indirectly given or agreed to give any rebate, gift or similar benefit to any customer, supplier, distributor, broker, governmental employee or other Person, who was, is or may be in a position to help or hinder the Company (or assist in connection with any actual or proposed transaction) which could subject the Company (or the Parent, the Asset Purchaser or the Surviving Corporation after consummation of the Transaction) to any damage or penalty in any civil, criminal or governmental litigation or proceeding or which would have, or reasonably be expected to have, a Material Adverse Effect on the Company (or the Parent, the Asset Purchaser or the Surviving Corporation after consummation of the Transaction).

Section 4.28 Foreign Corrupt Practices Act; Absence of Certain Business Practices

(a) Neither the Company nor its Representatives is aware of or has taken any action, directly or indirectly, that would result in a violation by such persons of the U.S. Foreign Corrupt Practices Act of 1977, as amended, and the rules and regulations thereunder (the “*FCPA*”), and the Company and its Representatives have conducted their businesses in compliance with the FCPA and have instituted and maintain policies and procedures designed to ensure continued compliance with the FCPA.

(b) The Company and its Representatives have not, to obtain or retain business, directly or indirectly offered, paid or promised to pay, or authorized the payment of, any money or other thing of value (including any fee, gift, sample, travel expense or entertainment with a value in excess of one hundred and 00/100 dollars (\$100.00) in the aggregate to any one individual in any continuous 12 month period) or any commission payment to:

(i) any person who is an official, officer, agent, employee or representative of any Governmental Entity or of any existing or prospective customer (whether government owned or nongovernment owned), directly or indirectly;

(ii) any political party or official thereof;

(iii) any candidate for political or political party office;

(iv) any family member of any or (i) through (iii); or

(v) any other individual or entity;

while knowing or having reason to believe that all or any portion of such money or thing of value would be offered, given or promised directly or indirectly to any such official, officer, agent, employee, representative, political party, political party official., candidate, individual or any entity affiliated with such customer, political party or official or political office.

(c) Neither Shareholders nor Company (a) directly or indirectly, used any Shareholder or Company funds for unlawful contributions, gifts, entertainment or other unlawful expenses relating to political activity, made any unlawful payment to foreign or domestic government officials or employees or to foreign or domestic political parties or campaigns from corporate funds, made any bribe, rebate, payoff, influence payment, kickback or other similar unlawful payment, or established or maintained any unlawful or unrecorded funds; (b) agreed to give any gift or similar benefit to any customer, supplier, governmental employee or other Person; or (c) engaged in any criminal or fraudulent act or made any

intentional misrepresentation to any governmental entity, which could reasonably be expected to subject the Company, Parent or Asset Purchaser to any debarment, damage or penalty in any civil, criminal or governmental action.

(d) The Company has made all payments to third parties by check mailed to such third parties' principal place of business or by wire transfer to a bank located in the same jurisdiction as such party's principal place of business.

(e) Each transaction is properly and accurately recorded on the Books and Records of the Company, and each document upon which entries in the Company's Books and Records are based is complete and accurate in all respects.

Section 4.29 Availability of Documents. The Company has delivered to the Asset Purchaser and WESGEN correct and complete copies of the items referred to in the Company Disclosure Schedules or in this Agreement (and in the case of any items not in written form, a written description thereof).

Section 4.30 Solvency. The Company is not entering into the Transaction with the intent to hinder, delay or defraud any Person to which it is, or may become, indebted. To the best of Company's Knowledge, immediately prior to the Closing, Company's assets, at a fair valuation, exceed its liabilities, and the Company is able to meet its debts as they mature and has sufficient capital and property remaining to conduct the business in which it will thereafter be engaged.

Section 4.31 Full Disclosure

(a) To the best of the Shareholder's knowledge, neither this Agreement nor any of the other Transaction Documents, (i) contains or will contain as of the Closing Date any untrue statement of fact or (ii) omits or will omit to state any material fact necessary to make any of the representations, warranties or other statements or information contained herein or therein (in light of the circumstances under which they were made) not misleading, which may have an Adverse Material Effect on the transaction or on the Company.

(b) Except as limited by the following sentence, all of the information set forth in the Company Disclosure Schedule, and all other information regarding the Company or the Company's properties, assets, operations, businesses, Liabilities, financial performance, net income and prospects (the "Information") that has been furnished to the Asset Purchaser, WESGEN or any of their Representatives by or on behalf of the Company or any of the Company's Representatives, is to the best of Stockholders' Knowledge, accurate, correct and complete in all respects. To the best of the Company's Knowledge and in all material respects, the information identified in Section 4.31 of the Company Disclosure Schedule is accurate, correct and complete in all respects. For information purposes only, the index of the documents provided to the Asset Purchaser is included in Section 4.31(b) of the Company Disclosure Schedule.

(c) Each representation and warranty set forth in this Article IV is not qualified in any way whatsoever except as explicitly provided therein, will not merge on any Closing or by reason of the execution and delivery of any Contract at any Closing, will remain in force on and immediately after the Closing Date, is given with the intention that Liability is not limited to breaches discovered before any Closing, is separate and independent and is not limited by reference to any other representation or warranty or any other provision of this Agreement, and is made and given with the intention of inducing the Company to enter into this Agreement.

REPRESENTATIONS AND WARRANTIES OF THE SHAREHOLDERS

This Agreement contemplates the issuance of stock of the Parent to the Shareholders. Parent shall be solely responsible for compliance with the Securities Act with respect to issuing the stock and shall timely make such filings as may be required under the Securities Act. Such stock will not be registered and will therefore include a legend as described in Section 5.8 of this Agreement, which legend can be removed by the Shareholders six months after the closing, subject to Rule 144 or Rule 145 promulgated under the Securities Act. In addition, the stock issued to the Shareholders shall be subject to a Shareholder lock-up as described in Section 7.12 of this Agreement and the stock will bear a legend as described in Section 7.12(b) of this Agreement. The lock-up legend shall be removed after the third anniversary of the Closing. Parent will cooperate with the Shareholders to remove the legends when the periods specified in this Article V have elapsed. Parent may only issue its stock to the Shareholders without registration if the issuance is subject to an exemption from registration provisions of the Securities Act. Each Shareholder, severally and not jointly, represents and warrants to the Parent as of the date hereof and as of the Closing Date, as follows:

Section 5.1 No Registration. Each Shareholder understands that the shares of Parent Common Stock issued pursuant to this Agreement have not been, and will not be, registered under the Securities Act by reason of a specific exemption from the registration provisions of the Securities Act, the availability of which depends upon, among other things, the bona fide nature of the investment intent of the Shareholder and the accuracy of the Shareholder's representations as expressed herein or otherwise made pursuant hereto. The Company and the Shareholders were not offered or sold shares of Parent Common Stock, directly or indirectly, by means of any form of general solicitation or general advertisement, including the following: (a) any advertisement, article, notice or other communication published in any newspaper, magazine or similar medium or broadcast or radio; or (b) any seminar or meeting whose attendees had been invited by general solicitation or general advertising. Six months after the issuance of stock to Shareholders pursuant to this Agreement, upon request from Shareholders, Parent shall cause the removal of the legend described in Section 5.7.

Section 5.2 Investment Intent. Each Shareholder is acquiring the shares of Parent Common Stock issued pursuant to this Agreement for investment for his own account, not as a nominee or agent, and not with the view to, or for resale in connection with, any distribution thereof, and each Shareholder has no present intention of selling, granting any participation in, or otherwise distributing the same. Each Shareholder further represents that he does not have any contract, undertaking, agreement or arrangement with any Person or entity to sell, transfer or grant participation to such Person or entity or to any third Person or entity with respect to any of the shares of Parent Common Stock issued pursuant to this Agreement.

Section 5.3 Speculative Nature of Investment. Each Shareholder understands and acknowledges that investment in the Parent is highly speculative and involves substantial risks. Each Shareholder can bear the economic risk of such Shareholder's investment and is able, without impairing such Shareholder's financial condition, to (a) hold the shares of Parent Common Stock issued pursuant to this Agreement for an indefinite period of time, and (b) suffer a complete loss of such Shareholder's investment. Each Shareholder is aware that the Parent may issue additional securities in the future which could result in the dilution of such Shareholder's ownership interest in the Parent. Access to Data. Each Shareholder has had an opportunity to ask questions of, and receive answers from, the officers of the Parent concerning this Agreement and the Transaction, as well as the Parent's business, management and financial

affairs, which questions were answered to their satisfaction. Each Shareholder acknowledges that it is not relying on any statements or representations of the Parent or its agents for legal advice with respect to this investment or the Transaction.

Section 5.4 Accredited Investor. Each Shareholder is an “accredited investor” within the meaning of Regulation D, Rule 501(a), promulgated by the Securities and Exchange Commission under the Securities Act and shall submit to the Parent such further assurances of such status as may be requested by the Parent.

Section 5.5 Restrictions on Transfer. Each Shareholder acknowledges that the shares of Parent Common Stock issued pursuant to this Agreement must be held indefinitely unless subsequently registered and qualified under the Securities Act or unless an exemption from such registration and qualification is available. Each Shareholder hereby covenants and agrees that he will not offer, sell or otherwise transfer such shares of Parent Common Stock except in compliance with applicable federal and state securities laws.

Section 5.6 Rule 144 and Rule 145. Each Shareholder is aware of the provisions of Rule 144 and Rule 145 promulgated under the Securities Act, which subject resale of shares to the satisfaction of certain conditions. Each Shareholder acknowledges and understands that the Parent may not be satisfying the current applicable public information requirements at the time a Shareholder wishes to sell the shares of Parent Common Stock issued pursuant to this Agreement, and that therefore, each Shareholder may be precluded from selling such securities. Each Shareholder acknowledges that, in the event the applicable requirements of Rule 144 or Rule 145, as applicable, are not met, registration under the Securities Act or an exemption from registration will be required for any disposition of the shares of Parent Common Stock issued pursuant to this Agreement. Each Shareholder acknowledges that the Parent has no intention to register the shares of Parent Common Stock issued pursuant to this Agreement and understands that such Shareholder will have a substantial burden of proof in establishing that an exemption from registration is available for such offers or sales and that such persons, and the brokers who participate in the transactions, do so at their own risk.

Section 5.7 Legend. Each Shareholder understands and agrees that the certificates evidencing the shares of Parent Common Stock issued pursuant to this Agreement shall bear the following legend in substantially the following form (in addition to any legend required by this Agreement or under applicable state securities laws):

“THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR THE SECURITIES LAWS OF ANY STATE, AND MAY NOT BE SOLD, TRANSFERRED, ASSIGNED, PLEDGED OR HYPOTHECATED UNLESS AND UNTIL REGISTERED UNDER SUCH ACT AND/OR APPLICABLE STATE SECURITIES LAWS, OR UNLESS THE COMPANY HAS RECEIVED AN OPINION OF COUNSEL OR OTHER EVIDENCE, REASONABLY SATISFACTORY TO THE COMPANY AND ITS COUNSEL, THAT SUCH REGISTRATION IS NOT REQUIRED.”

Six (6) months after the issuance of such stock to Shareholders, and upon request from the Shareholders, such legend shall be removed from the certificates.

ARTICLE VI

REPRESENTATIONS AND WARRANTIES OF THE PARENT, THE ASSET PURCHASER AND WESGEN

The Parent, the Asset Purchaser and WESGEN hereby represent and warrant, severally and jointly, to the Shareholders as follows:

Section 6.1 Organization, Standing and Power. Each of the Parent, the Asset Purchaser and WESGEN, respectively, is duly organized, validly existing and in good standing under the Laws of its jurisdiction of organization.

Section 6.2 Authority. The execution, delivery and performance of this Agreement and the Transaction Documents to which the Parent, the Asset Purchaser and WESGEN, respectively, will become a party have been duly and validly authorized by all necessary corporate action. This Agreement and each Transaction Document to which the Parent, the Asset Purchaser and WESGEN, respectively, will become a party has been duly executed and delivered by the Parent, the Asset Purchaser and WESGEN, respectively, and constitutes its respective valid and binding obligation enforceable in accordance with their terms.

Section 6.3 Adequacy of Funds. The Parent, Asset Purchaser and WESGEN have adequate financial resources to satisfy its respective monetary obligations under this Agreement.

Section 6.4 Investigation. Parent and Asset Purchaser acknowledge receipt of the documents and information provided by the Shareholders and acknowledge the risks and liabilities identified in the documents and information provided.

ARTICLE VII

PRE-CLOSING AND POST-CLOSING COVENANTS OF THE COMPANY AND THE SHAREHOLDERS

Section 7.1 Conduct of the Business Prior to Closing. From the date of this Agreement until the Closing Date, the Company shall, and the Shareholders shall cause the Company to, (a) conduct the business of the Company in the ordinary course of business, (b) pay all of its Liabilities and Taxes when due, subject to good faith disputes over such Liabilities or Taxes, (c) maintain insurance coverage in amounts adequate to cover the reasonably anticipated risks of the Company, (d) preserve intact all rights of the Company's business, (e) use reasonable efforts to retain its employees and (f) maintain good relationships with employees, licensors, licensees, suppliers, contractors, distributors, customers, and others having business dealings with the Company.

Section 7.2 Restrictions on the Company's Conduct of the Business Prior to Closing. From the date of this Agreement until the Closing Date, the Company shall not, and the Shareholders shall cause the Company to not, without the prior written consent of the Asset Purchaser and WESGEN, which consent shall not be unreasonably withheld:

(a) Enter into, create, incur or assume (i) any borrowings under capital leases or (ii) any obligations which would have a Material Adverse Effect on the Company or WESGEN's ability to conduct the business of the Company in substantially the same manner and condition as currently conducted by the Company;

- (b) Acquire by merging or consolidating with, or by purchasing any equity securities or assets (which are material, individually or in the aggregate, to the Company) of, or by any other manner, any business or any Person;
- (c) Sell, transfer, lease, license or otherwise encumber any of its assets;
- (d) Enter into any agreements or commitments with another Person, except on commercially reasonable terms in the ordinary course of business;
- (e) Violate any Law or regulation applicable to the Company;
- (f) Change or announce any change to any services sold or licensed by the Company;
- (g) Violate, terminate or amend any Contract or Governmental Authorization;
- (h) Commence any action, suit, arbitration or other legal proceeding other than for (i) the routine collection of receivables or (ii) injunctive relief on the grounds that the Company has suffered immediate and irreparable harm not compensable in money damages;
- (i) Declare, authorize or pay any dividends on, make any other distributions with respect to, or redeem, repurchase or otherwise acquire any of its capital stock;
- (j) Purchase, lease, license or otherwise acquire any assets, except for supplies acquired by the Company in the ordinary course of business;
- (k) Make any capital expenditure in excess of \$10,000.00, individually or in the aggregate;
- (l) Write off as uncollectible, or establish any extraordinary reserve with respect to, any receivable or other indebtedness;
- (m) Provide any credit, loan, advance, guaranty, endorsement, indemnity, warranty or mortgage to any Person, including any of the customers, shareholders, officers, employees or directors of the Company, other than those made in the ordinary course of business;
- (n) Borrow from any Person by way of a loan, advance, guaranty, endorsement, indemnity, or warranty;
- (o) Discharge any Encumbrance, indebtedness or other Liability in excess of \$10,000.00, individually or in the aggregate, except for Liabilities reflected or reserved against in the Financial Statements and accounts payable in the ordinary course of business;
- (p) Change its credit practices, accounting methods or practices or standards used to maintain its books, accounts or business records;
- (q) Change the terms of its accounts or other payables or receivables or take any action directly or indirectly to cause or encourage any acceleration or delay in the payment, collection or generation of its accounts or receivables;
- (r) Incur or become subject to any Liability, contingent or otherwise, except current Liabilities in the ordinary course of business;

(s) Make any material change affecting the business of the Company, including (i) changes in management organization or personnel arrangements with sales brokers, advertising agencies, market research projects, advertising and promotion budgets or the content of advertisements or working capital levels (payables and receivables); (ii) changes in discretionary costs, such as advertising, maintenance and repairs, and training; (iii) any capital expenditures or deferrals of capital expenditures; (iv) deviations from operating budgets; or (v) other than in the ordinary course of business, change any of its business policies, including, advertising, investments, marketing, pricing, purchasing, production, personnel or budget;

(t) Amend its Organizational Documents;

(u) Split, combine or reclassify any of its capital stock or issue or authorize the issuance of any other shares of capital stock or other securities in lieu of, or in substitution for, currently outstanding shares of capital stock or securities;

(v) Issue, sell, dispose of or encumber, or authorize the issuance, sale, disposition or encumbrance of, any shares of capital stock or grant, enter into or accept any options, warrants, convertible securities or other rights to acquire any capital stock or securities in the Company;

(w) Hire any new employee, terminate any officer or key employee of the Company, increase the annual level of compensation of any existing employee, establish or adopt any Company Employee Plan, or grant any bonuses, benefits or other forms of direct or indirect compensation to any employee, officer, manager or consultant;

(x) Make any severance payments to any employee, officer or manager, except payments made pursuant to written agreements outstanding as of the date of this Agreement;

(y) Make or change any election in respect of Taxes, adopt or change any accounting method in respect of Taxes, file any amendment to a Tax Return, enter into any closing agreement, settle any claim or assessment in respect of Taxes, or consent to any extension or waiver of the limitation period applicable to any claim or assessment in respect of Taxes;

(z) Enter into any Contract or agree, in writing or otherwise, to take any of the actions described in Section 7.2(a) through Section 7.2(y) above, or any action that would make any of its representations or warranties contained in this Agreement untrue or incorrect in any material respect or prevent it from performing or cause it not to perform its covenants hereunder.

Section 7.3 No Solicitation. Until the earlier of (a) the Merger Closing and (b) the termination of this Agreement pursuant to its terms, the Company and the Shareholders shall not, and shall cause each of their respective Representatives not to, directly or indirectly, (i) initiate, solicit or encourage (including by way of furnishing information regarding the Company and its business) any inquiries, or make any statements to third parties which may reasonably be expected to lead to any proposal concerning the sale of the Company (whether by way of merger, purchase of capital stock, purchase of assets or otherwise) (a “**Competing Transaction**”); or (ii) hold any discussions or enter into any agreements with, or provide any information or respond to, any third party concerning a proposed Competing Transaction or cooperate in any way with, agree to, assist or participate in, solicit, consider, entertain, facilitate or encourage any effort or attempt by any third party to do or seek any of the foregoing. If at any time prior to the earlier of (x) the Merger Closing and (y) the termination of this Agreement pursuant to its terms, the Company, the Shareholders or any of their Representatives is approached in any manner by a third party concerning a Competing Transaction (a “**Competing Party**”), the Company or Shareholder, as applicable, shall promptly inform the Asset Purchaser

and WESGEN regarding such contact and furnish the Asset Purchaser and WESGEN with a copy of any inquiry or proposal, or, if not in writing, a description thereof, including the name of such Competing Party, and the Company and the Shareholders shall keep the Asset Purchaser and WESGEN informed of the status and details of any future notices, requests, correspondence or communications related thereto.

Section 7.4 Certain Notifications. From the date of this Agreement until the Merger Closing, the Company and the Shareholders shall promptly notify the Asset Purchaser and WESGEN in writing regarding any:

- (a) Action taken by the Company not in the ordinary course of business and any circumstance or event that could reasonably be expected to have a Material Adverse Effect on the Company;
- (b) Fact, circumstance, event, or action by the Company (i) which, if known on the date of this Agreement, would have been required to be disclosed in or pursuant to this Agreement; or (ii) the existence, occurrence, or taking of which would result in any of the representations and warranties of the Company contained in this Agreement or in any Transaction Document not being true and correct when made or at the applicable Closing;
- (c) Breach of any covenant or obligation of the Company or the Shareholders; and
- (d) Circumstance or event which will result in, or could reasonably be expected to result in, the failure of the Company to timely satisfy any of the closing conditions specified in Article VIII of this Agreement.

Section 7.5 Updating Disclosure Schedules. If any event, condition, fact or circumstance that is required to be disclosed pursuant to Section 7.4 would require a change to the Company Disclosure Schedules if the Company Disclosure Schedules were dated as of the date of the occurrence, existence or discovery of such event, condition, fact or circumstance, then the Company shall promptly deliver to the Asset Purchaser and WESGEN an update to the Company Disclosure Schedules specifying such change and shall use its best efforts to remedy the same; *provided, however*, that no such update shall be deemed to supplement or amend the Company Disclosure Schedules for the purpose of (i) determining the accuracy of any of the representations and warranties made by the Company in this Agreement or (ii) determining whether any of the conditions set forth in Article VIII have been satisfied.

Section 7.6 Access to Information. From the date of this Agreement until the Merger Closing, the Company shall (i) permit the Asset Purchaser, WESGEN and each of their Representatives to have free and complete access at all reasonable times, and in a manner so as not to interfere with the normal business operations of the Company, to all premises, properties, personnel, Persons having business relationships with the Company (including suppliers, licensees, customers and distributors), books, records (including Tax records), contracts, and documents of or pertaining to the Company; (ii) furnish the Asset Purchaser, WESGEN and each of their Representatives with all financial, operating and other data and information related to the business of the Company (including copies thereof), as the Asset Purchaser or WESGEN may reasonably request; and (iii) otherwise cooperate and assist, to the extent reasonably requested by the Asset Purchaser or WESGEN, with the Asset Purchaser's and WESGEN's investigation of the Company and its business. No information or knowledge obtained in any investigation pursuant to this Section 7.6 shall affect or be deemed to modify any representation or warranty contained herein or the conditions to the obligations of the parties to consummate

the Transaction.

Section 7.7 Best Efforts; Cooperation. The Company and the Shareholders shall each use their respective best efforts to perform each of their respective obligations hereunder and to take, or cause to be taken, and do, or cause to be done, all things necessary, proper or advisable under applicable Law to obtain, and to assist the Asset Purchaser and WESGEN in obtaining, (a) the Consents required as described on Section 4.5 of the Company Disclosure Schedules, (b) all regulatory approvals and (c) to cause the Transaction to be effected as soon as practicable following the date hereof in accordance with the terms hereof. Without limiting the generality of the foregoing, the Company and the Shareholders shall, and they shall cause their respective Representatives to, use their respective best efforts to, and shall, cooperate fully with the Asset Purchaser, WESGEN and each of their respective Representatives in connection with any step required to be taken as a part of the Asset Purchaser's, WESGEN's or the Company's obligations hereunder and causing the conditions specified in Section 8.2 to be satisfied as soon as possible.

Section 7.8 Employment Matters

(a) Prior to the Closing Date, the Asset Purchaser shall identify, in its sole discretion, certain employees, including each of the Shareholders, whose continued employment with the Asset Purchaser or the Surviving Corporation, as applicable, shall be required following the Merger Closing (collectively, the "**Continuing Employees**"). The Company shall cooperate with the Asset Purchaser's efforts to cause the Company to continue to employ and retain such Continuing Employees.

(b) Prior to the Closing Date, Representatives of the Asset Purchaser and WESGEN may participate in meetings or set up interviews with the Continuing Employees or any other employees of the Company on or prior to the Closing Date, and the Company agrees to permit the Continuing Employees and such other identified employees to participate in such meetings during normal business hours at a mutually acceptable time. The Company shall use commercially reasonable efforts to retain its employees, including the Continuing Employees, from the date of this Agreement through the Closing Date.

(c) Prior to the Closing Date, the Asset Purchaser or WESGEN, as applicable, shall provide all Continuing Employees with an offer letter for the continued employment at-will (each, an "**Employment Offer Letter**") of all such employees with the Asset Purchaser or Surviving Corporation, as applicable (or any of their respective Affiliates) on terms and conditions determined by the Asset Purchaser and WESGEN and as set forth in the respective Employment Offer Letters.

(d) Nothing in this Agreement shall amend or be deemed to amend any Company Employee Plan or any benefit plan of the Asset Purchaser or any of its Affiliates or shall limit the rights of the Asset Purchaser, the Surviving Corporation or any of their respective Affiliates to amend or terminate any Company Employee Plan or benefit plan of the Asset Purchaser or its Affiliates, including following the Merger Closing.

Section 7.9 Tax Matters

(a) Tax Periods Ending on or before the Merger Closing. The Asset Purchaser, in consultation with the Surviving Corporation, shall prepare or cause to be prepared and file or cause to be filed all Tax Returns for the Company for all periods ending on or prior to the Merger Closing that are filed after the Merger Closing; *provided*, that the Shareholders shall be responsible for all reasonable costs attributable to the preparation and filing of all such Tax Returns including, without limitation, the Company's final "S corporation" returns, for the taxable period (or portion thereof) ending on the Merger

Closing. All such Tax Returns shall be prepared in a manner consistent with the Company's past practices, unless otherwise required by Law. The Asset Purchaser shall permit the Shareholders to review and comment on each such Tax Return at least 30 days prior to filing and shall incorporate into such Tax Return any reasonable comments from the Shareholders regarding such Tax Return. The Surviving Corporation may deduct from the Installment Payments payable to the Shareholders an amount equal to the Taxes of the Company with respect to such Tax Returns and related costs. Any refunds with respect to such Tax Returns shall be paid to the Shareholders in accordance with their respective Pro Rata Portion thereof, unless such refunds were (i) reflected on the Closing Balance Sheet, as finally determined, and taken into account in determining the Closing Date Net Working Capital, or (ii) were received as a result of a carryback of any net operating losses or other tax attributes.

(b) Straddle Periods. The Asset Purchaser, in consultation with the Surviving Corporation, shall prepare or cause to be prepared and file or cause to be filed any Tax Returns of the Company for any period beginning before the Merger Closing and ending after the Merger Closing (a "***Straddle Period***"). All such Tax Returns shall be prepared in a manner consistent with the Company's past practices, unless otherwise required by Law. The Asset Purchaser shall permit the Shareholders to review and comment on each such Tax Return at least 30 days prior to filing and shall incorporate into such Tax Return any reasonable comments from the Shareholder regarding such Tax Return. The Surviving Corporation may deduct from the Installment Payments payable to the Shareholders an amount equal to the portion of such Taxes which relates to the portion of such Straddle Period ending on the Merger Closing. Any refunds with respect to such Tax Returns which relates to the portion of such Straddle Period ending on the Merger Closing shall be paid to the Shareholders in accordance with their respective Pro Rata Portion thereof, unless such refunds or credits (i) were reflected on the Closing Balance Sheet, as finally determined, and taken into account in determining the Closing Date Net Working Capital, or (ii) were received as a result of a carryback of any net operating losses or other tax attributes. For purposes of this Section 7.9(b), the portion of any Tax that relates to the portion of any Straddle Period ending on the Merger Closing shall (A) in the case of any Taxes other than Taxes based upon or related to income or receipts, be deemed to be the amount of such Tax for the entire Straddle Period *multiplied by* a fraction (1) the numerator of which is the number of days in the Straddle Period ending on the Merger Closing and (2) the denominator of which is the number of days in the entire Straddle Period, and (B) in the case of any Tax based upon or related to income or receipts (including, without limitation, sales and similar taxes), be deemed equal to the amount which would be payable if the relevant Straddle Period ended on the Merger Closing.

(c) Cooperation on Tax Matters. The Asset Purchaser, the Surviving Corporation and the Shareholders shall cooperate fully, as and to the extent reasonably requested by the other Party, in connection with the filing of Tax Returns pursuant to this Agreement and any Tax Contest. Such cooperation shall include the retention and (upon the other Party's request) the provision of records and information which may be reasonably relevant to any such Tax Contest and making appropriate Persons available on a mutually convenient basis to provide additional information and explanation of any material provided hereunder. The Asset Purchaser, the Surviving Corporation and the Shareholders shall (i) retain all books and records with respect to Tax matters pertinent to the Company relating to any Taxable period beginning before the Merger Closing until the expiration of the statute of limitations (and, to the extent notified, any extensions thereof) of the respective Taxable periods, and to abide by all record retention agreements entered into with any Tax Authority, (ii) deliver or make available to the other Parties on the Merger Closing, originals or accurate copies of all such books and records, and (iii) give the other Parties reasonable written notice prior to transferring, destroying or discarding any such books and records and, if the other Party so requests, the Asset Purchaser, the Surviving Corporation and the Shareholders, as the case may be, shall allow the other Party to take possession of such books and records at such other Party's expense.

(d) Contest Provisions. If, subsequent to the Merger Closing, the Asset Parent or the Surviving Corporation receives notice of any audit, other administrative proceeding or inquiry or judicial proceeding involving Taxes (a “**Tax Contest**”) with respect to any Tax Return (a “**Pre-Closing Return**”) for any Pre-Closing Tax Period with respect to which the Asset Purchaser or the Surviving Corporation claims a right to indemnification under this Agreement, the Asset Purchaser and the Surviving Corporation shall promptly notify the Shareholders of such notice. If the Shareholders are expected to fully indemnify the Asset Purchaser or the Surviving Corporation pursuant to this Agreement for any losses arising from such Tax Contest, the Shareholders shall have the right to control the conduct and resolution of such Tax Contest; *provided, however*, that if any of the issues raised in such Tax Contest could have an impact on Taxes or the Tax position of the Asset Purchaser, the Surviving Corporation or any of their Affiliates for any Post-Closing Tax Period, then the Shareholders shall afford the Asset Purchaser the opportunity to control jointly the conduct and resolution of the portion of such Tax Contest which could have an impact on Taxes of the Asset Purchaser, the Surviving Corporation or their Affiliates in such Post-Closing Tax Period. If the Shareholders shall have the right to control the conduct and resolution of such Tax Contest but elects in writing not to do so within ten days of receiving notice of such Tax Contest, then the Asset Purchaser shall have the right to control the conduct and resolution of such Tax Contest; *provided*, that the Asset Purchaser shall keep the Shareholders reasonably informed of all material developments on a timely basis. Each Party shall bear its own costs for participating in such Tax Contest.

(e) S-Corporation Election. Immediately upon Closing or as soon as practical thereafter, the Company and the Shareholders (if legally required) shall take all actions necessary to terminate the Company’s subchapter S election under the Code effective as of the Merger Closing (the “**S-Corp Termination**”).

(f) Tax Consequences. Shareholders have reviewed with their own tax advisors the tax consequences of the Transaction and are relying solely on such advisors and not on any statements or representations of Purchasing Parties. Shareholders acknowledge that Shareholders shall be responsible for their own Tax liability that may arise as a result the Transactions.

Section 7.10 Public Disclosure. The Parent, the Asset Purchaser, WESGEN, the Company and the Shareholders shall, prior to the Merger Closing, consult with each other before issuing or authorizing any press release or any other public statement or making (or authorizing) any other disclosure to any third party (whether or not in response to an inquiry) regarding the existence or terms of this Agreement and the transactions contemplated hereby, and, prior to the Merger Closing, neither the Parent, the Asset Purchaser, WESGEN, the Company nor the Shareholders shall issue (or permit any of their respective Representatives to issue) any such press release or make any such statement or disclosure without the prior written approval of the Parent, the Asset Purchaser, WESGEN, the Company and the Shareholders, except as may be required by applicable Law. Notwithstanding the foregoing, the Parent, the Asset Purchaser, WESGEN, the Company and the Shareholders may reveal the existence and terms of this Agreement to their respective Representatives: (a) who need to know the terms of this Agreement for the purpose of evaluating the Transaction; (b) who are informed of the confidential nature of the Agreement; and (c) who agree to act in accordance with the terms of this Section 7.10.

Section 7.11 Shareholder Noncompetition. As an inducement for the Asset Purchaser and WESGEN to enter into and approve this Agreement and consummate the transactions contemplated hereby, each Shareholder agrees that without the express prior written consent of the Asset Purchaser and the Surviving Corporation, shall comply with the non-competition provisions contained in the “Shareholders’ Employment Agreements” in the form of Exhibit D to this Agreement. \$860,000.00 of the Purchase Price is allocated to the

Section 7.12 Shareholder Lock-Up.

(a) Agreement. Each Shareholder agrees that until the third anniversary of the Closing Date (which the Parent may extend in order to comply with FINRA Rule 2711(f)(4) or NYSE Rule 472(f)(4), or any successor provisions or amendments thereto)(the “Shareholder Lock-Up Period”), such Shareholder shall not cause or permit any Transfer of any shares of Parent Common Stock (or any securities received in exchange therefore) received pursuant to this Agreement as part of the Closing Stock Consideration. In furtherance of the foregoing, the Shareholder agrees that until the third anniversary of the Closing Date (which the Parent may extend in order to comply with FINRA Rule 2711(f)(4) or NYSE Rule 472(f)(4), or any successor provisions or amendments thereto) (a) the Parent is authorized to place “stop orders” on its books to prevent any transfer of Parent Common Stock held by the Shareholder in violation of this Agreement, and (ii) the Parent and any duly appointed transfer agent for the registration or transfer of the securities described herein are hereby authorized to decline to make any transfer of securities if such transfer would constitute a violation or breach of this Agreement. A Shareholder shall be deemed to have effected a “*Transfer*” of a security if such Shareholder directly or indirectly: (i) sells, pledges, encumbers, assigns, grants an option with respect to, transfers or disposes of such security or any interest in such security; or (ii) enters into an agreement or commitment providing for the sale of, pledge of, encumbrance of, assignment of, grant of an option with respect to, transfer of or disposition of such security or any interest therein.

(b) Legend. Each Shareholder understands and agrees that the certificates evidencing the shares of Parent Common Stock issued pursuant to this Agreement shall bear the following legend in substantially the following form:

“THE SHARES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO RESTRICTIONS ON TRANSFERABILITY AND RESALE, INCLUDING A LOCK-UP PERIOD AS SET FORTH IN AN AGREEMENT AMONG THE COMPANY AND THE ORIGINAL HOLDERS OF THESE SHARES, COPIES OF WHICH MAY BE OBTAINED AT THE PRINCIPAL OFFICE OF THE COMPANY.”

Section 7.13 Company Benefit Plans. Unless the Asset Purchaser directs the Company otherwise in writing, no later than five Business Days prior to the Effective Time, the Board of Directors of the Company shall adopt resolutions terminating, effective at least one day prior to the Effective Time, any Company Employee Plan qualified under Section 401(k) of the Code (each, a “*401(k) Plan*”). Prior to the Effective Time, the Company shall provide the Asset Purchaser and WESGEN with executed resolutions of its Board of Directors authorizing such termination and amending any such 401(k) Plan in connection with its termination to the extent necessary to comply with all applicable Laws. The Company shall also take such other actions in furtherance of the termination of each 401(k) Plan as the Asset Purchaser may reasonably require.

ARTICLE VIII

CONDITIONS TO CLOSING

Section 8.1 Conditions to Obligations of Each Party. The respective obligations of each Party to this Agreement to consummate and effect the Transaction and other transactions contemplated herewith shall be subject to the satisfaction at or prior to each applicable Closing of each of the following conditions, any of which may be waived, in writing, by agreement of the Company, the Parent, the Asset Purchaser and WESGEN:

(a) No Injunctions or Restraints; Illegality. No temporary restraining order, preliminary or permanent injunction or other order issued by any court of competent jurisdiction or other legal or regulatory restraint or prohibition preventing the consummation of the Transaction shall be in effect, nor shall any proceeding brought by an administrative agency or commission or other Governmental Entity or instrumentality, domestic or foreign, seeking any of the foregoing be pending; nor shall there be any action taken, or any statute, rule, regulation or order enacted, entered or enforced, which makes the consummation of the Transaction illegal. In the event an injunction or other order shall have been issued, each Party agrees to use its reasonable efforts to have such injunction or other order lifted.

(b) Governmental Approval. The Parent, the Asset Purchaser, WESGEN and the Company shall have timely obtained from each Governmental Entity all approvals, waivers and consents, if any, necessary for consummation of, or in connection with, the several transactions contemplated hereby.

Section 8.2 Conditions to the Obligations of the Parent, the Asset Purchaser and WESGEN. The obligations of the Parent, the Asset Purchaser and WESGEN to consummate and effect the Transaction and the other transactions contemplated thereby shall be subject to the satisfaction at or prior to each Closing of each of the following conditions, any of which may be waived, in writing, by the Parent, the Asset Purchaser and WESGEN:

(a) Representations, Warranties and Covenants. All of the representations and warranties of the Company and the Shareholders in this Agreement shall have been true and correct in all material respects (considered collectively and individually) as of the date of this Agreement and shall be true and correct in all material respects (considered collectively and individually) as of the Closing Date (or, to the extent such representations and warranties speak only as of an earlier date, they shall be true and correct in all material respects as of such earlier date).

(b) Performance of Obligations of the Company and the Shareholders. The Company and the Shareholders shall have performed, in all material respects (considered collectively and individually), all covenants and obligations in this Agreement required to be performed by it as of the Closing Date.

(c) Third Party Consents. The Parent, the Asset Purchaser and WESGEN shall have been furnished with evidence reasonably satisfactory to each of the consent or approval of those persons whose consent or approval shall be required for the Company and the Shareholders (i) to consummate the Transaction and the other transactions contemplated hereby and (ii) to comply with and perform all of the Company's and the Shareholders' obligations as contemplated hereby. The Company represents that no such consents are required.

(d) No Material Adverse Effect. From the date of this Agreement, there shall not have occurred any Material Adverse Effect on the Company.

(e) Delivery of Documents. The Company Parties shall have delivered to the Parent, the Asset Purchaser and WESGEN, as applicable, all of the following documents and other deliverables:

(i) to the Asset Purchaser, the Parent and WESGEN, an executed copy of the other Transaction Documents to which any Company Party is a party, duly executed by such Company Party;

(ii) to the Parent, the Asset Purchaser and WESGEN, a certificate executed on behalf of the Company by its Secretary certifying (A) copies of the Organizational Documents of the

Company, each as in effect as of the Closing Date; (B) copies of the resolutions of the board of directors of the Company unanimously approving and adopting, among other things, this Agreement, the other Transaction Documents and the Transaction, the S-Corp Termination, the termination of all 401(k) Plans, recommending that the Shareholders approve the Transaction and this Agreement, and (C) copies of the resolutions of the Shareholders unanimously approving this Agreement and the Transaction and the S-Corp Termination;

(iii) to the Parent, the Asset Purchaser and WESGEN, a certificate as of a recent date of the Secretary of State of the State of New York certifying the Company has legal existence, is in good standing and has paid all taxes, and a certificate of the Secretary of State (or similar authority) of each jurisdiction in which the Company has qualified to do business as a foreign corporation (or is required to be so qualified) as to such foreign qualification and payment of taxes;

(iv) to the Parent, the Asset Purchaser and WESGEN, a certificate from each of the President of the Company and the Shareholders certifying that the conditions to the Parent's, the Asset Purchaser's and WESGEN's obligations hereunder set forth in Section 8.2(a) and Section 8.2(b) have been fulfilled;

(v) to the Parent, the Asset Purchaser and WESGEN, fully executed copies of all notices to, approvals and/or consents of third parties, including all those Consents as listed on Section 4.5 of the Company Disclosure Schedules;

(vi) to WESGEN, a FIRPTA Notification Letter, substantially in the form attached hereto as Exhibit E (the "**FIRPTA Notification Letter**"), with respect to the Merger;

(vii) to the Asset Purchaser, originals of all Assumed Contracts and Transferred Records;

(viii) to the Asset Purchaser, a General Assignment and Bill of Sale covering all of the applicable Purchased Assets, substantially in the form attached hereto as Exhibit F (the "**General Assignment and Bill of Sale**"), duly executed by the Company;

(ix) to the Asset Purchaser, the Assignment and Assumption Agreement, covering all of the Assumed Liabilities, substantially in the form attached hereto as Exhibit G (the "**Assignment and Assumption**"), duly executed by the Company;

(x) to WESGEN, a general release of claims, substantially in the form attached hereto as Exhibit H (each, a "**Release**"), duly executed by each of the Shareholders;

(xi) to Asset Purchaser and WESGEN, as applicable, offer letters of employment, duly executed by each of the Continuing Employees (including the Shareholders) accepting the terms of their employment as Continuing Employees;

(xii) to WESGEN, the Certificate of Merger, duly executed by the Company;

(xiii) to WESGEN, all original Company Stock Certificates representing all shares of Common Stock held by the Shareholders, together with duly completed and executed Letter of Transmittal from each Shareholder;

(xiv) to Asset Purchaser and WESGEN, payoff and release letters from creditors of Payoff Debt, together with UCC-3 termination statements with respect to any financing

statements filed against any assets of the Company, terminating all Encumbrances (including Tax liens) on any and all such assets;

(xv) such other certificates, instruments or documents required pursuant to the provisions of this Agreement or otherwise necessary or appropriate to transfer the Purchased Assets and consummate the Transaction as may be requested by the Asset Purchaser, WESGEN or the Parent;

(xvi) to WESGEN, letters of resignation as members of the board of directors of the Company effective as of the Merger Closing;

(xvii) to Asset Purchaser and WESGEN, evidence, in form satisfactory to the Asset Purchaser, that the 401(k) Plans have been terminated as required pursuant to Section 7.13; and

(xviii) to the Asset Purchaser, Shareholders' Employment Agreements in the form of Exhibit D to this Agreement executed by the Shareholders;

(xix) to Asset Purchaser and WESGEN, evidence, in form satisfactory to the Asset Purchaser, that the S-Corp Termination has been effected as required pursuant to Section 7.9(d).

(f) Closing Consideration Schedule. The Asset Purchaser and WESGEN shall have received, and accepted, the Closing Consideration Schedule.

(g) Shareholder Approval. This Agreement, the consummation of the Transaction and the S-Corp Termination shall have been unanimously approved and adopted by the vote of the shareholders of the Company in accordance with the Organizational Documents and the NYBCL.

(h) Dissenters' Rights. No Shareholders shall have exercised, or have continuing rights to exercise, rights to receive payment for shares under the §909 of the NYBCL with respect to the Transaction.

(i) Continuing Employees. Both of the Shareholders both have accepted, and a Substantial Number of the key and other employees of the Company shall have accepted their respective offers of employment by the Asset Purchaser, WESGEN or their Affiliates, and executed letter offers of employment with the Asset Purchaser, WESGEN or its Affiliates, pursuant to Section 7.8. For the purpose of this Section 8.2(i), the term "Substantial Number" shall mean that a sufficient number of the key and other employees of the Company have executed offers of employment so that the business is not substantially or materially adversely impacted.

Section 8.3 Conditions to the Obligations of the Company and the Shareholders. The obligations of the Company to consummate and effect the Transaction and the other transactions contemplated thereby shall be subject to the satisfaction at or prior to each Closing of each of the following conditions, any of which may be waived, in writing, by the Company:

(a) Representations, Warranties and Covenants. All of the representations and warranties of the Parent, the Asset Purchaser and WESGEN in this Agreement shall have been true and correct in all material respects (considered collectively and individually) as of the date of this Agreement and shall be true and correct in all material respects (considered collectively and individually) as of the Closing Date (or, to the extent such representations and warranties speak only as of an earlier date, they shall be true and correct in all respects as of such earlier date).

(b) Performance of Obligations of the Parent, the Asset Purchaser and WESGEN. The Parent, the Asset Purchaser and WESGEN shall have performed, in all material respects

(considered collectively and individually), all covenants and obligations in this Agreement required to be performed by them as of the Closing Date.

(c) Delivery of Documents. The Parent, the Asset Purchaser and WESGEN, as applicable, shall have delivered to the Company Parties all of the following documents and other deliverables:

(i) to the Company and the Shareholders, an executed copy of the other Transaction Documents to which any of the Parent, the Asset Purchaser and WESGEN is a party, duly executed by the Parent, the Asset Purchaser and WESGEN, as applicable;

(ii) to the Company, the Assignment and Assumption Agreement, duly executed by the Company; and

(iii) to each of the Shareholders, offer letters of employment pursuant to Section 7.8 with respect to each as Continuing Employees.

Section 8.4 Frustration of Conditions. Neither the Parent, the Asset Purchaser, WESGEN, the Company nor the Shareholders may rely on the failure of any condition set forth in this Article VIII to be satisfied if such failure was caused by such Party's failure to comply with or perform any of its covenants or obligations set forth in this Agreement.

ARTICLE IX

TERMINATION, AMENDMENT AND WAIVER

Section 9.1 Termination. This Agreement may be terminated by written notice explaining the reason for such termination (without prejudice to other remedies which may be available to the Parties under this Agreement, at law or in equity):

(a) At any time prior to the Purchase Closing by the mutual written consent of the Parent, the Asset Purchaser, WESGEN and the Company;

(b) At any time prior to the Purchase Closing by any of the Parent, the Asset Purchaser, or WESGEN if (i) the Company is in material breach of any material provision of this Agreement and such breach shall not have been cured within 30 days of receipt by the Company of written notice from the Parent, the Asset Purchaser or WESGEN, as applicable, of such breach; and (ii) none of the Parent, the Asset Purchaser or WESGEN is not, on the date of termination, in material breach of any material provision of this Agreement;

(c) At any time prior to the Purchase Closing by the Company if (i) the Parent, the Asset Purchaser or WESGEN, is in material breach of any material provision of this Agreement and such breach shall not have been cured within 30 days of receipt by the Asset Purchaser, the Parent or WESGEN, as applicable, of written notice from the Company of such breach; and (ii) the Company is not, on the date of termination, in material breach of any material provision of this Agreement;

(d) by the Parent, the Asset Purchaser or WESGEN if (i) the Purchase Closing has not occurred on or prior to March 30, 2016 (the "***Outside Closing Date***") for any reason; and (ii) none of the Parent, the Asset Purchaser or WESGEN is not, on the date of termination, in material breach of any material provision of this Agreement;

(e) by the Company if (i) the Purchase Closing has not occurred on or prior to the Outside Closing Date for any reason; and (ii) the Company is not, on the date of termination, in material breach of any material provision of this Agreement;

(f) by either the Parent, the Asset Purchaser, WESGEN or the Company if (i) satisfaction of a closing condition of the terminating Party in Article VIII is impossible; and (ii) the terminating Party is not, on the date of termination, in material breach of any material provision of this Agreement.

Section 9.2 Effect of Termination. If this Agreement is terminated in accordance with Section 9.1, all obligations of the Parties hereunder shall terminate, except for the obligations set forth in this Article IX and Article XI; *provided, however*, that nothing herein shall relieve any Party from Liability for the breach of any of its representations, warranties, covenants or agreements set forth in this Agreement.

Section 9.3 Expenses. Whether or not the Transaction is consummated, all costs and expenses arising out of, relating to or incidental to the discussion, evaluation, negotiation and documentation of this Agreement and the transactions contemplated hereby and thereby (including, without limitation, reasonable fees and expenses of legal counsel and financial advisors and accountants, if any) (in the aggregate, “*Transaction Expenses*”), shall be paid by the Party incurring such expense.

Section 9.4 Amendment. The Parties hereto may cause this Agreement to be amended at any time by execution of an instrument in writing signed by the Parent, the Asset Purchaser, WESGEN, the Company and the Shareholders, except as otherwise required by Law.

Section 9.5 Extension; Waiver. Any Party hereto may, subject to Section 9.4 and to the extent legally allowed, (i) extend the time for the performance of any of the obligations or other acts of the other Parties hereto, (ii) waive any inaccuracies in the representations and warranties made to such Party contained herein or in any document delivered pursuant hereto and (iii) waive compliance with any of the agreements or conditions for the benefit of such Party contained herein. Any such extension or waiver by any Party hereto shall not operate or be construed as a further or continuing extension or waiver. Any agreement on the part of a Party hereto to any such extension or waiver shall be valid only if set forth in an instrument in writing signed on behalf of such Party.

ARTICLE X

INDEMNIFICATION

Section 10.1 Survival

(a) Representations and Warranties. The representations and warranties of the Parties and the covenants, agreements and obligations required to be performed by it on or prior to the applicable Closing set forth in this Agreement or in any certificate, document or other instrument delivered by or on behalf of the Company or the Shareholders pursuant to this Agreement shall survive the execution and delivery of this Agreement, any investigation by or on behalf of the Parent, the Asset Purchaser and WESGEN, and the applicable Closing and shall terminate at 11:59 P.M. Pacific time eighteen months after the Closing Date; *provided, however*, that the representations and warranties set forth in Section 4.1, Section 4.3, Section 4.4, Section 4.16 and Section 4.28 shall survive until 60 days following the expiration of the

applicable statute of limitations. Nothing herein is intended to modify the term of the covenants not to compete set forth in the Shareholder Employment Agreements.

(b) Covenants. The respective covenants, agreements and obligations of the Parent, the Asset Purchaser, WESGEN, the Company and the Shareholders set forth in this Agreement or in any certificate, document or other instrument delivered pursuant to this Agreement shall survive the execution and delivery of this Agreement, any investigation by or on behalf of any party hereto, and the applicable Closing without limitation.

Section 10.2 Indemnification

(a) Indemnification by Shareholders. Subject to the limitations set forth in this Article X, each of the Shareholders, jointly and severally, from and after the Purchase Closing will indemnify and hold harmless the Parent, the Asset Purchaser, WESGEN and each of their respective Affiliates (including the Surviving Corporation from and after the Merger Closing) and each of their respective officers, directors, shareholders, agents and employees (hereinafter referred to individually as an “*Indemnified Person*” and collectively as “*Indemnified Persons*”), from and against any and all losses, damages, injuries, Liability, claim, demand, settlement, judgment, award, fine, penalty, Tax, fee (including any legal fee, accounting fee, expert fee or advisory fee), charge, cost (including any cost of investigation) or expense of any nature (and in each case without offset) (collectively, “*Damages*”) arising out of or relating to any of the following:

(i) any material breach or inaccuracy of a representation or warranty of the Company or the Shareholders contained in this Agreement, in any other Transaction Document or other instrument delivered pursuant to this Agreement or the Transaction Documents; *provided, however*, that any such, breach or inaccuracy, and the amount of Damages attributable thereto, shall be determined giving effect to any limitation or qualification as to “materiality” or “Material Adverse Effect” set forth in such representation or warranty;

(ii) any material breach or any failure by the Company or any Shareholders to fully perform, fulfill or comply with any covenant set forth herein, in any Transaction Documents or in any certificate, document or other instrument delivered pursuant to this Agreement or the Transaction Documents;

(iii) any Taxes attributable to a Pre-Closing Tax Period that are not included in the Closing Date Net Working Capital as finally determined;

(iv) any unpaid Transaction Expenses of the Company and the Shareholders that are not included in the Closing Date Net Working Capital as finally determined with the sole remedy being the adjustment to the Net Working Capital during the Post Closing Adjustment Calculation; and

(v) any fraud, intentional misrepresentation, gross negligence, material breach or willful misconduct by the Company or any Shareholder.

(b) Indemnification by Parent and Asset Purchaser. Parent and Asset Purchaser, jointly and severally, from and after the Purchase Closing will indemnify and hold harmless the Shareholders, and each of them, from and against any and all Damages arising out of or relating to any of the following:

(i) any material breach or inaccuracy of a representation or warranty of Parent or Asset Purchaser contained in this Agreement, in any other Transaction Document or other instrument delivered pursuant to this Agreement or the Transaction Documents; *provided, however*, that

any such, breach or inaccuracy, and the amount of Damages attributable thereto, shall be determined giving effect to any limitation or qualification as to “materiality” or “Material Adverse Effect” set forth in such representation or warranty;

(ii) any material breach or any failure by Parent or Asset Purchaser to fully perform, fulfill or comply with any covenant set forth herein, in any Transaction Documents or in any certificate, document or other instrument delivered pursuant to this Agreement or the Transaction Documents;

(iii) any fraud, intentional misrepresentation, gross negligence, material breach or willful misconduct by the Parent or Asset Purchaser.

(c) An Indemnified Person may not assert a claim for indemnification based on a breach by a Shareholder or by Company of a representation, warranty, or covenant if the Indemnified Person had actual knowledge or should have had knowledge of such breach before the Closing.

Section 10.3 Installment Payments; Satisfaction of Damages. Deductions from the Installment Payments payable to the Shareholders after the Closing Date, shall serve as the first, but not the sole, source of reimbursement for any Damages suffered by the Indemnifiable Persons pursuant to this Article X.

Section 10.4 Procedure for Indemnification

(a) In the event that an Indemnified Person seeks recovery under this Article X, such Indemnified Person shall deliver a written claim notice (a “**Claim Notice**”) to the Shareholders: (i) stating that an Indemnified Person has incurred, paid, suffered or accrued Damages, or reasonably anticipates that it may have to incur, pay, suffer or accrue Damages, (ii) specifying in reasonable detail the individual items of Damages included in the amount so stated, the date each such item was incurred, paid, suffered or accrued, or the basis for such anticipated Liability, and the nature of the misrepresentation, breach of warranty, breach of covenant or agreement or other claim or matter to which such item is related, and (iii) indicating, if applicable, the amount that will be deducted from future Installment Payments in respect of such Damages, if applicable.

(b) With respect to any disputed claim in a Claim Notice, the following shall apply:

(i) In the event that the Shareholders object in writing to any claim or claims made in any Claim Notice within 30 days, the Shareholders and the Asset Purchaser shall attempt in good faith to agree upon the rights of the respective Parties with respect to each of such claims. If the Shareholders and the Asset Purchaser should so agree, a memorandum setting forth such agreement shall be prepared and signed by the Asset Purchaser and the Shareholders.

(ii) If no such agreement can be reached after good faith negotiation for a period of at least 20 calendar days (or such longer period as may be mutually agreed upon by the Shareholders and the Asset Purchaser), either the Asset Purchaser or the Shareholders may submit such disputed matter to a court of competent jurisdiction in accordance with Section 11.6 to finally resolve such disputed matter.

(iii) In the event that any portion of the Installment Payments becomes due while any matter is in dispute pursuant to this Section 10.4(b), the Surviving Corporation shall be permitted to hold back, upon instruction from the Asset Purchaser, from such Installment Payments an amount equal

to the Indemnified Person's estimated Damages in dispute until such claim has been finally resolved pursuant to this Section 10.4(b).

Section 10.5 Third-Party Claims. In the event of the assertion or commencement by any Person of any claim, suit, or legal proceeding (whether against the Company following any applicable Closing, against the Parent, the Asset Purchaser, the Surviving Corporation or any of their Affiliates or against any other Person) related to this Transaction with respect to which any Indemnified Person may be entitled to be held harmless, indemnified, compensated or reimbursed pursuant to this Article X, (i) the Asset Purchaser shall promptly notify the Shareholders after the Asset Purchaser receives notice of such claim, suit or legal proceeding, and (ii) the Asset Purchaser shall defend and indemnify the Shareholders from such claims unless it can be proven that the claim is a valid claim for a material breach of this Agreement or an inaccuracy of a representation or warranty included in Section 4.1, Section 4.3, Section 4.15, Section 4.16, Section 4.17, Section 4.18 or Subsections 10.2(a)(iii) and 10.2(a)(v), and then only if the Shareholders are given the opportunity to participate in the defense, including a reasonable opportunity to review and approve any settlement. If the Asset Purchaser so proceeds with the defense of any such claim, suit or legal proceeding and is entitled to be held harmless, indemnified, compensated or reimbursed pursuant to this Article X: (a) all reasonable expenses relating to the defense of such claim, suit or legal proceeding shall be deducted by the Surviving Corporation from the Installment Payments payable to the Shareholders; (b) the Shareholders shall make available to the Asset Purchaser any documents and materials reasonably requested by the Asset Purchaser that the Asset Purchaser determines in good faith may be necessary to the defense of such claim, suit or legal proceeding; and (c) the Asset Purchaser shall have the right to settle, adjust or compromise such claim, suit or legal proceeding, provided that the Shareholders shall have a reasonable opportunity to review and approve the settlement. Such third party claims are subject to the Deductible and the Cap, where applicable. If the third party claim is resolved through the courts, the Shareholders may withhold any payments until all rights of appeal are exhausted and the outcome is final. If the Asset Purchaser does not elect to proceed with the defense of any such claim, suit or legal proceeding, the Shareholders shall (at the sole expense of the Shareholders) proceed with the defense of such claim, suit or legal proceeding with counsel reasonably acceptable to the Asset Purchaser; *provided, however*, that the Shareholders may not settle, adjust or compromise any such claim, suit or legal proceeding without the prior written consent of the Asset Purchaser (which consent shall not be unreasonably withheld or delayed).

Section 10.6 No Right of Contribution. Neither of the Shareholders shall make any claim for contribution from the Company (or the Surviving Corporation) with respect to any indemnity claims arising under or in connection with this Agreement to the extent that the Company or any Indemnified Person is entitled to indemnification hereunder for such claim, and each of the Shareholders hereby waive any such right of contribution from the Company (and the Surviving Corporation) they have or may have in the future.

Section 10.7 Right to Set off. Notwithstanding anything contained herein to the contrary, the Surviving Corporation shall have the right to set off up to one hundred percent (100%) of any amounts payable to the Shareholders pursuant to this Agreement against any amounts due to the Parent, the Asset Purchaser and the Surviving Corporation and any other Indemnified Person from the Shareholders. In the event that the Parent, the Asset Purchaser or the Surviving Corporation reasonably believes that the amount of Damages from an unresolved claim exceeds the then remaining amounts payable under this Agreement, the Surviving Corporation may hold back all or a portion of any such amounts payable thereunder until such claim has been resolved.

Section 10.8 Cumulative Remedies. The remedies provided in this Agreement shall be cumulative and shall not preclude any Party from asserting any other right, or seeking any other remedies, against the other Party, and the right of the Parent, the Asset Purchaser and the Surviving Corporation and their Representatives to obtain indemnification pursuant to Section 10.2 by deducting against the Installment Payments otherwise payable to the Shareholders shall be a nonexclusive remedy.

Section 10.9 Limitations on Indemnification.

(a) Shareholders shall not have any liability to any Indemnified Party with respect to Damages arising out of any of the matters referred to in Article IV (with the exceptions of Section 4.1, Section 4.4, Section 4.15, Section 4.16, Section 4.17, Section 4.18, and Section 4.28) and Section 10.2(a) (with the exceptions of Subsections 10.2(a)(iii) and 10.2(a)(v)) until such time as the amount of all such Damages shall collectively exceed \$150,000.00 (the “**Shareholders’ Deductible**”) (after which point Shareholders will be obligated to indemnify the Buyer Indemnified Parties from and against Damages in excess of Shareholders’ Deductible) after applying any available proceeds of Shareholders’ insurance.

(b) Notwithstanding anything to the contrary contained in this Agreement, the maximum aggregate amount of indemnifiable Damages that may be recovered from the Shareholders by the Indemnified Parties pursuant to Article IV (with the exceptions of Section 4.1, Section 4.4, Section 4.15, Section 4.16 and Section 4.28) and Section 10.2(a) (with the exceptions of Subsections 10.2(a)(iii) and 10.2(a)(v)) shall be \$4,600,000 (the “**Cap**”) after applying any available proceeds of Asset Purchaser’s insurance.

(c) Any entitlement of any Indemnified Person or Shareholders Indemnified Party to make a claim under this Agreement shall be determined without duplication of recovery by reason of the state of facts giving rise to such claim constituting a breach of more than one representation, warranty or covenant.

(d) The Parties shall cooperate with each other with respect to resolving any Claim, Liability or Loss for which indemnification may be required hereunder, including by making, or causing the applicable Indemnified Party to make, all commercially reasonable efforts to mitigate any such Claim, Liability or Loss (which efforts may include availing itself of any defenses, limitations, rights of contribution, claims against third Persons and other rights at law or equity). The Parties shall use commercially reasonable efforts to seek full recovery under all insurance policies covering any Loss to the same extent as they would if such Loss were not subject to indemnification hereunder.

ARTICLE XI

GENERAL PROVISIONS

Section 11.1 Notices. All notices and other communications hereunder shall be in writing and shall be deemed received (a) on the date of delivery if delivered personally and/or by messenger service, (b) on the date of confirmation of receipt of transmission by facsimile (or, the first Business Day following such receipt if (i) the date is not a Business Day or (ii) confirmation of receipt is given after 5:00 p.m., Pacific Time) or (c) on the date of confirmation of receipt if delivered by a nationally recognized courier service (or, the first Business Day following such receipt if (i) the date is not a Business Day or (ii) confirmation of receipt is given after 5:00 p.m., Pacific Time), to the parties at the following address (or at such other address for a party as shall be specified by like notice):

if to the Parent, the Asset Purchaser, WESGEN (or the Surviving Corporation on or after the Merger Closing), to:

Willdan Group, Inc.
2401 East Katella Avenue, Suite 300.
Anaheim, CA 92806
Attention: Mike Bieber

with a copy to (which shall not constitute notice) each of:

Lavoie & Jarman
2401 East Katella Avenue, Suite 310
Anaheim, CA 92806
Attention: Robert L. Lavoie, Esq.

if to the Company (on or prior to the Merger Closing), to:

Genesys Engineering, P.C.
629 Fifth Avenue
Building 3, Suite 111
Pelham, New York 10803
Attn: Ronald W. Mineo and Robert J. Braun

with a copy to (which shall not constitute notice):

Richard S. Bedell
Attorney at Law
10829 Tuckahoe Way
North Potomac, MD 20878

if to the Shareholders, to:

Ronald W. Mineo
Robert J. Braun
629 Fifth Avenue
Building 3, Suite 111
Pelham, New York 10803

with a copy to (which shall not constitute notice):

Richard S. Bedell
Attorney at Law
10829 Tuckahoe Way
North Potomac, MD 20878

Section 11.2 Interpretation. When a reference is made in this Agreement to Exhibits and Appendices, such reference shall be to an Exhibit or Appendix to this Agreement unless otherwise indicated. The words “include,” “includes” and “including” when used herein shall be deemed in each case to be followed by the words “without limitation.” The phrase “made available” in this Agreement means that the information referred to has been made available if requested by the Party to whom such information is to be made available. The table of contents and headings contained in this Agreement are for reference purposes only and shall

not affect in any way the meaning or interpretation of this Agreement.

Section 11.3 Counterparts. This Agreement may be executed in one or more counterparts and delivered by facsimile or electronic PDF signature, and by the different Parties hereto in separate counterparts, each of which when executed and delivered will be deemed to be an original but all of which taken together will constitute one and the same agreement.

Section 11.4 Assignment. This Agreement may not be assigned by any Party hereto without the prior written consent of the other Parties and any purported assignment without such consent will be void; *provided, however*, that the Parent and Asset Purchaser may, without the other Parties' consent, assign this Agreement (and the Transaction Documents) (i) to any parent, subsidiary, Affiliate or successor of the Parent and Asset Purchaser, as the case may be, (ii) by operation of law, or (iii) in connection with any merger, consolidation or sale of all or substantially all of the Parent's or Asset Purchaser's assets or in connection with any similar transaction; *provided, however*, that no such assignment by the Parent or Asset Purchaser shall relieve the Parent, the Asset Purchaser or its successor-in-interest, as the case may be, of any of its respective obligations under this Agreement.

Section 11.5 Severability. In the event that any provision of this Agreement, or the application thereof, becomes or is declared by a court of competent jurisdiction to be illegal, void or unenforceable, the remainder of this Agreement will continue in full force and effect and the application of such provision to other persons or circumstances will be interpreted so as reasonably to effect the intent of the Parties hereto. The Parties further agree to replace such void or unenforceable provision of this Agreement with a valid and enforceable provision that will achieve, to the extent possible, the economic, business and other purposes of such void or unenforceable provision.

Section 11.6 Governing Law; Jurisdiction; Venue; Dispute Resolution. This Agreement shall be governed by and construed in accordance with the laws of the State of Delaware, without giving effect to laws concerning choice of law or conflicts of law. In the event of a dispute between the Parties arising out of or relating to this Agreement, as a condition precedent to any Party filing suit, the Parties shall attempt in good faith to resolve the dispute as follows:

(a) Good Faith Negotiation. The Parties shall attempt in good faith to resolve any dispute by negotiation. Any Party may give the other Party written notice of the dispute not resolved in the normal course of business. Within 15 days after delivery of the notice, the receiving Party shall submit to the other a written response. The notice and response shall include with reasonable particularity (a) a statement of each party's position and a summary of arguments supporting that position, and (b) the name the executive who will represent that Party and of any other person who will accompany the executive. Within 30 days after delivery of the notice, the Parties shall meet at a mutually acceptable time and place. If the matter is not resolved by negotiation pursuant to this paragraph, then the matter will proceed to mediation as set forth below.

(b) Mediation. As a condition precedent to filing suit, any and all disputes, claims or controversies arising out of or relating to this Agreement shall be submitted to JAMS, or its successor, for non-binding mediation at its New York, New York office. Either Party may commence mediation by providing to JAMS and the other Party a written request for mediation, setting forth the subject of the dispute and the relief requested. The parties will cooperate with JAMS and with one another in selecting a mediator from the JAMS panel of neutrals and in scheduling the mediation proceedings. The Parties agree that they will participate in the mediation in good faith and that they will share equally in its

costs. All offers, promises, conduct and statements, whether oral or written, made in the course of the mediation by any of the Parties, their agents, employees, experts and attorneys, and by the mediator or any JAMS employees, are confidential, privileged and inadmissible for any purpose, including impeachment, in any arbitration or other proceeding involving the Parties, provided that evidence that is otherwise admissible or discoverable shall not be rendered inadmissible or non-discoverable as a result of its use in the mediation. Either party may file suit with respect to the matters submitted to mediation by filing a written notice of intent to file suit at any time following the initial mediation session or at any time following 45 days from the date of filing the written request for mediation, whichever occurs first (“Earliest Initiation Date”).

The mediation may continue after the commencement of suit if the Parties so desire. At no time prior to the Earliest Initiation Date shall either side initiate litigation related to this Agreement except to pursue a provisional remedy that is authorized by law or by JAMS Rules or by agreement of the Parties. However, this limitation is inapplicable to a party if the other party refuses to comply with the requirements of this Paragraph.

(c) Subject to the conditions precedent in Section 11.6(a) and Section 11.6(b) above, each of the Parties hereby expressly and irrevocably submits to the exclusive jurisdiction of the state courts of the State of Delaware (collectively, the “*Delaware Courts*”), in connection with all disputes arising out of or in connection with this Agreement and the transactions contemplated hereby or thereby and agrees not to commence any litigation relating thereto except in such Delaware Courts or to assert that any litigation brought in such courts has been brought in an inconvenient forum. Each Party hereby waives the right to commence litigation in any other jurisdiction or venue in connection with this Agreement or the transactions contemplated hereby or thereby to which any of them may be entitled by reason of its present or future domicile. Notwithstanding the foregoing, each Party agrees that each of the other Parties shall have the right to bring any action or proceeding for enforcement of any order or judgment entered by a Delaware Court in connection therewith in any other court having jurisdiction. Process in any proceeding referred to in this paragraph may be served on any Party hereto anywhere in the world by first class certified mail, return receipt requested, postage prepaid, to the address at which such Party is to receive notice in accordance this Agreement. However, the foregoing shall not limit the right of a Party to effect service of process on another Party by any other legally available method.

Section 11.7 Waiver of Jury Trial. EACH OF THE PARTIES HERETO IRREVOCABLY WAIVES ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING BETWEEN THE PARTIES HERETO ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED BY THIS AGREEMENT.

Section 11.8 Rules of Construction. The parties hereto agree that they have been represented by counsel during the negotiation, preparation and execution of this Agreement and, therefore, waive the application of any law, regulation, holding or rule of construction providing that ambiguities in an agreement or other document will be construed against the party drafting such agreement or document.

Section 11.9 Specific Performance; Injunctive Relief. The Parties hereto agree that if any of the provisions of this Agreement were not performed in accordance with their specific terms or were otherwise breached, irreparable damage would occur, no adequate remedy at law would exist and damages would be difficult to determine, and that the Parties shall be entitled to specific performance of the terms hereof, and are entitled to temporary and permanent injunctive relief in a court of competent jurisdiction at any time when the other Party fails to comply with any of the provisions of this Agreement applicable to it. To the extent permitted by Law, each Party hereby irrevocably waives any defense that it might have based on the adequacy of a remedy at law which might be asserted as a bar to such remedy of specific

performance or injunctive relief.

Section 11.10 Descriptive Headings. The descriptive headings herein are inserted for convenience only and are not intended to be part of or to affect the meaning or interpretation of this Agreement.

Section 11.11 Force Majeure. No Party shall be deemed to fail to perform its obligations or respond to any notice on a timely basis if its failure results solely from the following causes beyond its reasonable control, specifically: war, terrorism, strikes, natural disaster or acts of God. Any delay resulting directly from any of said causes shall extend accordingly the time to perform or respond by the length of the delay. For avoidance of doubt, the foregoing shall in no event relieve any Party of its obligations hereunder or permit a Party to fail to respond to notice beyond the extension described in the preceding sentence.

Section 11.12 Costs and Fees. Should suit be brought to enforce or interpret any part of this Agreement, each Party shall bear its own costs and fees, including attorneys' fees, unless otherwise recoverable under applicable law.

Section 11.13 Entire Agreement. This Agreement (including all schedules, exhibits and appendices attached hereto), the Transaction Documents constitute the entire agreement of the Parties hereto with respect to the subject matter hereof and supersede all prior agreements and undertakings with respect to the subject matter hereof, both written and oral. The express terms of this Agreement control and supersede any course of performance or usage of the trade inconsistent with any of the terms hereof.

[Signature page follows]

IN WITNESS WHEREOF, the Company, the Parent, WESGEN, the Asset Purchaser and the Shareholders have executed and delivered this Agreement or have caused this Agreement to be executed and delivered by their respective officers thereunto duly authorized, all as of the date first written above.

“Parent”

WILLDAN GROUP, INC.

By: /s/ Thomas D. Brisbin

Name: Thomas D. Brisbin

Title: President & Chief Executive Officer

“Asset Purchaser”

WILLDAN ENERGY SOLUTIONS

By: /s/ Thomas A. Kouris

Name: Thomas A. Kouris

Title: President & Chief Executive Officer

“WESGEN”

WESGEN, INC.

By: /s/ Rachel Seraspe

Name: Rachel Seraspe

Title: President

“Company”

GENESYS ENGINEERING P.C.

By: /s/ Robert J. Braun

Name: Robert J. Braun

Title: President

“Shareholders”

/s/ Ronald W. Mineo

Ronald W. Mineo, an individual

/s/ Robert J. Braun

Robert J. Braun, an individual

APPENDIX A

Definitions

As used in the Agreement, the terms below shall have the following meanings. Any of such terms, unless the context otherwise requires, may be used in the singular or plural, depending upon the reference.

“**401(k) Plan**” has the meaning set forth in Section 7.13.

“**Accounts Receivable**” has the meaning set forth in Section 1.1(h).

“**Affiliates**” means, with respect to any Person, any other Person which directly or indirectly controls, is controlled by or is under common control with such Person. For purposes of the immediately preceding sentence, the term “control” (including, with correlative meanings, the terms “controlling,” “controlled by” and “under common control with”), as used with respect to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through ownership of voting securities, by contract or otherwise. For the avoidance of doubt, for the purposes of this Agreement only, WESGEN shall be deemed to be an Affiliate of the Parent and the Asset Purchaser.

“**Agreement**” has the meaning set forth in the preamble.

“**Asset Cash Consideration**” means an amount equal to the *difference* of (a) the *product* obtained by *multiplying* (i) the Closing Consideration *by* (ii) the Asset Portion, *minus* (b) the value of the Closing Stock Consideration.

“**Asset Portion**” means 87.5% of the Purchase Price.

“**Asset Purchase**” has the meaning set forth in Section 1.5(a).

“**Asset Purchase Distribution**” has the meaning set forth in Section 1.7.

“**Asset Purchase Consideration**” means (a) the Closing Stock Consideration, (b) Asset Cash Consideration and (c) the Pro Rata Portion of any amounts payable, if any, at the times and in accordance with Section 3.4(d), Section 3.5 and Section 7.9, in each case without interest.

“**Asset Purchaser**” has the meaning set forth in the preamble.

“**Asset Schedules**” means the schedules to this Agreement setting forth the Purchased Assets listed in Section 1.1 and the Excluded Assets listed in Section 1.2.

“**Assignment and Assumption**” has the meaning set forth in Section 8.2(e)(ix).

“**Assumed Contracts**” has the meaning set forth in Section 1.1(e).

“**Assumed Liabilities**” has the meaning set forth in Section 1.3.

“**Audit**” means any audit, assessment of Taxes, other examination by any Tax Authority, or any administrative or judicial proceeding or appeal of such proceeding relating to Taxes.

“**Base Shares**” has the meaning set forth in Section 3.8.

“**Books and Records**” has the meaning set forth in [Section 4.22\(b\)](#).

“**Business Day**” means any day that is not a Saturday, Sunday, or other day on which a significant number of federal (United States) agencies are closed.

“**Cap**” has the meaning set forth in [Section 10.9](#).

“**Cause**” means a material breach of this Agreement.

“**Certificate of Merger**” has the meaning set forth in [Section 2.3](#).

“**Claim Notice**” has the meaning set forth in [Section 10.4\(a\)](#).

“**Closing**” means each of the Purchase Closing and the Merger Closing, as applicable and as the context requires.

“**Closing Amount**” means an amount equal to \$7,069,338. This amount includes the Estimated Tax Gross Up.

“**Closing Balance Sheet**” has the meaning set forth in [Section 3.4\(a\)](#).

“**Closing Cash Consideration**” means \$6,000,000.00.

“**Closing Consideration**” means an amount equal to (a) the Closing Amount, *plus* (b) the amount (if any) by which the Estimated Closing Date Net Working Capital exceeds the Target Net Working Capital, *minus* (c) the amount (if any) by which the Estimated Closing Date Net Working Capital is less than the Target Net Working Capital, *minus* (d) the amount of Payoff Debt.

“**Closing Consideration Schedule**” has the meaning set forth in [Section 3.2](#).

“**Closing Date**” has the meaning set forth in [Section 1.6](#).

“**Closing Date Net Working Capital**” has the meaning set forth in [Section 3.3](#).

“**Closing Date Net Working Capital Adjustment**” has the meaning set forth in [Section 3.4\(d\)](#).

“**Closing Financial Data**” has the meaning set forth in [Section 3.4\(a\)](#).

“**Closing Merger Consideration**” means an amount equal to the product obtained by *multiplying* (i) the Closing Consideration *by* (ii) the Merger Portion.

“**Closing Stock Consideration**” means a number of shares of Parent Common Stock with a value equal to \$2,000,000.00 in the aggregate, calculated at a per share price equal to the volume weighted average price of a share of Parent Common Stock for the ten trading days ending on the date that is immediately prior to the Signing Date, as quoted on the NASDAQ Capital Market.

“**Code**” means the Internal Revenue Code of 1986, as amended, and the rules and regulations promulgated thereunder.

“**Commitment**” means: (i) any option, warrant, convertible security, exchangeable security, subscription right, conversion right, exchange right, or other right, obligation or Contract that could require a Person to issue any of its capital stock or other equity securities, or to sell any capital stock or other equity securities it owns in another Person; (ii) any other security convertible into, exchangeable or exercisable

for, or representing the right to subscribe for any capital stock or other equity securities of a Person or owned by a Person; (iii) any statutory pre-emptive right or pre-emptive right granted under a Person's organizational documents; and (iv) any stock option, stock appreciation right, phantom stock, profit participation, or other similar right with respect to a Person.

“**Common Stock**” means the Company's Common Stock, no par value per share.

“**Company**” has the meaning set forth in the preamble.

“**Company Authorizations**” has the meaning set forth in Section 4.11.

“**Company Bylaws**” means the Bylaws of the Company as amended and amended and restated from time to time.

“**Company Certificate**” means the Certificate of Incorporation of the Company filed with the Secretary of State of the State of New York on July 8, 2004, as amended and amended and restated from time to time.

“**Company Disclosure Schedules**” has the meaning set forth in the first paragraph to Article IV.

“**Company Employee Plan**” has the meaning set forth in Section 4.17(a).

“**Company Intellectual Property**” means all Intellectual Property Rights, similar or other intellectual property rights, subject matter of any of the foregoing, tangible embodiments of any of the foregoing, licenses in, to and under any of the foregoing, and any and all such cases that are owned or purported to be owned or used by the Company in the conduct of the Company's business as now conducted and as presently proposed to be conducted.

“**Company Parties**” means each of the Parties other than the Parent, the Asset Purchaser and WESGEN.

“**Company Shareholders**” means the holders of Common Stock.

“**Company Software**” has the meaning set forth in Section 4.14.

“**Company Stock Certificate**” means a certificate or certificates representing shares of the Common Stock.

“**Company Transaction Expenses**” means all Transaction Expenses incurred by the Company that are unpaid.

“**Comparison Shares**” has the meaning set forth in Section 3.8.

“**Competing Party**” has the meaning set forth in Section 7.3.

“**Competing Transaction**” has the meaning set forth in Section 7.3.

“**Consents**” has the meaning set forth in Section 4.5.

“**Continuing Employees**” has the meaning set forth in Section 7.8(a).

“**Contract**” means any written, oral or other agreement, contract, subcontract, lease, understanding, instrument, note, warranty, license, sublicense, insurance policy, benefit plan or legally binding commitment or undertaking of any nature, whether express or implied.

“**Copyrights**” shall mean all copyrights, including in and to works of authorship and all other rights corresponding thereto throughout the world, whether published or unpublished, registered or unregistered, including rights to prepare, make, reproduce, perform, display and distribute copyrighted works and copies, compilations and derivative works thereof, registrations and applications therefor throughout the world, all rights therein provided by international treaties and conventions, all moral and common law rights thereto, and all other rights associated therewith.

“**Damages**” has the meaning set forth in Section 10.2(a).

“**Debt**” means, without duplication, all obligations or Liabilities, whether contingent or otherwise and including all obligations for principal, interest, premiums, penalties, fees and breakage costs, of such Person or any of its subsidiaries (i) in respect of money borrowed (whether current, short-term or long-term, secured or unsecured, and including all overdrafts and negative cash balances); (ii) evidenced by notes, debentures, bonds or other similar instruments for the payment of which such Person or any of its Subsidiaries is responsible or liable; (iii) issued or assumed as the deferred purchase price of property or services; (iv) in respect of conditional sales or under any title retention agreement (but excluding trade accounts payable and other accrued current Liabilities arising in the ordinary course of business), (v) under leases required to be capitalized in accordance with GAAP; (vi) secured by an Encumbrance against any of its or any of its subsidiaries’ properties or assets; (vii) for bankers’ acceptances or similar credit transactions issued for the account of such Person or any of its Subsidiaries; (viii) under any currency or interest rate swap, hedge or similar protection device; (ix) under any letters of credit, performance bonds or surety obligations; (x) in respect of the unfunded portion of pension plans; or (xi) that would be classified as indebtedness on a balance sheet under GAAP; and (xii) in respect of all obligations of other Persons of the type referred to in clauses (i)-(xi) the payment of which such Person or any of its subsidiaries is responsible or liable, directly or indirectly, as obligor, guarantor, surety or otherwise, including guarantees of any such obligations.

“**Delaware Courts**” has the meaning set forth in Section 11.6.

“**Dollars**” or “**\$**” means the lawful currency of the United States of America.

“**Effective Time**” has the meaning set forth in Section 2.3.

“**Employer**” shall mean, as applicable, the Parent’s Affiliate employing the applicable Shareholder from time to time on and after the Closing Date.

“**Employment Offer Letter**” has the meaning set forth in Section 7.8(c).

“**Encumbrance**” means any encumbrance, hypothecation, lien, mortgage, pledge, security interest, title retention or other security arrangement on or with respect to any property (real or personal) interest.

“**Environmental Laws**” means all federal, state, local and foreign laws, regulations, ordinances, requirements of governmental authorities, and common law relating to pollution or protection of human health or the environment (including, without limitation, ambient air, surface water, ground water, land surface or subsurface strata, and natural resources), including, without limitation, Laws relating to (i) emissions, discharges, releases or threatened releases of, or exposure to, Materials of Environmental Concern, (ii) the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of Materials of Environmental concern, (iii) recordkeeping, notification, disclosure and reporting

requirements regarding Materials of Environmental concern, and (iv) endangered or threatened species of fish, wildlife and plant and the management or use of natural resources.

“Estimated Closing Date Net Working Capital” has the meaning set forth in Section 3.3.

“Estimated Tax Gross Up” means \$\$1,069,338. This is an estimated amount and is subject to adjustment pursuant to Section 3.4(e).

“Equity Interests” means any and all shares of the Company’s capital stock and any other equity ownership, participation or security in the Company, including, without limitation, all Commitments regarding the foregoing and all shares of the Common Stock.

“ERISA” means the Employee Retirement Income Security Act of 1974, as amended.

“Example Calculation of Transaction Consideration” has the meaning set forth in Section 3.1.

“Excluded Accounts Receivable” has the meaning set forth in Section 1.2(b).

“Excluded Assets” has the meaning set forth in Section 1.2.

“Excluded Contracts” has the meaning set forth in Section 1.2(a).

“Excluded Liabilities” has the meaning set forth in Section 1.4.

“FCPA” has the meaning set forth in Section 4.28(a).

“Financial Statements” has the meaning set forth in Section 4.6(a).

“FIRPTA Notification Letter” has the meaning set forth in Section 8.2(e)(vi).

“GAAP” means generally accepted United States accounting principles applied on a consistent basis.

“General Assignment and Bill of Sale” has the meaning set forth in Section 8.2(e)(viii).

“Governmental Authorization” means any approval, consent, license (including, without limitation, all licenses necessary to practice professional engineering services in the State of New York), permit, waiver, registration or other authorization issued, granted, given, made available or otherwise required by any Governmental Entity or pursuant to Law.

“Governmental Entity” means any arbitrator, court, agency, commission, tribunal, nation, government, any state or other political subdivision thereof and any entity exercising or entitled to exercise executive, legislative, judicial, regulatory, taxing or administrative power or authority of any nature whatsoever, in each case, whether foreign or domestic.

“Governmental Order” means any judgment, injunction, writ, order, ruling, award or decree by any Governmental Entity or arbitrator.

“Indemnified Person” has the meaning set forth in Section 10.2(a).

“Indemnified Persons” has the meaning set forth in Section 10.2(a).

“Independent Accountants” has the meaning set forth in Section 3.4(c).

“Installment Payments” has the meaning set forth in [Section 3.5](#).

“Intellectual Property Rights” shall mean any and all rights in and to intellectual property and intangible industrial property rights throughout the world, including, without limitation, (i) Patents, Trade Secrets, Copyrights, Trademarks, (ii) any rights similar, corresponding or equivalent to any of the foregoing anywhere in the world, (iii) Software, (iv) Rights of Privacy, (v) copies and tangible embodiments of any of the foregoing in whatever form or medium, (vi) all rights to sue and recover damages for past, present and future infringement, misappropriation, dilution, or other violation of any of the foregoing, and (vii) Internet keywords, social media account names or identifiers, social media accounts and other social networking or online identifiers.

“Interim Balance Sheet” has the meaning set forth in [Section 4.6\(a\)](#).

“Interim Balance Sheet Date” has the meaning set forth in [Section 4.6\(a\)](#).

“IRS” means the Internal Revenue Service.

“Knowledge” means, with respect to any Person that is a natural person, (i) that such Person, is actually aware of such fact or other matter or (ii) (except when Knowledge is stated to be “actual Knowledge”) a prudent individual could be expected to discover or otherwise become aware of such fact or other matter in the course of conducting a reasonably comprehensive investigation concerning the truth or existence of such fact or other matter. Notwithstanding the foregoing, the Company shall be deemed to have “Knowledge” of a particular fact or other matter if any of its officers, directors, employees or the Shareholders have Knowledge of such fact or other matter after due and diligent inquiry.

“Law” or **“Laws”** has the meaning set forth in [Section 4.21](#).

“Lease Agreements” has the meaning set forth in [Section 4.20](#).

“Leased Real Property” has the meaning set forth in [Section 1.1\(a\)](#).

“Letter of Transmittal” has the meaning set forth in [Section 2.6\(a\)](#).

“Liability” or **“Liabilities”** means any debt, obligation, duty or liability of any nature (including any unknown, undisclosed, unmatured, unaccrued, unasserted, contingent, indirect, conditional, implied, vicarious, derivative, joint, several or secondary liability), regardless of whether such debt, obligation, duty or liability would be required to be disclosed on a balance sheet prepared in accordance with generally accepted accounting principles and regardless of whether such debt, obligation, duty or liability is immediately due and payable.

“Material Adverse Effect” means any circumstance, change, development, event or state of facts that (considered together with all other circumstances, changes, developments, events or states of facts): (a) is, or would reasonably be expected to be or to become, materially adverse to the condition (financial or otherwise), business, results of operations, prospects, assets, Liabilities or operations of the Company; or (b) is, or would reasonably be expected to prevent or materially alter or delay any of the transactions contemplated by this Agreement.

“Material Contracts” has the meaning set forth in [Section 4.24](#).

“Materials of Environmental Concern” means chemicals, pollutants, contaminants, wastes, toxic substances, hazardous substances, petroleum and petroleum products, asbestos or asbestos-containing

materials or products, polychlorinated biphenyls, lead or lead-based paints or materials, radon, fungus, mold, mycotoxins or other substances that may have an adverse effect on human health or the environment.

“**Merger**” has the meaning set forth in Section 2.1.

“**Merger Closing**” has the meaning set forth in Section 2.2.

“**Merger Closing Date**” has the meaning set forth in Section 2.2.

“**Merger Portion**” means 12.5% of the Purchase Price.

“**Net Working Capital**” means for the Company on a consolidated basis as of the close of business as of the relevant date: (i) total current tangible assets (consisting of all current tangible assets required to be set forth on a balance sheet prepared in accordance with GAAP without giving effect to the Transaction and including, without limitation, cash, cash equivalents, accounts receivable and prepaid expenses) less total fixed assets, *minus* (ii) tangible Liabilities (consisting of all tangible Liabilities required to be set forth on a balance sheet prepared in accordance with GAAP without giving effect to the Transaction and including, without limitation, Taxes attributable to a Pre-Closing Tax Period, accounts payable, Debt obligations, Company Transaction Expenses and other accrued tangible Liabilities). For the avoidance of doubt, the determination of Net Working Capital will include all tangible Liabilities related to the fees and expenses that have been incurred but which remain unpaid as of the Closing Date by the Company or any Shareholder (to the extent payable by the Company) as a result of the Transaction or any Transaction Document (including the fees and expenses of counsel, accountants and investment bankers) (but excluding any such fees or expenses incurred by the Parent). The value of the Company’s total fixed assets shall be determined on the basis of each fixed asset’s initial purchase price depreciated over such asset’s useful life, in accordance with GAAP.

“**Non-Compete Allocation**” has the meaning set forth in Section 7.11.

“**NYBCL**” has the meaning set forth in Section 2.1.

“**Organizational Documents**” means the Company Certificate and the Company Bylaws, each as currently in effect.

“**Outside Closing Date**” shall have the meaning set forth in Section 9.1(d).

“**Parent**” has the meaning set forth in the preamble.

“**Parent Common Stock**” shall mean the common stock of the Parent, par value \$0.01 per share.

“**Party**” means the Parent, the Asset Purchaser, WESGEN, the Company, a Shareholder, or the Shareholders’ Representative (if applicable), as the context requires, and “**Parties**” means the Parent, the Asset Purchaser, WESGEN, the Company, the Shareholders and the Shareholders’ Representative (if applicable).

“**Patents**” shall mean all United States and foreign patents and patent applications, including all reissues, divisions, re-examinations, renewals, revisions, extensions, provisionals, continuations and continuations-in-part thereof, and equivalent or similar rights anywhere in the world in inventions and discoveries (whether or not patentable or reduced to practice), all inventions disclosed therein and improvements thereto, and all rights therein provided by international treaties and conventions.

“**Payoff Debt**” means the Debt which is owed by the Company or secured by any Company Common Stock in the Company, which will be paid off on the Closing Date.

“**Person**” means any individual that is a natural person and any corporation (including any nonprofit corporation), general partnership, limited partnership, limited liability partnership, joint venture, estate, trust, company (including any limited liability company or joint stock company), firm or other enterprise, association, organization or entity.

“**Personal Property**” has the meaning set forth in [Section 1.1\(b\)](#).

“**Post-Closing Tax Period**” means any Tax period beginning after the Merger Closing and that portion of any Straddle Period beginning after the Merger Closing.

“**Pre-Closing Return**” has the meaning set forth in [Section 7.9\(d\)](#).

“**Pre-Closing Tax Period**” means any Tax period ending on or before the Merger Closing, and with respect to any Straddle Period, the portion of such period ending on the Merger Closing.

“**Prepaid Expenses**” has the meaning set forth in [Section 1.1\(d\)](#).

“**Property**” has the meaning set forth in [Section 4.15](#).

“**Pro Rata Portion**” means, with respect to each Shareholder, a fraction (i) the numerator of which is the number of shares of the Common Stock held by such Shareholder immediately prior to the Closing and (ii) the denominator of which is the Fully Diluted Share Number.

“**Purchase Closing**” has the meaning set forth in [Section 1.6](#).

“**Purchase Price**” has the meaning set forth in [Section 3.1](#).

“**Purchased Assets**” has the meaning set forth in [Section 1.1](#).

“**Release**” has the meaning set forth in [Section 8.2\(e\)\(x\)](#).

“**Representatives**” shall mean officers, directors, employees, attorneys, accountants, advisors, agents, distributors, licensees, shareholders, subsidiaries and lenders of a Party. In addition, all Affiliates of the Company and the Shareholders shall be deemed to be “Representatives” of the Company.

“**Resolution Period**” has the meaning set forth in [Section 3.4\(b\)](#).

“**Review Period**” has the meaning set forth in [Section 3.4\(b\)](#).

“**Rights of Privacy**” shall mean rights of privacy, publicity, and endorsement, and all other rights associated therewith or related thereto.

“**S-Corp Termination**” has the meaning set forth in [Section 7.9\(d\)](#).

“**Securities Act**” means the Securities Exchange Act of 1933, as amended.

“**Shareholders’ Deductible**” has the meaning set forth in [Section 10.9](#).

“**Software**” shall mean computer software, programs, and databases in any form, including Internet web sites, web site content, mobile apps, member or user lists and information associated therewith, links, source code, object code, operating systems and specifications, software development tools, software embedded in hardware devices, firmware, logic, logic diagrams, flowcharts, algorithms, routines, sub-routines, utilities, models, file structures, coding sheets, coding, source code listings, modules, libraries,

scripts, templates, frameworks, components, functional specifications, program specifications, data, databases, database management code, graphical user interfaces, menus images, icons, forms, methods of processing, software engines, platforms, and data formats, all versions, updates, bug fixes, corrections, patches, enhancements, releases and modifications thereto, and all related documentation, developer notes, comments and annotations.

“**Shareholder Authorizations**” has the meaning set forth in Section 4.11.

“**Shareholders**” means each of Ronald W. Mineo, an individual resident of the State of New Jersey, and Robert J. Braun, an individual resident of the State of New York.

“**Shareholders’ Employment Agreements**” shall mean the written employment agreements, copies of which are attached to this Agreement as Exhibit D.

“**Shareholders’ Representative**” has the meaning set forth in Section 3.7(a).

“**Signing Date**” shall mean the date that this Agreement is executed by all of the Parties.

“**Straddle Period**” has the meaning set forth in Section 7.9(b).

“**Surviving Corporation**” has the meaning set forth in Section 2.1.

“**Target Net Working Capital**” means Two Million One Hundred Thousand and 00/100 Dollars (\$2,100,000.00).

“**Tax**” or “**Taxes**” means (a) all United States federal, state, local and foreign taxes, and other assessments of a similar nature including, without limitation, taxes or other charges on or with respect to income, franchises, windfall or other profits, gross receipts, profits, sales, use, capital stock, payroll, employment, social security, workers’ compensation, unemployment compensation or net worth; taxes or other charges in the nature of excise, withholding, *ad valorem*, stamp, transfer, value added or gains taxes; license, registration and documentation fees; and customs duties, tariffs and similar charges, in each case, whether imposed directly or through withholding, and including any interest, additions to tax, or penalties applicable thereto; (b) any Liability for the payment of any amounts of the type described in clause (a) as a result of being a member of a consolidated, combined, unitary or aggregate group for any Taxable period; and (c) any Liability for the payment of any amounts of the type described in clause (a) or (b) as a result of being a transferee or successor to any person or as a result of any express or implied obligation to indemnify any other person.

“**Tax Authority**” means the IRS and any other national, regional, state, municipal, foreign or other governmental or regulatory authority or administrative body responsible for the administration of any Taxes.

“**Tax Contest**” has the meaning set forth in Section 7.9(d).

“**Tax Gross Up**” has the meaning set forth in Section 3.4(e).

“**Tax Return**” means all United States federal, state, local and foreign tax returns, declarations, statements, reports, schedules, forms and information returns or other documents and any amendments thereto required to be filed with a Tax Authority.

“**Trademarks**” shall mean any and all trademarks, service marks, trade dress, logos, trade names, corporate names, URL addresses, Internet domain names and addresses and general-use e-mail addresses, slogans, and other indicia of source or origin, and all goodwill associated therewith throughout the world.

all common law rights thereto, registrations and applications for registration thereof throughout the world, all rights therein provided by international treaties and conventions, and all other rights associated therewith.

“**Trade Secrets**” shall mean all trade secrets under applicable law and other rights in know-how and confidential and proprietary information, technical, business and other information, processing, manufacturing and production processes, techniques and other information, research and development information, drawings, specifications, designs, Software source code, plans, proposals, technical data, financial, marketing and business information, pricing and cost information, business and marketing plans, customer and supplier lists and information, including new developments, inventions, processes, ideas or other proprietary information that provide advantages over competitors who do not know or use it and documentation thereof (including related papers, blueprints, drawings, chemical compositions, formulae, diaries, notebooks, specifications, designs, methods of manufacture and data processing software, compilations of information) and all claims and rights related thereto and all rights in any jurisdiction to limit the use or disclosure thereof.

“**Transaction**” means all transactions contemplated by this Agreement (including the Asset Purchase and the Merger).

“**Transaction Documents**” means collectively, this Agreement including appendices, the Certificate of Merger (Exhibit A), the Letters of Transmittal (Exhibit B), the Example Calculation of Transaction Compensation (Exhibit C), the Shareholder Employment Agreements (Exhibit D), the FIRPTA Notification (Exhibit E), the General Assignment and Bill of Sale (Exhibit F), the Assignment and Assumption (Exhibit G), the General Releases (Exhibit H), the Asset Schedules and the Company Disclosure Schedules.

“**Transaction Expenses**” has the meaning set forth in Section 9.3.

“**Transfer**” has the meaning set forth in Section 7.12(a).

“**Transferred Records**” has the meaning set forth in Section 1.1(f).

“**Treasury Regulations**” has the meaning set forth in Section 4.17(c).

“**Vehicles**” has the meaning set forth in Section 1.1(c).

“**WARN Act**” has the meaning set forth in Section 4.18(h).

“**Working Capital Shortfall**” has the meaning set forth in Section 3.4(d).

“**WESGEN**” has the meaning set forth in the Preamble.

*** End Appendix A ***

APPENDIX B

RESTRICTED GEOGRAPHIES

The States of New York and New Jersey.

*** End Appendix B ***

APPENDIX C

SURVIVING CORPORATION OFFICERS

President - Robert J. Braun
Vice President - Ronald W. Mineo
CFO - William Ellis
Treasurer - Stacy McLaughlin
Secretary - Kate Nguyen

*** End of Appendix C ***

**WILLDAN GROUP, INC.
LIST OF SUBSIDIARIES(a)**

	Name of Entity	Jurisdiction of Organization	Ownership Interest
1.	Willdan Engineering	California	100% Willdan Group, Inc.
2.	Willdan Energy Solutions	California	100% Willdan Group, Inc.
3.	Willdan Engineers and Constructors	California	100% Willdan Group, Inc.
4.	Willdan Financial Services	California	100% Willdan Group, Inc.
5.	Willdan Homeland Solutions	California	100% Willdan Group, Inc.
6.	Willdan Infrastructure	California	100% Willdan Group, Inc.
7.	Willdan Lighting & Electric, Inc.	Delaware	100% Willdan Group, Inc.
8.	Willdan Lighting & Electric of California	California	100% Willdan Group, Inc.
9.	Willdan Lighting & Electric of Washington, Inc.	Washington	100% Willdan Group, Inc.
11.	Electrotech of NY Electrical Inc.	New York	100% Willdan Group, Inc.
12.	Public Agency Resources	California	100% Willdan Group, Inc.
13.	Abacus Resource Management Company	Washington	100% Willdan Group, Inc.

(a) As of January 1, 2016.

Consent of Independent Registered Public Accounting Firm

The Board of Directors
Willdan Group, Inc.:

We consent to the incorporation by reference in the registration statements (No. 333-139127, No. 333-152951, No. 333-168787 and No. 333-184823) on Form S-8 of Willdan Group, Inc. of our report dated March 15, 2016, with respect to the consolidated balance sheet of Willdan Group, Inc. as of January 1, 2016, and the related consolidated statements of operations, stockholders' equity, and cash flows for the year ended January 1, 2016, and the effectiveness of internal control over financial reporting as of January 1, 2016, which reports appear in the January 1, 2016 annual report on Form 10-K of Willdan Group, Inc. Our report refers to the adoption of FASB Accounting Standards Update No. 2015-17, Balance Sheet Classification of Deferred Taxes.

/s/ KPMG LLP

Irvine, California
March 15, 2016

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the following Registration Statements:

- (1) Registration Statement (Form S-8 No. 333-139127) pertaining to the 2006 Stock Incentive Plan and 2006 Employee Stock Incentive Plan of Willdan Group, Inc., and
- (2) Registration Statement (Form S-8 Nos. 333-152951, 333-168787 and 333-184823) pertaining to the 2008 Performance Incentive Plan of Willdan Group, Inc.;

of our report dated March 31, 2015, except for Note 12, for which the date is March 15, 2016, with respect to the consolidated financial statements of Willdan Group, Inc. and subsidiaries included in this Annual Report (Form 10-K) of Willdan Group, Inc. for the year ended January 1, 2016.

/s/ Ernst & Young LLP

Los Angeles, California
March 15, 2016

SECTION 302 CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Thomas D. Brisbin, certify that:

1. I have reviewed this report on Form 10-K of Willdan Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 15, 2016

By: /s/ Thomas D. Brisbin
Thomas D. Brisbin
President and Chief Executive Officer

SECTION 302 CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Stacy B. McLaughlin, certify that:

1. I have reviewed this report on Form 10-K of Willdan Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 15, 2016

By: /s/ Stacy B. McLaughlin
Stacy B. McLaughlin
Chief Financial Officer and Vice President

**Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. 1350,
as Adopted Pursuant to § 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Annual Report on Form 10-K of Willdan Group, Inc. (the "Company") for the annual period ended January 1, 2016, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Thomas D. Brisbin, as President and Chief Executive Officer of the Company, and Stacy B. McLaughlin, as Chief Financial Officer, each hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his or her knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ Thomas D. Brisbin

Thomas D. Brisbin

President and Chief Executive Officer

March 15, 2016

By: /s/ Stacy B. McLaughlin

Stacy B. McLaughlin

Chief Financial Officer and Vice President

March 15, 2016

This certification accompanies the Report pursuant to § 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of § 18 of the Securities Exchange Act of 1934, as amended. A signed original of this written statement required by § 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.
