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As filed with the Securities and Exchange Commission on October 11, 2006

Registration No. 333-136444

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

Amendment No. 2
to
FORM S-1

REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

WILLDAN GROUP, INC.

(Exact Name of Registrant as Specified in Its Charter)

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

2401 East Katella Avenue, Suite 300
Anaheim, California 92806
(800) 424-9144
(Address, Including Zip Code, and Telephone Number, Including Area Code, of Registrant's Principal Executive Offices)

Win Westfall
Chief Executive Officer
2401 East Katella Avenue, Suite 300
Anaheim, California 92806
(800) 424-9144
(Name, Address, Including Zip Code, and Telephone Number, Including Area Code, of Agent For Service)

Copies to:

James J. Scheinkman, Esq.
Steven D. Pidgeon, Esq.
Snell & Wilmer L.L.P.
600 Anton Boulevard, Suite 1400
Costa Mesa, California 92626
Telephone: (714) 427-7000
Fax: (714) 427-7799

Richard A. Boehmer, Esq.
O'Melveny & Myers LLP
400 S. Hope Street
Los Angeles, California 90071
Telephone: (213) 430-6643
Fax: (213) 430-6407

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

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

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

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

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

CALCULATION OF REGISTRATION FEE

Title of Each Class of Security To be Registered	Proposed Maximum Aggregate Offering Price(1)	Amount of Registration Fee(2)
Common Stock, $0.01 par value per share	$35,420,000	$3,790(3)

(1)

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

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

(3) The Registrant has previously paid $3,446.

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

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

PRELIMINARY PROSPECTUS (Subject to Completion)

Dated October 10, 2006

2,800,000 Shares

WILLDAN GROUP, INC.

COMMON STOCK

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

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

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

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

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

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

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

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

Wedbush Morgan Securities

The date of this prospectus is , 2006

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

PROSPECTUS SUMMARY

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

WILLDAN GROUP, INC.

Overview

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

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

We operate our business through a network of over 20 offices located throughout California and other western states and have a staff of 668 as of September 30, 2006 that includes licensed engineers and other professionals. Our core clients are public agencies in communities with populations ranging from 10,000 to 300,000 people. We believe communities of this size are underserved by large private sector outsourcing companies that tend to focus on securing large federal and state projects, as well as projects for the private sector. We seek to establish a close working relationship with our public agency clients and, over time, to expand the breadth and depth of the services we provide to them.

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

Market Opportunity

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

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

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

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

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

Competitive Strengths

Founded over 40 years ago, we have a well-established track record of providing a wide range of privatized services to the public sector. We have developed the experience base, professional staff and support technology and software necessary to quickly and effectively respond to the needs of our clients. We believe we have developed a reputation within our industry as problem solvers across a broad range of client issues. Some of our competitive strengths include:

Quality of Service. We pride ourselves on the quality of service that we provide to our clients. The work that we compete for is awarded primarily based on the company's qualifications, rather than the fees proposed. We believe that our service levels, experience and expertise satisfy even the most rigorous qualification standards.

Broad range of services. As the needs of our public sector clients have evolved, we have developed service capabilities complementary to our core engineering business, including building and safety services, financial and economic services, planning services, geotechnical services, code enforcement services and, most recently, disaster planning and homeland security services. Further, we have developed the capability to deliver multiple services in a cohesive manner to better serve our client communities as a whole.

Strategic locations in key markets. Local agencies want professionals that understand their local needs. We deliver our services through a network of over 20 offices dispersed throughout the western United States. Each of our offices is staffed with quality professionals, including former management level public sector employees, such as planners, engineers, inspectors, and police and fire department personnel. These professionals understand the local and regional markets in which they work. In addition, we operate in some of the fastest growing states, counties and cities in the United States.

Strong, long-term client relationships. We have developed strong relationships with our public agency clients, some of whom we have worked with for over 25 years.

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

Key Business Strategies

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

Continue to focus on small to mid-sized public agencies. We focus on providing our services to small to mid-sized municipalities, counties, special districts and other public agencies and will continue to do so for the foreseeable future. We believe that these markets are underserved by large outsourcing companies that tend to focus on securing large federal and state projects, as well as projects for the private sector.

Provide new service offerings and cross-sell existing services. We intend to continue to expand our service offerings and to cross-sell additional services to existing clients. A recent example is the creation of our subsidiary, American Homeland Solutions, to provide homeland security and public safety consulting services to our core client base of local and regional public agencies.

Expand our business geographically. We have identified several high-growth regions in the United States, particularly in the Sunbelt, where we intend to pursue expansion of our business. We recently began serving communities in Colorado and Utah and have opened offices in the states of Washington and Florida to capitalize on growth opportunities in these areas. We intend to explore entering new markets through new office openings with key hires and through strategic acquisitions.

Continue to attract and retain valuable employees. We believe we are able to attract and retain valuable employees as a result of having developed a strong reputation for providing quality services to our public agency clients. We will continue to seek to make key hires, individually and through acquisitions, to facilitate both geographic expansion and new service offerings.

Risk Factors

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

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

Our Corporate Information

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

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

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

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

THE OFFERING

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

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

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

SUMMARY CONSOLIDATED FINANCIAL AND OTHER DATA

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

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

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

	Fiscal Year			Fiscal Six Months Ended	
	2003	2004	2005	July 1, 2005	June 30, 2006
				(unaudited)	(unaudited)
	(Dollars in thousands, except per share data)				
Historical Consolidated Statement of Operations Data:					
Contract revenues	$ 54,485	$ 58,263	$ 67,263	$ 32,581	$ 38,093
Direct costs of contract revenues	23,209	23,209	27,192	13,582	14,886
General and administrative expenses:					
Stock-based compensation	—	—	2,002	—	—
Litigation accrual	—	—	2,686	—	—
All other general and administrative	28,006	30,957	35,393	16,901	20,348
Total general and administrative expenses	28,006	30,957	40,081	16,901	20,348
Income (loss) from operations	3,270	4,097	(10)	2,098	2,859
Other income (expense)	(365)	(278)	(619)	(151)	1,944
Net income (loss)	2,852	3,772	(646)	1,929	4,765
Pro Forma Data (unaudited):					
Pro forma provision for income taxes[(1)]	$ 1,162	$ 1,528	$ 549	$ 779	$ 1,021
Pro forma net income (loss)[(2)]	$ 1,743	$ 2,291	$ (1,178)	$ 1,168	$ 3,782
Pro forma earnings per common share, basic and diluted	$ 0.48	$ 0.63	$ (0.29)	$ 0.31	$ 0.80
Weighted average common shares outstanding, basic and diluted	3,633,000	3,653,000	3,994,000	3,758,000	4,712,000
Other Operating Data (unaudited):					
Adjusted EBITDA[(3)]	$ 4,154	$ 5,163	$ 5,951	$ 2,629	$ 3,647
Revenue per employee[(4)]	$ 113	$ 119	$ 125	$ 62	$ 66
Employee headcount at period end	451	508	599	573	657

	Historical			June 30, 2006	
	January 2, 2004	December 31, 2004	December 30, 2005	Historical (unaudited)	As Adjusted[(5)] (unaudited)
	(in thousands)				
Consolidated Balance Sheet Data:					
Cash and cash equivalents	$ 498	$ 266	$ 3,066	$ 119	$ 11,319
Working capital	5,199	7,195	9,421	11,529	21,640
Total assets	21,460	23,223	32,797	36,085	47,285
Total indebtedness	5,033	3,543	1,858	2,660	2,660
Total redeemable common stock	8,661	11,477	14,660	17,109	—
Total stockholders' equity	—	—	—	—	26,809

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

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

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

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

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

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

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

(5) Gives effect to the offering of 2,000,000 shares of our common stock by us at an assumed initial public offering price of $10.00 per share (the mid-point of the IPO price range indicated on the cover of this prospectus), less the underwriting discount and estimated offering expenses payable by us, the application of $5.9 million of the net proceeds from this offering to make the estimated final distribution to our stockholders as a result of the termination of our S Corporation status and the recognition of a net deferred tax liability of $1.5 million resulting from the termination of our S Corporation status, as if each had occurred as of June 30, 2006.

RISK FACTORS

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

Risks Relating to Our Business and Industry

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

A downturn in construction activity in our geographic service areas may affect demand for our services, which could have a material adverse effect on the results of our operations and our financial condition. During fiscal year 2005, a majority of our contract revenues were generated by services rendered to public agencies in connection with private and public sector construction projects.

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

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

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

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

Adverse economic and other conditions affecting the local and regional economies of California may reduce the demand for our services, which could have a material adverse effect on our business, financial condition and results of operations. During fiscal year 2005, approximately 85% of our contract revenue was derived from services rendered to public agencies in California. From 1991 to 1996, California experienced an economic downturn that had a negative impact on the construction and development sectors. This economic downturn caused us to experience cash flow difficulties and substantial operating losses.

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

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

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

Legislation is proposed periodically, particularly in California, that attempts to limit the ability of governmental agencies to contract with private consultants to provide services. Should such legislation pass and be upheld, demand for our services may be materially adversely affected. During 2005, approximately 85% of our contract revenue was derived from services rendered to public agencies in California. While attempts at such legislation have failed in the past, as the composition of California's legislative body changes over time there is an increased risk that measures could be adopted in the future that limit the market for privatized services.

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

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

Presently before the California Supreme Court is the case *Professional Engineers in California Government, et al.* v. *Jeff Morales, et al*. in which Professional Engineers in California Government, or PECG, a union representing state civil service employees, is challenging whether Proposition 35, which allows state agencies to use private contractors to perform architectural and engineering services on public works, effected an implied repeal or amendment of existing statutes to the extent that they limit the ability of the State of California Department of Transportation, or Caltrans, to hire private contractors to perform such services on public works. PECG has been challenging Caltrans' hiring of private firms since 1986, and in 2002 began this judicial challenge of Caltrans' hiring practices based on Caltrans' interpretation of the affect of Proposition 35. In the event that PECG is successful in its challenge and as a result the ability of state agencies to hire private firms is severely limited, such a decision would likely lead to additional litigation challenging the ability of the state, counties, municipalities and other public agencies to hire private engineering, architectural and other firms, the outcomes of which could affect our ability to compete for contracts and may have an adverse effect on our revenues and profitability.

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

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

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

In fiscal year 2005, approximately 13% of our contract revenue was derived from fixed-price contracts. Under fixed price contracts, we perform services under a contract at a stipulated price which protects clients but exposes us to a greater number of risks than time-and-materials and unit-based contracts. These risks include:

- underestimation of costs;
- ambiguities in specifications;
- problems with new technologies;
- unforeseen costs or difficulties;
- failures of subcontractors;
- delays beyond our control; and
- economic and other changes that may occur during the contract period.

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

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

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

- the ability of the public agency to terminate the contract with 30 days' prior notice or less;
- changes in government spending and fiscal policies which can have an adverse effect on demand for our services;
- contracts that are subject to government budget cycles, and often are subject to renewal on an annual basis;
- the type and pricing terms of contracts can vary widely from agency to agency;
- change orders and additions to contracts can be difficult to obtain; and
- periodic audits can be a condition of certain contract arrangements.

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

If there is a significant decrease in the perceived risk of the likelihood that one or more acts of terrorism will be conducted in the United States, or a significant decrease in the perceived risk of the occurrence of natural disasters, our ability to grow and generate revenue through American Homeland

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

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

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

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

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

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

Dan W. Heil was a co-founder of our company and our chief executive officer from its inception (except for the period of July 1993 through October 1995). He recently passed away unexpectedly. Just prior to Mr. Heil's death, and at his recommendation, our Board of Directors elected Win Westfall to succeed Mr. Heil in May 2006. Mr. Westfall has been affiliated with our company since 1998, first as our regional manager for Northern California and from January 2004 to May 2006 as a senior vice president of corporate relations. Although we transitioned smoothly to a new chief executive officer, no assurance can be given that Mr. Westfall will be able to continue to successfully implement our strategic business plan or continue to foster our corporate culture.

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

The market for services in the engineering, municipal consulting, public finance consulting, geotechnical, homeland security and other technical services industries is competitive and highly fragmented. Contract awards are based primarily on quality of service, relevant experience, staffing capabilities, reputation, geographic presence, stability and price. Some of our competitors in certain service areas have more personnel and greater financial, technical and marketing resources than us. With regard to engineering related services, which represents approximately 85% of our fiscal year 2005 contract revenue, our competitors include many larger consulting firms such as TetraTech, Inc., Stantec, Inc., and Jacobs Engineering Group, Inc. In certain public finance consulting services, we may compete with large accounting firms, such as Ernst & Young LLP. We can offer no assurance that we will be able to compete successfully in the future with these or other competitors.

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

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

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

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

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

Under some of our contracts, we rely on the efforts and skills of subconsultants for the performance of some of the tasks. In fiscal year 2005, subconsultant costs comprised 6.6% of our contract revenue. The absence of qualified subconsultants with whom we have a satisfactory relationship could adversely affect the quality of our service offerings and therefore our financial results.

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

Our employee headcount and volume of operations have grown rapidly over the past five years. This rapid growth has placed, and is expected to continue to place, a significant strain on our management and on our administrative, operational and financial infrastructure. During fiscal year 2005, the number of our employees increased from 508 to 599 and has grown to 668 as of September 30, 2006. We anticipate further growth as we seek to increase the geographic scope of our client base. Our success will depend in part upon the ability of our senior management to manage an expanding array of engineering, public finance consulting, homeland security consulting and technical services. We must continue to hire, train, manage and integrate a significant number of qualified engineers and other technical and professional personnel to continue to grow. If our new employees perform poorly or if we are unsuccessful in hiring, training, managing and integrating new employees, or retaining these or our existing employees, our business may suffer.

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

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

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

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

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

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

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

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, or Sarbanes-Oxley, beginning with the filing of our Annual Report on Form 10-K for fiscal year 2007, we will be required to report on our internal control over financial reporting. In order to achieve compliance with Section 404 of Sarbanes-Oxley within the prescribed period, we will need to engage in a process to document and evaluate our internal control over financial reporting, which will be both costly and challenging. We can provide no assurance as to our conclusions or those of our independent registered public accounting firm with respect to the effectiveness of our internal control over financial reporting under Section 404 of Sarbanes-Oxley. There is a risk that neither we nor our independent auditors will be able to conclude that our internal controls over financial reporting are effective. Moreover, the costs to comply with the provisions of Section 404 of Sarbanes-Oxley, as presently in effect, could be significant.

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

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

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

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

We anticipate that our current cash, cash equivalents, cash provided by operating activities and funds available through our revolving line of credit, will be sufficient to meet our current and anticipated needs for general corporate purposes during the next 12 months. It is possible, however, that we may not generate sufficient cash flow from operations or otherwise have the capital resources to meet our future capital needs. If this occurs, we may need additional financing to execute on our current or future business strategies, which include the following:

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

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

Our existing stockholders will retain significant control over us following the completion of this offering, which may delay or prevent a change of control of our company or changes in our management, and as a result may hinder your ability to take advantage of a premium offer.

The concentration of ownership of our stock may have the effect of delaying or preventing a change in control of the company or a change in our management and may adversely affect the voting or other rights of other holders of our common stock. Upon completion of this offering, our directors and executive officers will beneficially own 1,556,940 shares of common stock, or approximately 23.2% of our outstanding common stock. Of these shares, 1,020,120 shares, or approximately 15.2% of our outstanding common stock, will be owned by Linda L. Heil, a member of our board of directors. Richard Kopecky, Chief Executive Officer of Willdan, our largest subsidiary, will own 336,020 shares or approximately 5.0% of our outstanding common stock.

Risks Related to the Offering

There has been no prior public market for our common stock and an active market may not develop or be maintained, which could limit your ability to sell shares of our common stock.

Prior to this offering, there has been no public market for our common stock, and the initial public offering price may bear no relationship to our book value, earnings history or other established criteria of value or to the price at which the common stock will trade after the offering. There can be no assurance that an active public market for our common stock will develop or be sustained after the offering. As a result, investors may not be able to sell their common stock at or above the initial public offering price or at the time that they would like to sell.

The trading price of our common stock could be volatile.

In recent years, the stock market has experienced extreme price and volume fluctuations. The overall market and the trading price of our common stock may fluctuate greatly. The trading price of our common stock may be significantly affected by various factors, including:

- quarterly fluctuations in our operating results;
- changes in investors' and analysts' perception of the business risks and conditions of our business;
- broader market fluctuations; and
- general economic or political conditions.

Our operating results may fluctuate significantly, which could have a negative effect on the price of our common stock.

Our revenues, expenses and operating results may fluctuate significantly because of a number of factors, including:

- the spending cycles of our clients, which for government entities is significantly influenced by tax receipts, governmental surpluses/(deficits) and policy initiatives;
- employee hiring, billing and utilization rates;

- the number and significance of client engagements commenced and completed during a quarter;
- the ability of customers to terminate engagements without penalties;
- the ability of our project managers to accurately estimate the percentage of the project completed;
- delays incurred as a result of weather conditions;
- delays incurred in connection with an engagement;
- the size and scope of engagements;
- the timing of expenses incurred for corporate initiatives;
- the impairment of goodwill or other intangible assets; and
- general economic and political conditions.

If our operating results fluctuate significantly as a result of the above risks or any other reason, it may have an adverse effect on the trading price of our common stock.

We have broad discretion in the use of the net proceeds from this offering and may not use them effectively.

We cannot specify with certainty the particular uses of approximately $11.2 million of the net proceeds we will receive from this offering. Our management will have broad discretion in the application of the net proceeds. Accordingly, you will have to rely upon the judgment of our management with respect to the use of the proceeds, with only limited information concerning management's specific intentions. Our management may spend a portion or all of the net proceeds from this offering in ways that our stockholders may not desire or that may not yield a favorable return. The failure by our management to apply these funds effectively could harm our business. Pending their use, we may invest the net proceeds from this offering in a manner that does not produce income or that loses value.

Provisions in our certificate of incorporation and by-laws or Delaware law might discourage, delay or prevent a change of control of our company or changes in our management and, as a result, may depress the trading price of our common stock.

Provisions of our certificate of incorporation and by-laws and Delaware law may discourage, delay or prevent a merger, acquisition or other change in control that stockholders may consider favorable, including transactions in which you might otherwise receive a premium for your shares of our common stock. These provisions may also prevent or frustrate attempts by our stockholders to replace or remove our management. These provisions include:

- the limitations of stockholders to act by written consent;
- the ability of our board of directors to amend our by-laws; and
- the ability of the board of directors to issue, without stockholder approval, up to 10,000,000 shares of preferred stock with terms set by the board of directors, which rights are senior to those of our common stock.

The affirmative vote of the holders of at least 75% of our shares of capital stock entitled to vote is necessary to amend the above provisions of our certificate of incorporation. In addition, absent approval of our board of directors, our by-laws may only be amended by the affirmative vote of the holders of at least 75% of our shares of capital stock entitled to vote.

In addition, Section 203 of the Delaware General Corporation Law prohibits a publicly-held Delaware corporation from engaging in a business combination with an interested stockholder, generally a person which together with its affiliates owns, or within the last three years has owned, 15% of our voting stock, for a period of three years after the date of the transaction in which the person became an interested stockholder, unless the business combination is approved in a prescribed manner.

The existence of the foregoing provisions could limit the price that investors might be willing to pay in the future for shares of our common stock. They could also deter potential acquirers of our company, thereby reducing the likelihood that you could receive a premium for your common stock in an acquisition.

***We may have potential liability for shares of common stock that may have been sold in violation of federal and/or state securities laws*.**

From August 2005 through January 2006, we sold an aggregate of 958,400 shares of our common stock to a total of 63 purchasers for gross proceeds of approximately $3.6 million. The purchasers were a select group of our officers, directors, key managers and consultants. The offer and sale of these shares were not registered or qualified under federal or state securities laws, and exemptions from registration and qualification provided by these securities laws may not have been available or may not have been perfected. As a result, we may be deemed to have violated the registration and qualification requirements of these securities laws with respect to the offer and sale of the common stock. To address this matter, in July 2006 we made a repurchase offer to the holders of the shares of common stock in accordance with the rules and regulations promulgated by the Commissioner of the California Department of Corporations. Under the repurchase offer, we offered to repurchase from each stockholder all of his or her shares purchased during the period in question at a price equal to the original purchase price paid by such stockholder plus interest at an annual rate of 7% from the date of purchase. Although all of the stockholders elected to decline the repurchase offer, which provides us with a defense to possible subsequent claims asserted under California securities laws, because federal securities laws do not expressly provide that a repurchase offer will terminate a purchaser's right to rescind a sale of stock that was not registered as required, we may continue to be potentially liable under federal securities laws.

If equity research analysts do not publish research or reports about our business or if they issue unfavorable commentary or downgrade our common stock, the price of our common stock could decline.

The trading market for our common stock will rely in part on the research and reports that equity research analysts publish about us and our business. We do not control these analysts. The price of our stock could decline if one or more equity analysts downgrade our stock or if those analysts issue other unfavorable commentary or cease publishing reports about us or our business.

A significant portion of our total outstanding shares may be sold into the public market in the near future, which could cause the market price of our common stock to drop significantly, even if our business is doing well.

Sales of a substantial number of shares of our common stock in the public market could occur at any time after the expiration of the lock-up agreements described in "Underwriting." These sales, or the market perception that the holders of a large number of shares intend to sell shares, could reduce the market price of our common stock. After this offering, we will have 6,712,640 shares of common stock outstanding based on the number of shares outstanding as of September 30, 2006. This includes the 2,800,000 shares that we and the selling stockholder are selling in this offering, which may be resold in the public market immediately. The remaining 3,912,640 shares, or 58.3% of our outstanding shares after this offering, will be able to be sold, subject to any applicable volume limitations under federal securities laws, 180 days after the date of this prospectus, subject to extension in specified instances, due to lock-up agreements between the holders of these shares and the underwriters. However, the underwriters can waive the provisions of these lock-up agreements and allow these stockholders to sell their shares at any time.

In addition, we have reserved 600,000 shares for future issuance under our 2006 Stock Incentive Plan and our 2006 Employee Stock Purchase Plan that will become eligible for sale in the public market following the grant of options or issuance of shares to the extent permitted by any applicable vesting requirements and the lock-up agreements. We intend to register the resale of all shares of common stock that we may issue under the forgoing plans. Once we register these shares, they can be freely sold in the public market upon issuance, subject to the lock-up agreements. We have also issued warrants to the underwriters of this offering for the purchase of up to 280,000 shares. The holders of these warrants may request that we register the shares underlying the warrants. If these shares are registered, they can be freely sold in the public market upon exercise of the warrants.

You will incur immediate and substantial dilution as a result of this offering.

If you purchase common stock in this offering, you will pay more for your shares than the amounts paid by existing stockholders for their shares. As a result, you will incur immediate and substantial dilution of $6.46 per share, representing the difference between the assumed initial public offering price of $10.00 per share, which is the midpoint of the range shown on the cover page of this prospectus, and our adjusted net tangible book value per share after giving effect to this offering.

We do not currently intend to pay dividends on our common stock and, consequently, your ability to achieve a return on your investment will depend on appreciation in the price of our common stock.

Other than S Corporation distributions to our stockholders, we have never declared or paid any cash dividends on our common stock and do not currently intend to do so for the foreseeable future. We currently intend to invest our future earnings, if any, to fund our growth. Therefore, you are not likely to receive any dividends on your common stock for the foreseeable future.

We will enter into tax agreements with our stockholders and could become liable to reimburse our stockholders for any additional federal or state income taxes assessed against them for fiscal periods prior to the completion of this offering.

Since 1964 we have been treated as an S Corporation for purposes of federal income taxes. Since 2001 we have also been treated as an S Corporation for purposes of state income taxes. Effective upon the completion of this offering, our S Corporation status will terminate and we will thereafter be subject to federal and increased state income taxes. In the event of an adjustment to our reported taxable income for a period or periods prior to termination of our S Corporation status, our stockholders could be liable for additional income taxes for those prior periods. Therefore, we will enter into tax indemnity agreements with each of our stockholders prior to or upon completion of this offering. Pursuant to the tax indemnity agreements, we will agree to indemnify, defend and hold harmless each stockholder on an after-tax basis against additional income taxes, plus interest and penalties resulting from adjustments made, as a result of a final determination made by a competent tax authority, to the taxable income we reported as an S Corporation. Such indemnification will also include any losses, costs or expenses, including reasonable attorneys' fees, arising out of a claim for such tax liability.

FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements. All statements other than statements of historical facts contained in this prospectus, including statements regarding our future results of operations and financial position, business strategy and plans and objectives of management for future operations, are forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements.

In some cases, you can identify forward-looking statements by terms such as "may," "will," "should," "expects," "plans," "anticipates," "could," "intends," "target," "projects," "contemplates," "believes," "estimates," "predicts," "potential" or "continue" or the negative of these terms or other similar words. These statements are only predictions. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our business, financial condition and results of operations. We discuss many of the risks in greater detail under the heading "Risk Factors." Also, these forward-looking statements represent our estimates and assumptions only as of the date of this prospectus. Except as required by law, we assume no obligation to update any forward-looking statements after the date of this prospectus.

In this prospectus, we include information based upon our "beliefs." In many cases, these beliefs are based solely upon the experience of management and are not supported by either internal or third party data, studies or research.

MARKET AND INDUSTRY DATA

This prospectus also contains estimates and other statistical data made by independent parties and by us relating to market size and growth and other industry data. This data involves a number of assumptions and limitations, and you are cautioned not to give undue weight to such estimates. In addition, projections, assumptions and estimates of our future performance and the future performance of the industries in which we operate are necessarily subject to a high degree of uncertainty and risk due to a variety of factors, including those described in "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operation" and elsewhere in this prospectus. These and other factors could cause results to differ materially from those expressed in the estimates made by the independent parties and by us.

USE OF PROCEEDS

We estimate that the net proceeds to us from the sale of the common stock that we are offering will be approximately $17.1 million, based on an assumed initial public offering price of $10.00 per share, which is the midpoint of the range listed on the cover page of this prospectus, after deducting underwriting discounts and commissions and estimated offering expenses that we must pay. We will not receive any proceeds from the sale of the common stock being offered by the selling stockholder.

We intend to use the net proceeds to us from this offering for working capital and other general corporate purposes, including the financing of acquisitions of complementary businesses or services, and to fund a payment of approximately $5.9 million as the estimated final S Corporation distribution to stockholders who were stockholders immediately prior to this offering, including some of our officers, directors and significant employees. We currently have no agreements or commitments for any specific acquisitions. We have estimated the final S Corporation distribution based on our results of operations through June 30, 2006. The estimated final S Corporation distribution may vary based on our actual results of operations through the completion of this offering.

The following executive officers, directors and significant employees will receive a portion of the estimated final S Corporation distribution paid from the net proceeds of this offering proportionate to their percentage ownership of our common stock:

Officers, Directors and Significant Employees	Position	Estimated Final S Corporation Distribution
Win Westfall	President, Chief Executive Officer and Chairman of the Board of Directors	$ 1,000
Richard Kopecky	Senior Vice President and President and Chief Executive Officer of Willdan subsidiary	421,000
Linda L. Heil	Director	2,279,000
W. Tracy Lenocker	Director	250,000
Frank G. Tripepi	President and Chief Executive Officer of MuniFinanical subsidiary	150,000
Ross Khiabani	President and Chief Executive Officer of Arroyo Geotechnical subsidiary	69,000
Kenneth L. Bayless	President and Chief Executive Officer of American Homeland Solutions subsidiary	17,000

For more information on these individuals, see "Management—Executive Officers, Directors and Significant Employees".

Pending any use as described above, we plan to invest the net proceeds in investment-grade, interest-bearing securities.

DIVIDEND POLICY

Historically, due to our status as an S Corporation, we have distributed annually to our stockholders an amount equal to approximately 40% of the prior year's taxable income. We generally have not distributed the remaining portion of our taxable income. During fiscal years 2004 and 2005, we made distributions of approximately $1.1 million and $1.7 million, respectively. In April 2006, we made a distribution of approximately $2.3 million relating to taxable income for fiscal year 2005. From the proceeds of this offering, we estimate that we will distribute an additional $5.9 million to our stockholders as a final distribution resulting from the termination of our S Corporation status. The estimated final S Corporation distribution consists of estimated taxes payable by our stockholders related to our 2006 results of operations and the cumulative undistributed taxable income. We have estimated the final S Corporation distribution based on our results of operations through June 30, 2006. The estimated final S Corporation distribution may vary based on our actual results of operations through the completion of this offering. Upon completion of this offering, we will automatically convert to a C Corporation.

Except for the S Corporation distributions noted above, we have not declared or paid any cash dividends on our common stock and do not anticipate paying cash dividends on our common stock for the foreseeable future. Instead, we currently intend to retain all future earnings, if any, for use in the operation of our business and to fund future growth. Any future decision to declare and pay dividends will be at the discretion of our board of directors, after taking into account our financial results, capital requirements and other factors they may deem relevant.

CAPITALIZATION

The following table sets forth our cash and cash equivalents, outstanding debt, total redeemable common stock and stockholders' equity as of June 30, 2006 on an actual and as adjusted basis to reflect the sale of shares of common stock by us in this offering at an assumed initial public offering price of $10.00 per share (the midpoint of the initial public offering price range indicated on the cover of this prospectus) after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us and the application of the net proceeds of this offering as described under "Use of Proceeds," including the estimated final S Corporation distribution.

This table should be read in conjunction with our consolidated financial statements and related notes and the sections entitled "Selected Consolidated Financial and Other Data", "Management's Discussion and Analysis of Financial Condition and Results of Operations", "Use of Proceeds" and "Description of Capital Stock" appearing elsewhere in this prospectus.

	As of June 30, 2006	
	Actual	**As Adjusted(1)**
Cash and cash equivalents	$ 119,000	$ 11,319,000
Capitalization:		
Outstanding debt:		
Revolving line of credit(2)	$ 1,319,000	$ 1,319,000
Long-term debt, including current portion	814,000	814,000
Capital lease obligations, including current portion	527,000	527,000
Total outstanding debt	2,660,000	2,660,000
Redeemable common stock:		
Common stock, $0.01 par value, 40,000,000 shares authorized and 4,713,000 shares issued and outstanding	47,000	—
Receivable from stockholders	(38,000)	—
Additional paid-in capital	7,994,000	—
Retained earnings	9,106,000	—
Total redeemable common stock	17,109,000	—
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 and 6,713,000 shares issued and outstanding	—	67,000
Receivable from stockholders	—	(38,000)
Additional paid-in capital	—	25,074,000
Retained earnings	—	1,706,000
Total stockholders' equity	—	26,809,000
Total capitalization	$ 19,769,000	$ 29,469,000

(1) Gives effect to the offering of 2,000,000 shares of our common stock by us at an assumed initial public offering price of $10.00 per share (the mid-point of the IPO price range indicated on the cover of this prospectus), less the underwriting discount and estimated offering expenses payable by us, the application of $5.9 million of the net proceeds from this offering to make the estimated final distribution to our stockholders as a result of the termination of our S Corporation status and the recognition of a net deferred tax liability of $1.5 million resulting from the termination of our S Corporation status, as if each had occurred on June 30, 2006.

(2) As of September 30, 2006, no advances are outstanding under our revolving line of credit.

The above table excludes (i) an aggregate of 280,000 shares of common stock issuable upon exercise of warrants we will issue to Wedbush Morgan Securities Inc. upon completion of this offering, and (ii) an aggregate of up to 600,000 additional shares of common stock reserved and available for future issuance under our 2006 Stock Incentive Plan and our 2006 Employee Stock Purchase Plan. No options have been granted nor shares purchased pursuant to such plans. Upon the completion of this offering, we intend to grant an option to purchase 10,000 shares of our common stock to each of our chief executive officer and chief financial officer at an exercise price equal to the initial public offering price of our common stock. Each option shall be fully vested upon the date of grant and shall expire two years from the date of grant.

DILUTION

If you invest in our common stock, your interest will be diluted to the extent of the difference between the public offering price per share of common stock you pay and the as adjusted net tangible book value per share of our common stock after this offering. Our net tangible book value as of June 30, 2006 was $14.1 million, or $2.99 per share of common stock. We calculate net tangible book value per share by calculating the total assets less goodwill and other intangible assets and total liabilities, and dividing by the number of shares of common stock outstanding.

Net tangible book value dilution per share represents the difference between the amount per share paid by new investors who purchase shares in this offering and the adjusted net tangible book value per share of common stock immediately after completion of this offering. As of June 30, 2006, after giving effect to this offering, the application of the estimated net proceeds to us in this offering as described under "Use of Proceeds," including the payment of our estimated final S Corporation distribution to our existing stockholders, some of whom are our officers, directors and significant employees, and the recognition of a net deferred tax liability of $1.5 million resulting from the termination of our S Corporation status, our adjusted net tangible book value would have been $23.8 million, or $3.54 per share. The assumed initial public offering price of $10.00 per share (the mid-point of the initial public offering price range indicated on the cover of this prospectus) exceeds $3.54 per share, which is the adjusted net tangible book value per share after this offering. This represents an immediate increase in net tangible book value of $0.55 per share to existing stockholders, and an immediate dilution in net tangible book value of $6.46 per share to new investors in the offering. The table below illustrates this per share dilution as of June 30, 2006:

Initial public offering price per share		$ 10.00
Net tangible book value as of June 30, 2006	$ 2.99	
Increase attributable to this offering	$ 0.55	
Adjusted net tangible book value per share after this offering		$ 3.54
Dilution in net tangible book value per share to new investors		$ 6.46

The following table summarizes, as of June 30, 2006, the number of shares of common stock purchased from us, the total consideration paid and the average price per share paid by:

- the existing stockholders; and
- the new investors in the offering, assuming the sale by us of 2,000,000 shares offered hereby at an initial public offering price of $10.00 per share (the mid-point of the initial public offering price range indicated on the cover of this prospectus).

The calculations are based upon total consideration given by new and existing stockholders, before any deduction of estimated underwriting discounts and commissions and offering expenses.

	Shares Purchased		Total Consideration		Average Price Per Share
	Number	Percent	Amount	Percent	
Existing stockholders	4,712,640	70.2%	$ 8,003,000	28.6%	$ 1.70
New investors	2,000,000	29.8%	$ 20,000,000	71.4%	$ 10.00
Total	6,712,640	100%	$ 28,003,000	100%	$ 4.17

The above table excludes (i) an aggregate of 280,000 shares of common stock issuable upon exercise of warrants we will issue to Wedbush Morgan Securities Inc. upon completion of this offering, and (ii) an aggregate of up to 600,000 additional shares of common stock reserved and available for future issuance under our 2006 Stock Incentive Plan and our 2006 Employee Stock Purchase Plan. No options have been granted nor shares purchased pursuant to such plans. Upon the completion of this offering, we intend to grant an option to purchase 10,000 shares of our common stock to each of our chief executive officer and chief financial officer at an exercise price equal to the initial public offering price of our common stock. Each option shall be fully vested upon the date of grant and shall expire two years from the date of grant.

SELECTED CONSOLIDATED FINANCIAL AND OTHER DATA

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

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

The historical consolidated balance sheet data as of December 31, 2004 and December 30, 2005 and the historical consolidated statement of operations data for the fiscal years 2003, 2004 and 2005 have been derived from our consolidated financial statements, audited by KPMG LLP, independent registered public accounting firm, that are included elsewhere in this prospectus. The historical consolidated balance sheet data as of December 28, 2001, December 27, 2002, and January 2, 2004 and the consolidated statement of operations data for the fiscal years 2001 and 2002 have been derived from our consolidated financial statements, audited by KPMG, LLP that are not included in this prospectus. The historical consolidated balance sheet data as of June 30, 2006 and the historical consolidated statement of operations data for the fiscal six months ended July 1, 2005 and June 30, 2006 have been derived from our unaudited consolidated financial statements that are included elsewhere in this prospectus. In the opinion of our management, the historical consolidated balance sheet data as of June 30, 2006 and the historical consolidated statements of operations for the fiscal six months ended July 1, 2005 and June 30, 2006, include all adjustments (consisting only of normal recurring adjustments) necessary to present fairly the information set forth therein. Our results of operations for the fiscal six months ended June 30, 2006 are not necessarily indicative of the results to be obtained for the full fiscal year.

	Fiscal Year					Fiscal Six Months Ended	
	2001	2002	2003	2004	2005	July 1, 2005	June 30, 2006
						(unaudited)	(unaudited)
	(Dollars in thousands except per share data)						
Historical Consolidated Statement of Operations Data:							
Contract revenues	$ 45,434	$ 48,778	$ 54,485	$ 58,263	$ 67,263	$ 32,581	$ 38,093
Direct costs of contract revenues:							
Salaries and wages	12,477	13,211	14,522	15,623	20,918	10,106	12,158
Production expenses	1,378	1,318	1,327	1,497	1,529	791	768
Subconsultant services	5,518	5,781	7,360	6,089	4,745	2,685	1,960
Total direct costs of contract revenues	19,373	20,310	23,209	23,209	27,192	13,582	14,886
General and administrative expenses:							
Salaries and wages, payroll taxes, employee benefits	13,875	15,649	17,473	19,711	22,720	10,966	13,045
Facilities	2,859	3,096	3,466	3,267	3,481	1,679	1,863
Stock-based compensation	—	—	—	—	2,002	—	—
Depreciation and amortization	1,035	844	865	1,056	1,257	523	723
Litigation accrual	—	—	—	—	2,686	—	—
Other	5,470	6,490	6,202	6,923	7,935	3,733	4,717
Total general and administrative expenses	23,239	26,079	28,006	30,957	40,081	16,901	20,348
Loss on impairment of goodwill	—	353	—	—	—	—	—
Income (loss) from operations	2,822	2,036	3,270	4,097	(10)	2,098	2,859
Other income (expense):							
Interest expense	(774)	(496)	(366)	(272)	(630)	(166)	(411)
Other, net	24	—	1	(6)	11	15	2,355
Total other income (expense)	(750)	(496)	(365)	(278)	(619)	(151)	1,944
Income (loss) before income taxes	2,072	1,540	2,905	3,819	(629)	1,947	4,803
Income tax provision	47	34	53	47	17	18	38
Net income (loss)	$ 2,025	$ 1,506	$ 2,852	$ 3,772	$ (646)	$ 1,929	$ 4,765
Earnings per common share, basic and diluted[1]	$ 0.56	$ 0.42	$ 0.79	$ 1.03	$ (0.16)	$ 0.51	$ 1.01
Weighted average common shares outstanding, basic and diluted[1]	3,622,000	3,566,000	3,633,000	3,653,000	3,994,000	3,758,000	4,712,000
S Corporation distributions per share[1]	$ 0.22	$ 0.14	$ 0.11	$ 0.30	$ 0.46	$ 0.35	$ 0.50
Pro Forma Data (unaudited):							
Pro forma provision for income taxes[2]	$ 829	$ 616	$ 1,162	$ 1,528	$ 549	$ 779	$ 1,021
Pro forma net income (loss)[3]	$ 1,243	$ 924	$ 1,743	$ 2,291	$ (1,178)	$ 1,168	$ 3,782
Pro forma earnings per common share, basic and diluted[1]	$ 0.34	$ 0.26	$ 0.48	$ 0.63	$ (0.29)	$ 0.31	$ 0.80
Other Operating Data (unaudited):							
Adjusted EBITDA[4]	$ 3,893	$ 2,893	$ 4,154	$ 5,163	$ 5,951	$ 2,629	$ 3,647
Revenue per employee[5]	$ 102	$ 109	$ 113	$ 119	$ 125	$ 62	$ 66
Employee headcount at period end	404	427	451	508	599	573	657

	December 28, 2001	December 27, 2002	January 2, 2004	December 31, 2004	December 30, 2005	June 30, 2006
						(unaudited)
			(In thousands)			
Historical Consolidated Balance Sheet Data:						
Cash and cash equivalents	$ 226	$ 251	$ 498	$ 266	$ 3,066	$ 119
Working capital	2,057	2,712	5,199	7,195	9,421	11,529
Total assets	18,463	19,229	21,460	23,223	32,797	36,085
Total indebtedness	7,948	6,866	5,033	3,543	1,858	2,660
Total redeemable common stock	4,946	5,900	8,661	11,477	14,660	17,109

(1) Per share amounts have been adjusted for a stock dividend paid on January 1, 2005 of three shares per each outstanding share.

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

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

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

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

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

	Fiscal Year					Fiscal Six Months Ended	
	2001	2002	2003	2004	2005	July 1, 2005	June 30, 2006
Net income (loss)	$ 2,025	$ 1,506	$ 2,852	$ 3,772	$ (646)	$ 1,929	$ 4,765
Interest income	(5)	(5)	(1)	(2)	(19)	(1)	(27)
Interest expense	774	496	366	272	630	166	411
Income tax provision	47	34	53	47	17	18	38
Depreciation and amortization	1,035	844	865	1,056	1,257	523	723
Loss (gain) on sale of assets	17	18	19	18	24	(6)	(13)
Life insurance proceeds	—	—	—	—	—	—	(2,250)
Litigation accrual	—	—	—	—	2,686	—	—
Stock-based compensation expense	—	—	—	—	2,002	—	—
Adjusted EBITDA	$ 3,893	$ 2,893	$ 4,154	$ 5,163	$ 5,951	$ 2,629	$ 3,647

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

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and related notes that appear elsewhere in this prospectus. In addition to historical consolidated financial information, the following discussion contains forward-looking statements that reflect our plans, estimates and beliefs. Our actual results could differ materially from those discussed in the forward-looking statements. Factors that could cause or contribute to these differences include those discussed below and elsewhere in this prospectus, particularly in "Risk Factors."

Overview

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

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

We operate our business through a network of over 20 offices located throughout California and other western states and have a staff of 668 as of September 30, 2006 that includes licensed engineers and other professionals. Our core clients are public agencies in communities with populations ranging from 10,000 to 300,000 people. We believe communities of this size are underserved by large outsourcing companies that tend to focus on securing large federal and state projects, as well as projects for the private sector. We seek to establish close working relationships with our public agency clients and, over time, to expand the breadth and depth of the services we provide to them.

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

Prior to this offering, we were taxed as an S Corporation for purposes of federal and state income taxes. As a result of this offering, our S Corporation status will terminate and we will be taxed as a C Corporation under federal and state tax laws. Assuming this offering had occurred as of June 30, 2006, we would have recognized a net deferred income tax liability of $1.5 million resulting from the termination of our S Corporation status.

Willdan Group, Inc. is a Delaware corporation formed in 2006 for the purposes of effecting the reincorporation of The Willdan Group of Companies, a California corporation, formed in 2001 to serve as our holding company. The reincorporation was completed effective June 30, 2006.

We were founded over 40 years ago, and today consist of a family of wholly owned companies that operate within the following segments for financial reporting purposes:

Engineering Services. Our Engineering Services segment includes the businesses of our subsidiary, Willdan, which provides engineering-related services, and our subsidiary, Arroyo Geotechnical, which provides geotechnical engineering services. The segment also includes our subsidiary, Public Agency

Resources (PARs), which provides staffing to Willdan. Willdan is our largest subsidiary and represents the core business of our company that was founded more than 40 years ago. Contract revenue for the Engineering Services segment represented 84.6% of our consolidated contract revenue in fiscal year 2005.

Public Finance Services. Our Public Finance Services segment consists of the business of our subsidiary, MuniFinancial, which offers financial and economic services to public agencies. Contract revenue for the Public Finance Services segment represented 15.3% of our consolidated contract revenue in fiscal year 2005.

Homeland Security Services. Our Homeland Security Services segment consists of the business of our subsidiary, American Homeland Solutions, which offers homeland security and public safety consulting services. We formed this subsidiary in fiscal year 2004.

Recent Developments

Litigation Accrual

We are currently involved in a dispute with the City of West Hollywood, California that arose in fiscal year 2002. This matter concerns a construction project in the City of West Hollywood for the improvement of Santa Monica Boulevard.

In the fourth quarter of 2005, following a trial in the Los Angeles County Superior Court, the jury rendered a verdict against us and awarded damages in the amount of $6.3 million, including attorney's fees, interest and costs. As of December 30, 2005, we believed that approximately $3.2 million of the damages was covered by our professional liability insurance policy. Therefore, in fiscal year 2005, we expensed $2.7 million of this judgment and recorded related interest expense of $0.4 million. In our consolidated balance sheet as of December 30, 2005, we reflected a total liability of $6.3 million and the related receivable of $3.2 million from the insurance company.

Our insurance company has posted bonds and retained counsel to file an appeal with respect to this matter. During the appeal process, interest will accrue on the outstanding judgment at the rate of 10% per annum. We cannot predict the outcome of this appeal process.

In the third quarter of this year, we obtained a court ruling awarding us approximately $1.0 million on a claim for indemnity, recovering the settlement amount and interest thereon and attorney fees and costs in connection with an unrelated claim that arose in fiscal year 2002. Because the claim arose in 2002 and the settlement amount had been previously paid by our insurance policy, we will be able to replenish our insurance coverage by approximately $1.0 million for that policy year. As a result, we have approximately $1.0 million of additional insurance coverage available for the West Hollywood case discussed above since that claim also arose in 2002. Therefore, we expect to reflect an additional receivable of approximately $1.0 million from the insurance company in the third quarter and a corresponding reduction in the litigation accrual expense related to the West Hollywood case.

Stock-Based Compensation Expense

We have an established plan whereby selected employees, consultants, officers and directors of Willdan Group, Inc. and subsidiaries may, at the invitation of the board of directors, purchase redeemable shares of Willdan Group, Inc.'s common stock. This plan was established to provide for continuity of management by providing ownership opportunities to those individuals who are or will be actively responsible for the continued success of the company. Our board of directors determines which individuals may purchase stock and how many shares each of these individuals may purchase. There is no vesting period. Our employees and directors own most of the shares currently. The plan and all transactions involving our common stock are governed by our stock buy/sell agreement, including the pricing of shares. Under the buy/sell agreement, the stock price is calculated using a formula that has been used consistently since our inception for all purchases and re-purchases of stock. This plan and the buy/sell agreement will terminate upon completion of this offering.

During fiscal year 2005, individuals purchased 953,500 shares of our redeemable common stock at a price of $3.77 per share, pursuant to awards of stock purchase rights made by our board of directors on February 9, 2005. At the time the grants were made, we had commenced a preliminary consideration of becoming a public company. Accordingly, the fiscal year 2005 sales of common stock were considered to be in contemplation of this offering and the difference between the aggregate formula-based price that was paid for the stock and the aggregate fair value of the purchased shares was recorded as an expense for fiscal year 2005. The expense totaled $2.0 million and is included as stock-based compensation within general and administrative expenses. See Note 6 to the consolidated financial statements included elsewhere in this prospectus for additional information.

Life Insurance Proceeds

On May 15, 2006, our co-founder and chief executive officer, Dan W. Heil, passed away. We carried two life insurance policies on Mr. Heil. In June and July 2006, we received the cash proceeds from these two policies of approximately $2.3 million.

Acquisition of Assets

In June 2006, our subsidiary American Homeland Solutions, or AHS, acquired substantially all of the assets of VT & Associates, Inc., or VTA, for $250,000. VTA developed and provided training courses to public agencies.

Components of Income and Expense

Contract Revenues

We enter into contracts with our clients that contain three principal types of pricing provisions: fixed fee, time-and-materials and unit-based. Contract revenues on our fixed fee contracts are 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 fee contracts are relatively short in duration, thereby lowering the risks of not properly estimating the percent complete. Revenues on our time-and-materials and unit-based contracts are recognized as the work is performed in accordance with specific terms of the contract. A large percentage 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.

Adjustments to contract cost estimates are made in the periods in which the facts requiring such revisions become known. When the revised estimate indicates a loss, such loss is provided for currently in its entirety. Claims revenue is recognized only upon resolution of the claim. Change orders in dispute are evaluated as claims. Costs related to unpriced 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 unpriced change orders if realization of the expected price of the change order is assured beyond a reasonable doubt.

Direct Costs of Contract Revenues

Direct costs of contract revenues 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 revenues also include production expenses, subconsultant services and other expenses that are incurred in connection with revenue producing projects. Direct costs of contract revenues exclude that portion of technical and nontechnical salaries and wages related to marketing efforts, vacations, holidays and other time not spent directly generating revenues 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 revenues. No allocation of facilities costs is made to direct costs of contract revenues nor is depreciation and amortization allocated to direct costs. We expense direct costs of contract revenues when incurred.

As a firm that provides multiple and diverse outsource services, we do not believe gross margin is a consistent or appropriate indicator of our performance and therefore we do not use this measure as construction contractors and other types of consulting firms may. Other companies may classify as direct costs of contract revenues some of the costs that we classify as general and administrative expenses. As a result, our direct costs of contract revenues may not be comparable to direct costs for other companies, either as a line item expense or as a percentage of contract revenues.

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 revenues 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 professional services, legal and accounting, computer costs, travel and entertainment and marketing costs. We expense general and administrative costs when incurred.

We have never operated as a public company. As a public company, we will incur significant legal, accounting and other expenses that we did not incur as a private company, and we expect our general and administrative expenses to increase as a result. We expect that our management and other personnel will need to devote a substantial amount of time to comply with the requirements of being a public company. Moreover, rules and regulations for public companies will increase our legal and financial compliance costs and will make some activities more time-consuming and costly.

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 U.S. generally accepted accounting principles, 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 revenues 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 prospectus. 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 on the front cover of this prospectus.

Contract Accounting

Applying the percentage-of-completion method of recognizing revenues for our fixed price contracts 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 can occur, resulting in changes to reported revenues and earnings. Such changes could have a material effect on our future consolidated financial statements.

Contract receivables are carried at original invoice amount less an estimate made for doubtful receivables 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. Contract receivables are written off when deemed uncollectible. Recoveries of contract receivables 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 prospectus.

Goodwill Impairment Valuation

Goodwill primarily represents the excess of the purchase price paid for MuniFinancial in 1999 over the estimated fair value of the net identified tangible and intangible assets acquired. We perform an annual review in the fourth quarter of each fiscal year, or more frequently if indicators of potential impairment exist, to determine if the recorded goodwill is impaired. We compare the fair value of MuniFinancial to its carrying value, including goodwill. To estimate the fair value of MuniFinancial, we use a valuation approach based on a multiple of historical cash flows, management's estimates of future cash flows, and other market data. This estimate of fair value of MuniFinancial is highly subjective and is based in part on assumptions that could differ materially from actual results. If our evaluation indicates that goodwill is impaired, we perform an additional assessment to determine the extent of the impairment loss based on the implied fair value of goodwill compared with the carrying amount of the goodwill. Such an impairment loss has a direct impact on our net income because recording an impairment loss results in an immediate negative adjustment to net income. No such impairment loss has been recognized to date related to MuniFinancial. In fiscal year 2002, we recognized an impairment loss of $0.4 million relating to our acquisition WPA Traffic Engineering, Inc. in 1999 and no goodwill remains related to this acquisition.

Accounting for Claims Against the Company

We record liabilities to claimants for probable and estimable claims on our consolidated balance sheet and record a corresponding receivable from our insurance carrier for the portion of the claim that is probable of being covered by insurance. The estimated claim amount net of the amount estimated to be covered by insurance is included in our 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.

Valuing Redeemable Common Stock

Prior to fiscal year 2005, we recognized no compensation expense related to our book value stock purchase plan due to changes in the formula price during the employment period since the employees make a substantive investment that would be at risk for a reasonable period of time.

Awards of book value share purchase rights granted under the purchase plan during fiscal year 2005 were considered to have been granted in contemplation of an initial public offering, and, accordingly, we recorded compensation expense for the difference between the formula value and the estimated fair value of the purchased shares at the date of the grant.

In the evaluation of the fair value of the stock considered to be issued in contemplation of this offering, we considered our profitability and financial condition, the proximity of the issuance to the offering, intervening events, transfer restrictions and dates of purchase.

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 revenues. Amounts may not add to the totals due to rounding.

	Fiscal Year			Fiscal Six Months Ended	
	2003	2004	2005	July 1, 2005	June 30, 2006
Statement of Operations Data:					
Contract revenues	100.0%	100.0%	100.0%	100.0%	100.0%
Direct costs of contract revenues:					
Salaries and wages	26.7	26.8	31.1	31.0	31.9
Production expenses	2.4	2.6	2.3	2.4	2.0
Subconsultant services	13.5	10.5	7.1	8.2	5.1
Total direct costs of contract revenues	42.6	39.8	40.4	41.7	39.1
General and administrative expenses:					
Salaries and wages, payroll taxes, employee benefits	32.1	33.8	33.8	33.7	34.2
Facilities	6.4	5.6	5.2	5.2	4.9
Stock-based compensation	—	—	3.0	—	—
Depreciation and amortization	1.6	1.8	1.9	1.6	1.9
Litigation accrual	—	—	4.0	—	—
Other	11.4	11.9	11.8	11.5	12.4
Total general and administrative expenses	51.4	53.1	59.6	51.9	53.4
Income (loss) from operations	6.0	7.0	—	6.4	7.5
Other income (expense):					
Interest	(0.7)	(0.5)	(0.9)	(0.5)	(1.1)
Other, net	—	—	—	—	6.2
Total other income (expense)	(0.7)	(0.5)	(0.9)	(0.5)	5.1
Income (loss) before income taxes	5.3	6.6	(0.9)	6.0	12.6
Income tax provision (benefit)	0.1	0.1	—	0.1	0.1
Net income (loss)	5.2%	6.5%	(1.0)%	5.9%	12.5%

Fiscal Six Months Ended June 30, 2006 Compared to Fiscal Six Months Ended July 1, 2005

Contract revenues. Our contract revenues were $38.1 million for the fiscal six months ended June 30, 2006, with $32.2 million attributable to the Engineering Services segment and $5.5 million attributable to the Public Finance Services segment. Our Homeland Security Services segment generated $0.4 million during this period. Consolidated contract revenues increased $5.5 million, or 16.9%, from $32.6 million in the fiscal six months ended July 1, 2005. This was due primarily to increases of $4.2 million, or 15.0%, and $0.9 million, or 19.6%, in contract revenues of the Engineering Services and Public Finance Services segments, respectively. In addition, this is the first fiscal six months in which our Homeland Security Services segment, which was established in the second half of fiscal year 2005, generated notable revenue. Overall headcount increased to 657 as of June 30, 2006 from 573 as of July 1, 2005, an increase of 14.7%.

The growth in contract revenues for the Engineering Services segment is due primarily to increased demand for our existing services. To respond to this demand, our Engineering Services segment increased its total headcount to 531 as of June 30, 2006 from 462 as of July 1, 2005, representing an increase of 14.9%. To respond to demand for our services in additional geographic areas of California, we opened two new satellite office locations in June and September of fiscal year 2005 in Fresno, California and Marysville, California, respectively.

The growth in contract revenues for our Public Finance Services segment also is due primarily to increased demand for our existing services. Our Public Finance Services segment responded to increased demand for its existing services by increasing its total headcount to 79 as of June 30, 2006 from 70 as of July 1, 2005, representing an increase of 12.9%.

Direct costs of contract revenues. Direct costs of contract revenues were $14.9 million in the fiscal six months ended June 30, 2006, with $13.2 million attributable to the Engineering Services segment and $1.5 million attributable to the Public Finance Services segment. The additional $0.2 million is attributable to direct costs of contract revenues for our Homeland Security Services segment. This represented a total increase of $1.3 million, or 9.6%, from $13.6 million in the fiscal six months ended July 1, 2005. Of this total increase, direct costs of contract revenues increased $0.9 million, or 7.7%, in the Engineering Services segment and $0.2 million, or 11.5%, in the Public Finance Services segment. The remaining $0.2 million is attributable to the Homeland Security Services segment. These increases were primarily the result of the increased volume of activity that generated the increased contract revenue previously discussed for our three operating segments. Direct costs of contract revenues as a percentage of contract revenue for the fiscal six months ended June 30, 2006 decreased to 39.1% from 41.7% for the fiscal six months ended July 1, 2005.

Within direct costs of contract revenues, salaries and wages increased from 31.0% of contract revenues in the fiscal six months ended July 1, 2005 to 31.9% in the fiscal six months ended June 30, 2006. Comparing those same periods, subcontracted services decreased from 8.2% of contract revenues to 5.1% of contract revenues. This shift within direct costs of contract revenues is primarily due to the establishment of our subsidiary, PARs, in the second half of fiscal year 2005. PARs provides in-house staffing services to Willdan and Arroyo Geotechnical by hiring professionals that would in the past have been engaged as subconsultants or independent contractors. Numerous subconsultants whom we previously engaged as independent contractors for projects within our Engineering Services segment became employees of PARs. All contract revenues and expenses associated with the operation of PARs are included in the Engineering Services segment.

General and administrative expenses. General and administrative expenses increased by $3.4 million, or 20.1%, to $20.3 million in the fiscal six months ended June 30, 2006 from $16.9 million in the fiscal six months ended July 1, 2005. This was due primarily to increases of $2.1 million and $0.6 million in general and administrative expenses of the Engineering Services and Public Finance Services segments, respectively, resulting primarily from the growth of our business. Of the remaining $0.7 million increase, $0.2 million related to the establishment of our Homeland Security Services segment and $0.5 million is attributed to unallocated corporate expenses. General and administrative expenses as a percentage of contract revenues increased to 53.4% in the fiscal six months ended June 30, 2006 from 51.9% in the prior year period.

The increases in general and administrative expenses in the Engineering Services and Public Finance Services segments were due primarily to increased costs related to the growth in headcount of engineers and other professionals. Employee related costs included in general and administrative expenses such as payroll taxes, employee benefits, bonuses and that portion of salaries and wages related to time not spent directly generating revenues increased by $2.1 million, or 19.0%. Facilities costs increased by $0.2 million, or 11.0%, as a result of additional needs created by the increased headcount. Depreciation and amortization increased by $0.2 million, or 38.2%, as a result of additional needs for leasehold improvements, furniture, fixtures and equipment created by additional personnel. Other general and administrative expenses increased by approximately $1.0 million, or 26.4%. This increase is primarily the result of the increased volume of our business. For example, insurance premiums, which are calculated in relation to parameters such as total contract revenues and payroll, increased by $0.2 million, or 59.7% over the same period in fiscal year 2005. In addition to cost increases attributable to growth in employee headcount, we also experienced rate increases for expenses such as insurance premiums and health insurance and other employee benefits.

As discussed above under "—Components of Income and Expense—Direct Costs of Contract Revenues," we do not allocate the costs discussed above to direct costs of contract revenues.

Income (loss) from operations. As a result of the above factors**,** operating income was $2.9 million for the fiscal six months ended June 30, 2006 as compared to $2.1 million for the fiscal six months ended July 1, 2005. Operating income as a percentage of contract revenues increased to 7.5% in the fiscal six months ended June 30, 2006 from 6.4% in the prior year period.

Other income (expense). Other income (expense), net increased by $2.1 million to $1.9 million of income in the fiscal six months ended June 30, 2006 from $(151,000) in the fiscal six months ended July 1, 2005. This was due primarily to revenue recognized of $2.3 million for life insurance proceeds as a result of the death of our former chief executive officer and recovery of $53,000 on legal matters, partially offset by increased interest expense of $0.2 million. Interest expense increased due to $0.3 million accrued related to the West Hollywood litigation and this increase was partially offset by decreased interest as a result of lower outstanding principal balances.

Fiscal Year 2005 Compared to Fiscal Year 2004

Contract revenues. Our contract revenues were $67.3 million for fiscal year 2005, with $56.9 million attributable to Engineering Services and $10.3 million attributable to the Public Finance Services segment. This represented an increase in total contract revenues of $9.0 million, or 15.4%, from $58.3 million for fiscal year 2004. This was due primarily to increases of $8.3 million, or 17.1%, and $0.6 million, or 6.3%, in contract revenues of the Engineering Services segment and Public Finance Services segment, respectively. In addition, our Homeland Security Services segment, which began operations in the second half of fiscal year 2005, generated $0.1 million during this period. Overall headcount increased to 599 at the end of fiscal year 2005 from 508 at the end of fiscal year 2004, an increase of 17.9%.

The growth in contract revenues for the Engineering Services segment was due primarily to increased demand for our existing services. To respond to this demand, our Engineering Services segment increased its total headcount to 481 as of December 30, 2005 from 404 as of December 31, 2004, an increase of 19.1%. Of the 77 employees added in fiscal year 2005, 17 were formerly subconsultants or independent contractors that became employees of our subsidiary, PARs. To respond to demand for our services in additional geographic areas of California, two new office locations were opened in fiscal year 2005 in Fresno and Marysville, California and we opened a new office in Bakersfield, California in November 2004 which did not begin generating revenue until fiscal year 2005. In response to increased demand for our services in Arizona, we expanded our office in Tucson. In addition, our geotechnical company opened its new office location, which included an expanded laboratory, in the fourth quarter of fiscal year 2004. During fiscal year 2005, our geotechnical company increased its number of clients by over 30%, which was the primary reason for its increased contract revenues of $0.7 million, or 132.9%, for fiscal year 2005.

The growth in contract revenues for our Public Finance Services segment also is due primarily to increased demand for our existing services. In response to this demand, our Public Finance Services segment increased its total headcount to 78 as of December 30, 2005 from 65 as of December 31, 2004, representing an increase of 20.0%.

Direct costs of contract revenues. Direct costs of contract revenues increased by $4.0 million, or 17.2%, to $27.2 million for fiscal year 2005 from $23.2 million for fiscal year 2004. Of this total increase, direct costs of contract revenues increased $3.6 million, or 17.4%, in the Engineering Services segment and $0.3 million, or 12.0%, in the Public Finance Services segment. The remaining $0.1 million is attributable to the Homeland Security Services segment.

Direct costs of contract revenues for fiscal year 2005 included salaries and wages resulting from the establishment in fiscal year 2005 of our subsidiary, PARs. Forming this subsidiary resulted in a shift of direct expense from subconsultant services to direct salaries and wages. In fiscal year 2004, direct salaries and wages were 26.8% of contract revenues. In fiscal year 2005, direct salaries and wages increased to 31.1% of contract revenues. In comparing the same periods, subconsultant services decreased from 10.5% of contract revenues in fiscal year 2004 to 7.1% of contract revenues in fiscal year 2005. In addition to the shift in direct expenses from subconsultant services to direct salaries and wages, we also added 40 new PARs employees between December 31, 2004 and December 30, 2005. Total direct costs of contract revenues as a percentage of contract revenues of 40.4% in fiscal year 2005 was comparable to 39.8% in fiscal year 2004.

General and administrative expenses. General and administrative expenses increased by $9.1 million, or 29.4%, to $40.1 million for fiscal year 2005 from $31.0 million for fiscal year 2004. This was due in part to $2.7 million accrued in connection with ongoing litigation, and $2.0 million in stock-based compensation expense in connection with stock issuances in fiscal year 2005, each of which is described above under "—Recent Developments." All of the stock-based compensation expense was included in unallocated general and administrative expense and the litigation accrual relates to the Engineering Services segment.

There were other increases of $3.2 million and $0.6 million in general and administrative expenses in the Engineering Services and Public Finance Services segments, respectively. These additional general and administrative expenses were due primarily to increased costs related to the growth of employee headcount in both segments as discussed above. Additionally, there were increases of $0.4 million and $0.2 million in our Homeland Security Services segment and unallocated corporate expenses, respectively.

Employee related costs included in general and administrative expenses such as payroll taxes, employee benefits, bonuses and that portion of salaries and wages related to time not spent directly generating revenues increased by $3.0 million, or 15.3%. Facilities costs increased by $0.2 million, or 6.6%. Depreciation and amortization increased by $0.2 million, or 19.0%, as a result of additional needs for leasehold improvements, furniture, fixtures and equipment created by additional personnel. Other general and administrative expenses increased by approximately $1.0 million, or 14.6%, primarily as a result of the increased volume of our business. In addition to cost increases attributable to growth in employee headcount, we also experienced rate increases for expenses such as insurance premiums and health insurance and other employee benefits.

Income (loss) from operations. Primarily as a result of the stock-based compensation expense and litigation accrual discussed above, operating income (loss) decreased by $4.1 million, or 100.0%, to a $10,000 loss from operations for fiscal year 2005 from income of $4.1 million for fiscal year 2004. Operating income as a percentage of contract revenues decreased to 0% for fiscal year 2005 from 7.0% in fiscal year 2004. In the third quarter of fiscal year 2005, we experienced a larger than normal increase in operating income as a result of being awarded projects with higher operating margins than we typically experience. We believe this increase in operating income in the third quarter of fiscal year 2005 was a one-time occurrence and not an indication of a seasonal trend in our business. We did not experience similar fluctuations in the third quarters of fiscal year 2003 or fiscal year 2004 and we do not expect a similar occurrence in fiscal year 2006.

Other income (expense). Other expense, net increased by $341,000, or 122.7%, to $619,000 for fiscal year 2005 from $278,000 for fiscal year 2004. This was due primarily to a net increase in interest expense of $358,000 resulting primarily from interest related to the litigation accrual discussed above and the effect of increasing borrowing rates due to market factors offset by the impact of decreased borrowings under our line of credit and term debt.

Fiscal Year 2004 Compared to Fiscal Year 2003

Contract revenues. Our contract revenues were $58.3 million for fiscal year 2004, with $48.6 million attributable to the Engineering Services segment and $9.7 million attributable to the Public Finance Services segment. This represented an increase in total contract revenues of $3.8 million, or 7.0%, from $54.5 million for fiscal year 2003. This was due primarily to increases of $3.1 million, or 6.8% in our Engineering Services segment and $0.7 million, or 7.8%, for our Public Finance Services segment. For both operating segments, these increases were primarily the result of increased demand for our existing services. Overall headcount increased to 508 at the end of fiscal year 2004 from 451 at the end of fiscal year 2003, an increase of 12.6%.

To respond to increasing demand for services, the Engineering Services segment increased its total headcount to 404 as of December 31, 2004 from 356 as of January 2, 2004, representing an increase of 13.5%. One office, in San Bernardino, California, expanded its facility during fiscal year 2004.

The growth in contract revenues for our Public Finance Services segment also is due primarily to increased demand for our existing services. In response to this demand, our Public Finance Services segment increased its total headcount to 65 as of December 31, 2004 from 60 as of January 2, 2004, representing an increase of 8.3%. This increase in headcount corresponds closely to the increase in contract revenues of 7.8%.

Direct costs of contract revenues. Direct costs of contract revenues remained constant at $23.2 million for fiscal year 2004 and fiscal year 2003. This was due primarily to a decrease of $0.1 million in direct costs of contract revenues for the Engineering Services segment offset by an increase of $0.1 million in the direct costs of contract revenues for the Public Finance Services segment. Direct costs of contract revenues as a percentage of contract revenues decreased to 39.8% for fiscal year 2004 from 42.6% for fiscal year 2003. This decrease as a percentage of contract revenues resulted partly from a decrease in our use of subconsultants, whose billings include not only what we generally classify as direct costs when we perform services but also the subconsultants' profit and their overhead.

General and administrative expenses. General and administrative expenses increased by $3.0 million, or 10.7%, to $31.0 million for fiscal year 2004 from $28.0 million for fiscal year 2003. This was due primarily to increases of $2.4 million and $0.3 million in general and administrative expenses of the Engineering Services segment and the Public Finance Services segment, respectively, resulting primarily from the growth of our business. In addition, there was an increase of $0.3 million in unallocated corporate expenses. General and administrative expenses as a percentage of contract revenues increased to 53.1% for fiscal year 2004 from 51.4% in fiscal year 2003.

Employee related costs included in general and administrative expenses such as payroll taxes, employee benefits, bonuses and that portion of salaries and wages related to time not spent directly generating revenues increases by $2.2 million, or 12.8%. Facilities costs decreased $0.2 million, or a decrease of 5.7%. Depreciation and amortization increased $0.2 million, or 22.1%. Other general and administrative expenses increased by approximately $0.7 million, or 11.6%, primarily as a result of the increased volume of our business and increased headcount.

Income (loss) from operations. As a result of the above factors, operating income increased by $0.8 million, or 24.2%, to $4.1 million for fiscal year 2004 from $3.3 million for fiscal year 2003.

Operating income as a percentage of contract revenues increased to 7.0% for fiscal year 2004 from 6.0% in the prior year.

Other income (expense). Other expense, net decreased by $87,000, or 23.8%, to $278,000 for fiscal year 2004 from $365,000 for fiscal year 2003. This was due primarily to a decrease in interest expense of $94,000 as a result of decreased borrowings under our revolving line of credit and term debt offset by increased borrowing rates due to market factors.

Liquidity and Capital Resources

Our primary sources of liquidity are cash generated from operations, borrowings under our revolving line of credit and term loans, capital leases and sales of our common stock. We believe that cash generated by operating activities and funds available under our credit facilities 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 $1.2 million for the fiscal six months ended June 30, 2006 compared to $0.5 million used in operating activities for the same period in fiscal year 2005. The cash flows provided by operating activities in the fiscal six months ended June 30, 2006 were comparatively higher than in the same period in 2005 due primarily to the increase in the volume of our business and the collection of approximately $0.3 million of life insurance proceeds. We generally pay annual performance bonuses earned in a fiscal year in the first three months of the following year. This has the effect of substantially reducing cash from operations in the first half of the year when compared to the second half of the year. For fiscal year 2005, cash flows provided by operating activities were $4.6 million, compared to $3.9 million in fiscal year 2004 and $2.6 million for fiscal year 2003. Cash flows provided by operating activities in fiscal year 2005 were comparatively higher than in fiscal year 2004 due primarily to a $0.6 million increase in our income before income taxes before the non-cash accruals for stock-based compensation and litigation along with the related interest accrual for the litigation. Cash flows provided by operating activities in fiscal year 2004 increased by $1.3 million compared to fiscal year 2003 primarily as a result of the $0.9 million increase in our net income in fiscal year 2004 over fiscal year 2003. The life insurance proceeds totaling $2.0 million from another life insurance policy are excluded from cash flows provided by operating activities for the fiscal six months ended June 30, 2006 since these proceeds were received in July 2006 and this amount is included in other receivables as of June 30, 2006.

Cash flows from investing activities

Cash flows used in investing activities were $1.9 million for the fiscal six months ended June 30, 2006 compared to $0.7 million for the fiscal six months ended July 1, 2005. Cash flows used in investing activities were $1.9 million for fiscal year 2005, as compared to $0.9 million for fiscal year 2004 and $0.6 million for fiscal year 2003. Cash flows used in investing activities for the aforementioned periods primarily related to the purchase of equipment and leasehold improvements. Fiscal year 2005 and the fiscal six months ended June 30, 2006 included higher than historical levels of equipment and leasehold improvements purchases due to the establishment of new office locations, the relocation of existing office facilities, including our corporate offices, and capital expenditures resulting from our overall increase in employee headcount.

Cash flows from financing activities

Cash flows used in financing activities were $2.3 million for the fiscal six months ended June 30, 2006 compared to $2.5 million provided by financing activities for the fiscal six months ended July 1, 2005. For fiscal year 2005, cash flows provided by financing activities were $107,000 compared to

$3.2 million used in financing activities for fiscal year 2004 and $1.7 million used in financing activities for fiscal year 2003. Cash flows used in financing activities for the first fiscal six months of 2006 increased from the first fiscal six months of 2005 primarily as a result of a decrease in net borrowings of $3.4 million, an increase in distributions to stockholders of $1.0 million and the payment of $0.3 million of deferred offering costs. For fiscal years 2005 and 2004, the net increase in cash flows from financing activities of $3.2 million related primarily to an increase in proceeds from issuance of common stock of $3.0 million and decrease in payments to acquired retired stock of $0.5 million, offset by an increase in distributions to stockholders of $0.6 million. For fiscal years 2004 and 2003, the net increase in cash flows used in financing activities of $1.4 million related primarily to the increase in distributions to stockholders of $0.7 million, an increase in payments to acquire retired stock of $0.4 million and a decrease in changes in the excess of outstanding checks over bank balance of $0.8 million in fiscal year 2004 compared to fiscal year 2003. These increases in cash used in financing activities from fiscal year 2003 to fiscal year 2004 were offset by an increase in proceeds from issuance of common stock of $0.2 million and a decrease in net repayments of debt of $0.2 million.

Outstanding indebtedness

We currently have a revolving line of credit and a term loan with a bank, as well as a note payable for a portion of the purchase price for VTA. We also finance insurance premiums by entering into notes payable with insurance companies.

Our $8.0 million revolving line of credit had an outstanding balance of approximately $1.3 million at June 30, 2006 and outstanding advances bear interest at prime plus 0.25% (8.5% at June 30, 2006). As of September 30, 2006, no advances are outstanding under our revolving line of credit. Subject to certain conditions, $2.0 million of the line of credit may be converted to two term loans. The line of credit expires on July 31, 2007. The line of credit is secured by substantially all of our assets and is guaranteed by a principal stockholder. The line of credit includes covenants to maintain a certain level of current ratio, tangible net worth, debt to net worth ratio and minimum debt coverage. As of June 30, 2006, the amount available under the line of credit was approximately $6.7 million, and we were in compliance with all of our covenants.

The term loan had an outstanding balance of approximately $0.3 million at September 30, 2006. This loan bears interest at prime plus 0.25% (8.5% at June 30, 2006), requires monthly installments of principal and interest of approximately $40,000, and matures on July 1, 2007. The term loan is secured by accounts receivable and equipment and is guaranteed by a principal stockholder. The term loan includes covenants to maintain a certain level of current ratio, tangible net worth, debt to net worth ratio and minimum debt coverage. At June 30, 2006, we were in compliance with all of our covenants.

Upon completion of this offering, we expect to obtain releases of the personal guarantees on the revolving line of credit and term loan. As a result of obtaining the releases, we expect that our minimum tangible net worth covenant under the credit facilities will increase from $9 million to $16 million.

We also had a note payable with an outstanding balance of approximately $0.2 million as of June 30, 2006 for a portion of the purchase price for VTA, which we acquired in June 2006. The note bears interest at 6.0% and is payable in equal monthly installments through July 2008. The notes payable to insurance companies had an outstanding balance of approximately $0.2 million at June 30, 2006, bore interest at 4.93% and matured in August 2006.

Contractual obligations

We have certain cash obligations and other commitments, which will impact our short- and long-term liquidity. At December 30, 2005, such obligations and commitments consisted of long-term debt, operating leases and capital leases. The following table sets forth our contractual obligations as of December 30, 2005:

Contractual Obligations	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
	(Amounts in thousands)				
Long term debt[1]	$ 1,530	$ 1,272	$ 258	$ —	$ —
Operating leases	14,117	3,228	5,709	3,330	1,850
Capital leases	406	165	216	25	—
Total contractual cash obligations	$ 16,053	$ 4,665	$ 6,183	$ 3,355	$ 1,850

(1) Long-term debt includes principal and interest payments under our debt agreements assuming no additional borrowings or principal payments. For loans with variable interest rates, interest is calculated using the current prime rate of 8.25% as of June 30, 2006.

New Accounting Pronouncement

In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004), *Share-Based Payment* (SFAS 123R), which addresses the accounting for transactions in which an entity exchanges its equity instruments for goods or services, with a primary focus on transactions in which an entity obtains employee services in share-based payment transactions. This statement is a revision of FASB Statement No. 123, *Accounting for Stock-Based Compensation* and supersedes Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*, and its related implementation guidance. This statement requires measurement of the cost of employee services received in exchange for stock compensation based on the grant-date fair value of the awards. Incremental compensation costs arising from subsequent modifications of awards after the grant date must be recognized. We adopted this statement on January 1, 2006 under the modified prospective method of application. Under that method, compensation costs are recognized for new grants of share-based awards, awards modified after the effect date, and the remaining portion of the fair value of the unvested awards at the adoption date; however, we have no unvested awards as of the adoption date. The adoption of Statement 123R did not have any effect on our consolidated financial statements as of the date of adoption.

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 do not engage in trading activities and do not participate in foreign currency transactions or utilize derivative financial instruments. Accordingly, our exposure to market risk is through our bank debt which bears interest at variable rates. Based upon the balance of the bank debt outstanding at June 30, 2006, a hypothetical increase in the prime interest rate from 8.25% to 9.08%, representing an increase of 10%, on our variable rate debt would have increased interest expense by approximately $15,000. A hypothetical decrease in the prime interest rate from 8.25% to 7.43%, representing a decrease of 10%, would have decreased interest expense by approximately $15,000.

BUSINESS

Overview

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

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

We operate our business through a network of over 20 offices located throughout California and other western states and have a staff of 668 as of September 30, 2006 that includes licensed engineers and other professionals. Our core clients are public agencies in communities with populations ranging from 10,000 to 300,000 people. We believe communities of this size are underserved by large outsourcing companies that tend to focus on securing large federal and state projects, as well as projects for the private sector. We seek to establish a close working relationship with our public agency clients and, over time, to expand the breadth and depth of the services we provide to them.

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

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

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

Market Opportunity

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

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

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

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

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

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

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

Engineering Services

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

Projected Changes in State Populations: 2000 to 2030

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

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

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

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

At the state level, the grades for California as measured by the ASCE were similar. The ASCE estimates that 28% of California's bridges are structurally deficient or functionally obsolete, and 71% of the state's major roads are in poor or mediocre condition. Additionally, the ASCE estimates that $17.5 billion will be needed over the next 20 years to meet the drinking water needs for the state. These findings are supported by the California Infrastructure Coalition's annual report for 2005, in which the Coalition states that much of the state's infrastructure is outdated, overburdened and will not meet the needs of the state's projected population growth.

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

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

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

Public Finance Services

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

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

The table below shows the increase in the use of tax-exempt securities in conjunction with bonded special financing districts in California over the past three years:

Special Assessment Bonds				Special Tax Revenue Bonds (CFD's)			
Year	Dollar Amount of Bonds Issued	% Increase	Number of Issuances	Year	Dollar Amount of Bonds Issued	% Increase	Number of Issuances
2003	$ 402,698,000	N/A	46	2003	$ 1,546,220,000	N/A	125
2004	474,456,000	17.8%	71	2004	1,713,404,000	10.8%	165
2005	606,007,000	27.7%	68	2005	2,761,958,000	61.2%	188

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

California continues to be the nation's leading issuer of all types of tax-exempt debt, followed by New York and Texas. In 2005, a total of 1,152 sales of tax-exempt securities took place in California, for a total issuance of $57.3 billion, a 3.1% increase over 2004. Other states with high population growth increased their use of tax-exempt financing at a greater rate. Issuers in Florida sold $20.0 billion in tax-exempt bonds in 2005, an increase of 55.1% over 2004. Arizona issuances increased 23.8% in 2005, up to $9.3 billion, and Nevada issuers sold $4.7 billion in 2005, up 54.3% from the prior year. Federal compliance requirements, such as arbitrage rebate calculation and continuing disclosure, apply to all tax-exempt issuances on a nation-wide basis.

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

Privatized services are then also utilized to implement the programs or revised rate schedules, and in the case of special financing districts, administer the districts through the life of the bonds. Consultants also frequently provide the services necessary to comply with federal requirements for tax-exempt debt, such as arbitrage rebate calculations and continuing disclosure reports. Use of such services allows public agencies to capitalize on innovative public finance techniques without incurring the cost of developing in-house expertise.

Homeland Security Services

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

For fiscal year 2006, under the Department of Homeland Security Grant Program, or HSGP, the federal government will provide $1.7 billion to the states, which in turn will disburse these funds to local law enforcement and other agencies. The federal Department of Homeland Security, or DHS, has designated 46 metropolitan areas throughout the country to receive almost half of the HSGP funds through a program called the DHS Urban Area Security Initiative, or UASI. Designated UASI metropolitan areas include: five metropolitan areas in California; the Phoenix, Arizona (Maricopa County) metropolitan area; Denver, Colorado; and Las Vegas, Nevada. States and local communities also are increasing budget funds for immigration and homeland security matters.

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

Federal Department of Homeland Security Grant Program—Fiscal Year 2006

	Total HSGP Allocation	State HSGP Allocation	Local Law Enforcement Terrorism Prevention	UASI Allocation	Metropolitan Medical Response System Allocation	Citizens Corps Allocation
California	$ 231,951,000	$ 47,580,000	$ 42,370,000	$ 136,290,000	$ 4,182,000	$ 1,529,000
Arizona	20,171,000	8,660,000	6,290,000	3,920,000	929,000	372,000
Colorado	21,080,000	8,080,000	7,600,000	4,380,000	697,000	323,000
Utah	8,271,000	4,520,000	3,280,000	—	232,000	239,000
Nevada	20,509,000	8,110,000	4,180,000	7,750,000	232,000	237,000

Source: U.S. Department of Homeland Security

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

Competitive Strengths

Founded over 40 years ago, we have a well-established track record of providing a wide range of privatized services to the public sector. We have developed the experience base, professional staff and support technology and software necessary to quickly and effectively respond to the needs of our clients. We believe we have developed a reputation within our industry as problem solvers across a broad range of client issues. Some of our competitive strengths include:

Quality of Service. We pride ourselves on the quality of service that we provide to our clients. The work that we compete for is awarded primarily based on the company's qualifications, rather than the fees proposed. We believe that our service levels, experience and expertise satisfy even the most rigorous qualification standards. We have developed a strong reputation for quality, based upon our depth of experience, ability to attract quality professionals, customized technology and software that support our services, local knowledge and the expertise we possess across multiple disciplines. We believe we are well-positioned to serve public sector clients due to our knowledge of the unique reporting processes and operating procedures of public agencies, which differ substantially from the private sector. Because public engineering contracts in California are awarded primarily based on qualifications, we believe our high quality of service is a significant factor in our providing services currently to over 60% of the cities and counties in California.

Broad range of services. Our focus on customer service has led us to continually broaden the scope of the services we provide. At different stages in our 40-year history, as the needs of our public sector clients have evolved, we have developed service capabilities complementary to our core engineering business, including building and safety services, financial and economic services, planning services, geotechnical services, code enforcement services and, most recently, disaster planning and homeland security services. Further, because we recognize that local public sector projects and issues often cross departmental lines, we have developed the capability to deliver multiple services in a cohesive manner to better serve our client communities as a whole.

Strategic locations in key markets. Local agencies want professionals that understand their local needs. Therefore, we deliver our services through a network of over 20 offices dispersed throughout the western United States. Further, each of our offices is staffed with quality professionals, including former management level public sector employees, such as planners, engineers, inspectors, and police and fire department personnel. These professionals understand the local and regional markets in which they work. In addition, we operate in some of the fastest growing states, counties and cities in the country. We operate in four of the five fastest growing counties in the country (based on number of residents added from July 2004 to July 2005): Maricopa County, Arizona; Clark County, Nevada; and Riverside and San Bernardino Counties, California. In addition, we operate in California, Arizona and Nevada, in which seven of the top 10 fastest growing cities in the nation (with populations over 100,000) are located. (Source: U.S. Census Bureau, Population Division, April 2005).

Strong, long-term client relationships. We have developed strong relationships with our public agency clients, some of whom we have worked with for over 25 years. The value of these long-term relationships is reflected in the recurring award of new projects, ongoing staffing assignments, and long-term projects that require high-level supervision. We also seek to maintain close personal relationships with public agency decision-makers to strengthen our relationships with them and the agencies with which they work. We frequently develop new client relationships as our public agency contacts are promoted or move to other agencies. Our strong culture of community involvement and leadership in key public agency organizations underscores our customer focus and helps us cultivate and expand our client base.

Experienced, talented, and motivated employees. Our staff consists of seasoned professionals with a broad array of specialties, and a strong customer service orientation. Our corporate culture places a high priority on investing in our people, including providing opportunities for stock ownership to attract, motivate and retain top professionals. Our executive officers have an average of more than 25 years of experience in or supporting the public sector, and an average of 18 years with our company.

Key Business Strategies

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

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

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

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

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

Our Services

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

We are organized to win and profitably manage numerous small to mid-size contracts at any one time. With our focus on local and regional agencies, typical contracts can range from $5,000 to over $1,000,000 in contract revenue. Our typical project contract has a duration of less than 12 months, although we have city services contracts that have been in effect for over 25 years. At September 30, 2006, we had approximately 3,000 open projects.

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

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

	Fiscal Year			Fiscal Six Months Ended
	2003	2004	2005	June 30, 2006
Engineering Services	83.5%	83.4%	84.6%	84.3%
Public Finance Services	16.5%	16.6%	15.3%	14.5%
Homeland Security Services	N/A	N/A	0.1%	1.2%

Engineering Services

We provide a wide range of engineering services to the public sector. In general, contracts for engineering services (as opposed to construction contracts) are awarded by public agencies based primarily upon the qualifications of the engineering professional, rather than the proposed fees. Many jobs are awarded without a mandated proposal process, especially where an agency has had a longstanding relationship with an engineering professional that has expertise in the type of project under consideration. A substantial percentage of our engineering related work is for existing clients and represents an extension of our long-term associations with them.

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

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

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

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

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

Construction Management. We have developed construction and program management systems specifically devoted to our public sector clients. We provide inspection services, along with full construction management and support, depending on the client's needs and the scope of the specific project. Our construction management experience encompasses projects such as streets, bridges, sewers and storm drains, water systems, parks, pools and utilities.

Traffic Engineering. Our traffic engineering services involve serving as the contract city traffic engineer in communities, as well as performing design and traffic planning projects for our clients. These services and projects include parking management studies, intersection analyses and improvements, traffic impact reports, and traffic signal and control systems. In 1999, we acquired WPA Traffic Engineering, Inc., a traffic engineering firm in southern California, which was integrated into our Orange County regional office and now operates as a division of our Willdan subsidiary.

Water and Wastewater Engineering. Our water and wastewater engineering services include design and project management of public water and wastewater facilities. Our core competencies include hydraulic modeling, master planning, rate studies and design and construction services. Our design experience includes reservoirs, pressure reducing stations, pump and lift stations, and pipeline alignment studies, as well as water/wastewater collection, distribution and treatment facilities.

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

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

Landscape Architecture. Our services in the area of landscape architecture include design, planning, landscape management and urban forestry. Specific projects include park design and master planning, bidding and construction documents, water conservation plans, urban beautification programs, landscape maintenance management, site planning and assessment district management.

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

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

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

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

- *City of Rosemead, California.* We began working with the City of Rosemead in 1976, when we became the designated city engineer for this Los Angeles County community. Over time, the services we provide to the city have expanded to include: building and safety services, traffic engineering, planning, community development services, public works design, construction management and observation, and all related support services. Our personnel staff the city's planning and building department counters, administer housing rehabilitation programs and act as the city's building inspectors. Today, almost 30 years later, in addition to the services listed above, our personnel are named as the city's designated city engineer, traffic engineer and building official.

- *City of Maricopa, Arizona.* In October 2003, the City of Maricopa was incorporated and became Arizona's 88th city. We were hired in April 2004 to assist in creating a development services department for the city. This included continual staffing to respond to requests for building plan review and inspection, counter services, public works plan review as well as serving as the community's designated building official. After developing a number of standards, procedures and processes which relied heavily on our experience in other cities, we successfully opened the doors to the city's first development services department in July 2004. Since then, we have logged over 10,000 hours of counter staffing, provided building plan review and permitting for over 12,000 housing units and 100 commercial projects, and provided plan review for plats and infrastructure improvements on over 200 subdivisions ranging in size from 150 to 2,000 lots. Our relationship with the City of Maricopa has expanded to include the preparation of the city's first General Plan, and we currently are assisting with the development of code enforcement policies and procedures.

- *Clark County, Nevada.* In 1987, we were engaged by the Clark County, Nevada Department of Building and Safety to provide plan review services. In 1989, the Clark County Department of Public Works contracted with us to provide review services for drainage studies. Since then, our contracts have been renewed continuously and expanded to include review services for traffic studies and public improvement plans as well. At the inception of these contracts, we provided these review services on an overflow, as-needed basis. Beginning with a very low volume of services, the scope and quantity of services has grown over the past 19 years. In Clark County's fiscal year 2005-2006, we provided 296 engineering reviews for the Department of Public Works and 713 reviews for the Department of Building and Safety.

- *City of La Cañada Flintridge, California.* In 1996, we began working as the prime consultant for the City of La Cañada Flintridge on its approximately $85 million project to convert the city from individual septic systems to a traditional sewer collection system. Our services for this project, which are still under way, include assessment district formation, engineering design, construction management and inspection. To launch the project, we prepared the sewer master plan, through which the city was divided into four separate phases. Funding for the design and construction of improvements within each phase was provided by the formation of assessment districts. Phases 1 and 2 are complete; the construction of Phase 3 is scheduled for completion in December 2006. We have completed the preliminary design for Phase 4, which is tentatively scheduled to begin construction in June 2008.

Public Finance Services

We acquired our public finance consulting business in 1999 to supplement the services we offer our public sector clients. In general, we supply expertise and support for the various financing techniques employed by public agencies to finance their operations and infrastructure. We also support the mandated reporting and other requirements associated with these financings. We do not provide underwriting or financial advisory services for municipal securities.

Unlike our Engineering Services business, we often compete for business, at least initially, through a competitive bid process. However, since many public sector financing instruments, such as tax-exempt bonds, remain outstanding for up to 30 years, once we have established a client relationship, the client tends to retain us for as long as the financing remains in place. Our services in this segment include the following:

District Administration. We administer special districts on behalf of public agencies. The types of special districts administered include community facilities districts (in California, Mello-Roos districts), assessment districts, landscape and lighting districts, school facilities improvement districts, water districts, benefit assessment districts, fire suppression districts, and business improvement districts. Our administration services include calculating the annual levy for each parcel in the district; billing charges directly or through a county tax roll; preparing the annual Engineer's Report, budget and resolutions; reporting on collections and payment status; calculating prepayment quotes; and providing financial analyses, modeling and budget forecasting. From July 2005 to June 2006, we administered over 1,200 districts on behalf of more than 185 public agencies, involving an annual levy of almost six million parcels which will generate approximately $570 million in public revenues.

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

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

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

Federal Compliance Services. We offer federal compliance services to issuers of municipal securities, which can be cities, towns, school districts, housing authorities and other entities that are eligible to issue tax-exempt securities. Specifically, we provide arbitrage rebate calculations and municipal disclosure services that assist issuers to remain in compliance with federal regulations. We provide these reports, together with related compliance services such as bond elections, temporary period yield restriction, escrow fund monitoring, rebate payments and refund requests. In terms of continuing disclosure services, we both produce the required annual reports and disseminate those reports on behalf of the issuers. We provide federal compliance services to over 500 issuers in 34 states and the District of Columbia on more than 1,900 bond issues totaling over $45 billion in municipal debt.

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

- *Metropolitan Water District of Southern California.* Since 2002, we have administered water standby charges for the Metropolitan Water District of Southern California, or MWD. This involves the placement of standby charges onto the property tax bills of parcel owners within the six-county area serviced by MWD. Data for over four million parcels is managed. Over 3.3 million parcels are levied on an annual basis, totaling $42.8 million in water district revenues. In 2005, our contract with the MWD was extended for an additional five years.

- *City of Indio, California.* In 1997, the City of Indio engaged us to administer their landscape and lighting districts. In April 2005, our services were expanded to include the administration of their local improvement and community facilities districts, as well as delinquency management and municipal disclosure services. This agreement is in effect for as long as the underlying districts are active. Since then, our relationship with the city has expanded further to include assessment engineering services, a water rate study, and special district formations. Arbitrage rebate calculations and continuing disclosure reports have also been contracted with us for a term of 30 years.

- *City of Roseville, California.* Our association with the City of Roseville also began in 1997, with the administration of 11 special financing districts. Since then, our administration services have expanded to encompass 29 special financing districts, with contracts that will remain in effect for as long as the districts remain active. Delinquency management and municipal disclosure are included in these contracts. We also have provided the city with a number of consulting services, including two fiscal impact analyses, an update to a public facilities fee study, a fire facilities impact fee study, an animal control facilities fee study, and arbitrage rebate services. The contract for arbitrage rebate services is open for the lives of the underlying bonds.

Homeland Security Services

We provide homeland security and public safety consulting services to cities, counties and related municipal service agencies such as utility and water companies, as well as school districts, port and transportation authorities, tribal governments and large business enterprises with a need for homeland security related services. We staff our projects in this area with former high level, local and regional public safety officers, and focus on solutions tailored for local agencies and their personnel.

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

Training Services. We design customized training courses for all aspects of disaster, unusual occurrence and emergency responses. In this regard, we have developed and own several training courses that meet or exceed the requirements for the federal National Incident Management System, or NIMS, training. These courses assist clients in meeting their obligations to prepare their staff to utilize the NIMS. Our courses have been approved by California's Commission on Peace Officers Standards and Training, the California Office of Emergency Services and the federal Department of Homeland Security's "Office of Grants and Training", formerly Office of Domestic Preparedness.

Emergency Operations Planning Services. We design, implement, review and evaluate public agencies' Emergency Operations Plan, including compliance and consistency with federal, state and local laws and policies. Plans are tailored in response to terrorism, intentional acts of sabotage and natural disasters. We also provide command and control and emergency response training for all types of unusual occurrences.

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

Planning Evaluations and Exercises. We conduct planning sessions and exercises, including those relating to weapons of mass destruction, large events, mass casualty transportation disasters, terrorism incident response, natural disaster response and recovery, and civil disorder events. We design these exercises for multi-agency involvement and are fully compliant with NIMS, the State Emergency Management System for California, and the National Response Plan. Exercises are designed to evaluate and test "first responders" and support personnel, as well as elected officials and agency management.

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

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

- *NIMS Training Sessions.* We conduct NIMS training sessions for law enforcement, fire protection, building department and public works personnel, and other "first responders". In the first half of 2006, representatives from over 340 public agencies attended AHS training courses.

- *City of Norwalk, California.* We are currently assisting the City of Norwalk with an update of its emergency response plan. The project includes executive course training, and development of a field operations guide for emergency operations command and emergency disaster response.

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

Business Development

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

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

Marketing and Advertising

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

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

Clients

Our clients primarily consist of cities, counties, redevelopment agencies, water districts, school districts and universities, state agencies, federal agencies, a variety of other special districts and agencies, and tribal governments. Our typical client is an agency serving a community of 10,000 to 300,000 persons. In fiscal year 2005, we served over 775 distinct clients. No individual client accounted for over 3.5% of our consolidated contract revenue in fiscal year 2005. For fiscal year 2005, each of our top eight clients accounted for between 2.1% and 3.5% of our consolidated contract revenue. Our clients are predominantly based in California, although we have major clients in both Arizona and Nevada. For fiscal year 2005, services provided to public agencies in California accounted for approximately 85% of our contract revenue.

Contract Structure

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

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

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

- *Fixed-price provisions* require all work under a contract to be performed for a specified lump sum, which may be subject to adjustment if the scope of the project changes. Contracts with fixed-price provisions carry certain inherent risks, including risks of losses from underestimating costs, delays in project completion, problems with new technologies, price increases for materials, and economic and other changes that may occur over the contract period. Consequently, the profitability, if any, of fixed-price contracts may vary substantially.

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

	Fiscal Year	
	2004	2005
Time-and-materials	58%	58%
Unit-based	29%	29%
Fixed-price	13%	13%
	100%	100%

Under each of the different types of contracts, other than unit-based, we bill our clients periodically in accordance with the contract terms based on costs incurred, on either an hourly-fee basis or on a percentage of completion basis, as the project progresses. For unit-based contracts, we bill our clients upon delivery of the contracted item or, in some cases, in advance of delivery.

Our contracts come up for renewal periodically and at the time of renewal may be subject to renegotiation, which could impact the profitability on that contract. In addition, during the term of a contract, public agencies may request additional or revised services which may impact the economics of the transaction. Most of our contracts permit our clients, with prior notice, to terminate the contracts at any time without cause. While the renewal, termination or modification of a contract may materially impact an individual project, we do not believe the renewal, termination or modification of any specific contract would have a material adverse effect on our consolidated operations due to our large volume of transactions and low customer concentration.

Competition

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

Doing business with governmental agencies is complex and requires the ability to comply with intricate regulations and satisfy periodic audits. We have been serving cities, counties, special districts and other public agencies for over 40 years. We believe that the ability to understand these requirements and to successfully conduct business with governmental entities and agencies is a barrier to entry for potential competitors.

Our competition varies by type of client, type of service and geography. The range of competitors for any one project can vary depending upon technical specialties, the relative value of the project, geographic location, financial terms, risks associated with the work, and any client imposed restrictions. Unlike most of our competitors, we focus our services on public sector clients. Public sector clients generally choose among competing firms by weighing the quality, experience, innovation and timeliness of the firm's services. When selecting consultants for engineering projects, many government agencies are required to, and others choose to, employ Qualifications Based Selection, or QBS. QBS requires the selection of the most technically qualified firms for a project, while the financial and legal terms of the engagement are generally secondary. QBS applies primarily to work done by our Engineering Services segment. Contracts in the Public Finance Services and Homeland Security Services areas typically are not subject to mandatory QBS standards, and often are awarded through a competitive bid process.

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

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

Insurance

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

Employees

At September 30, 2006, we had approximately 511 full-time employees and 157 part-time employees. All PARs employees are classified as part-time. Our employees include, among others, licensed civil, traffic and structural engineers, land surveyors, certified building officials, licensed geotechnical engineers and engineering geologists, certified inspectors and plans examiners, licensed architects and landscape architects, certified planners, and information technology specialists. We believe that we attract and retain highly skilled personnel with significant industry experience and strong client relationships by offering them challenging assignments in a stable work environment. We believe that our employee relations are good.

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			As of September 30, 2006
	2003	2004	2005	
Engineering Services	356	404	481	543
Public Finance Services	60	65	78	77
Homeland Security Services(1)	N/A	N/A	1	4
Holding Company Employees (Willdan Group, Inc.)	35	39	39	44
Total	451	508	599	668

(1) We currently contract with approximately 20 former and current public safety officers to conduct AHS training courses. These instructors are classified as subconsultants.

At September 30, 2006, all four of our field survey employees were covered by a Master Labor Agreement between the International Union of Operating Engineers Local Union No. 12 and the Southern California Association of Civil Engineers and Land Surveyors, which expires in October 2007.

Intellectual Property

The Willdan, The Willdan Group of Companies, MuniFinancial, Arroyo Geotechnical, and AHS names and logos are service marks of ours, and we have applied for federal trademark registrations for each with the United States Patent and Trademark Office. We believe we have strong name recognition in the western United States and that this provides us a competitive advantage in obtaining new business. Consequently, we believe it is important to protect our brand identity through trademark registrations. The name and logo of our proprietary software, MuniMagic®, are registered trademarks of MuniFinancial, and we are planning to file an application for a federal copyright registration for the source code for the MuniMagic® software. We license the MuniMagic® software to existing clients pursuant to licensing agreements that allow varying levels of access to data. This technology allows clients to view their own data and is a form of deliverable to our clients. The use of licensing provides us protection for this propriety technology. MuniMagic® is not a commercial product offered for sale.

Properties

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

Legal Proceedings

We are subject from time to time to claims and lawsuits, including those alleging professional errors or omissions, that arise in the ordinary course of business against firms, like ours, that operate in the engineering and consulting professions. We carry professional liability insurance, subject to certain deductibles and policy limits, for such claims as they arise and may from time to time establish reserves for litigation that is considered probable of a loss. Except as discussed below, we are unaware of any claims and do not currently have any lawsuits against us.

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

In the fourth quarter of 2005, following a trial in the Los Angeles County Superior Court, the jury rendered a verdict against us and awarded damages to the City in the amount of $6.3 million, including attorney's fees, interest and costs. As of December 30, 2005, we believed that approximately $3.2 million of the damages was covered by our professional liability insurance policy. Therefore, in fiscal year 2005, we expensed $2.7 million of this judgment and recorded related interest expense of $0.4 million. In our consolidated balance sheet as of December 30, 2005, we reflected a total liability of $6.3 million and the related receivable of $3.2 million from the insurance company.

Our insurance company has posted bonds and retained counsel to file an appeal with respect to this matter. During the appeal process, interest will accrue on the outstanding judgment at the rate of 10% per annum. We cannot predict the outcome of this appeal process.

In the third quarter of 2006, we obtained a court ruling awarding us approximately $1.0 million on a claim for indemnity, recovering the settlement amount and interest thereon and attorney fees and costs in connection with an unrelated claim that arose in fiscal year 2002. Because the claim arose in 2002 and our insurance carrier previously paid the settlement amount, we will be able to replenish our insurance coverage by approximately $1.0 million for that policy year. As a result, we have approximately $1.0 million of additional insurance coverage available for the West Hollywood case discussed above since that claim also arose in 2002. Therefore, we expect to reflect an additional receivable of approximately $1.0 million from our insurance company in the third quarter of 2006 and a corresponding reduction in the litigation accrual expense related to the West Hollywood case.

MANAGEMENT

Executive Officers, Directors and Significant Employees

The following table sets forth information regarding our executive officers, directors and other significant employees, including their ages as of the date of this prospectus. Our board of directors currently consists of five members. Our directors hold office until their successors have been duly elected and qualified or until the earlier of their resignation or removal.

Executive Officers and Directors:	Age	Position
Win Westfall	72	President, Chief Executive Officer and Chairman of the Board of Directors
Mallory McCamant	43	Chief Financial Officer, Senior Vice President and Assistant Secretary
Richard Kopecky	66	Senior Vice President and President and Chief Executive Officer of Willdan subsidiary
Linda L. Heil	67	Director
W. Tracy Lenocker	61	Director
Keith W. Renken	72	Director
Chell Smith	51	Director
Significant Employees:		
Del Conrad	60	Vice President of Financial Reporting & Compliance
Frank G. Tripepi	59	President and Chief Executive Officer of MuniFinancial subsidiary
Ross Khiabani	56	President and Chief Executive Officer of Arroyo Geotechnical subsidiary
Kenneth L. Bayless	59	President and Chief Executive Officer of American Homeland Solutions subsidiary

Win Westfall has served as our President, Chief Executive Officer and Chairman of the Board since May 2006, and has been a member of our board of directors since 2001. Mr. Westfall was our Senior Vice President of Corporate Relations from January 2004 to May 2006, and was a regional manager in northern California from 1998 through January 2004. Mr. Westfall has over 35 years experience as a line manager for consulting engineering firms, and has served as city engineer for seven California cities. Mr. Westfall received his B.S. in Civil Engineering from the University of Southern California in 1962, and a M.B.A. from Pepperdine University in 1980. Mr. Westfall is a fellow of The Society of American Military Engineers and has been active in numerous other professional associations. During 1997, he served as the National President for The American Public Works Association, the first private consultant to hold this position. Mr. Westfall has served on and chaired national committees for the American Council of Engineering Companies, and in 2004 was made an Honorary CLOD (past president) of the County Engineers Association of California, the first private consultant to be accorded this honor, as well. He is a registered civil engineer in California, Hawaii, Idaho, Nevada and Washington.

Mallory McCamant has served as our Chief Financial Officer since she rejoined us in January 2006. From January 2004 to December 2005, Ms. McCamant was the President and sole shareholder of Core Equities Corp., a business consulting firm in southern California which provided consulting services to Willdan and other business entities. From January 1996 to January 2004, Ms. McCamant served as our

Senior Vice President and Chief Financial Officer. During this period, Ms. McCamant also served for two years as the President and Chief Executive Officer of our subsidiary, MuniFinancial. Ms. McCamant's affiliation with us originally commenced in 1988 when she joined us as an administrative analyst. Prior to joining us she held positions at a financial institution and in commercial mortgage banking. Ms. McCamant received a B.A. in Political Science from the University of California, Irvine in 1984, and a M.B.A. in 1986, from the University of California, Irvine.

Richard Kopecky has served as the President and Chief Executive Officer of our wholly owned subsidiary, Willdan, since 2000, and also is a Senior Vice President of Willdan Group, Inc. He was a member of our Board of Directors from 1994 until September 2006. Mr. Kopecky has been employed with us for over 27 years, serving as a Senior Vice President and regional manager for multiple Willdan operations. He also served as President and Chief Executive Officer of MuniFinancial from September 1999 until he became president of Willdan in 2001. Mr. Kopecky has over 41 years of engineering experience. He continues to manage engineering, building and safety and public works projects on a contract basis for several southern California cities. Mr. Kopecky received his B.S. in Civil Engineering from the University of Illinois in 1963. He is a registered civil engineer in California.

Linda L. Heil has served as a member of our Board of Directors since May 2006 and currently is our largest individual stockholder. Mrs. Heil is the widow of Dan Heil who co-founded the company in 1964. Mr. Heil served as our Chief Executive Officer and Chairman from the company's inception until 1993, and then again from 1995 until his passing in May 2006. Mrs. Heil is retired from active employment but has been a licensed real estate agent since 1977 and has practiced periodically.

W. Tracy Lenocker has served as a member of the Board of Directors periodically since the 1980's, and continuously since 1997. Mr. Lenocker is currently the President and majority owner of Civilsoft which provides civil engineering and geographic information systems, or GIS, software worldwide. He also founded Lenocker & Associates in 1995 which provides GIS services to public agencies. He has worked in both the public and private engineering sectors in California and Florida. Mr. Lenocker was a part-time instructor in civil engineering California State University, Long Beach from 1980 to 1991. He is past chairman of the American Society of Civil Engineers, or ASCE, Committee on Computer Practices and received the national ASCE award in Computing in Civil Engineering. Mr. Lenocker received a B.S. in Civil Engineering in 1975 from the University of Florida, and a M.S. in Civil Engineering from California State University, Long Beach in 1980. Mr. Lenocker is a registered civil engineer in California.

Keith W. Renken joined our Board of Directors in September 2006. Mr. Renken retired in 1992 as Senior Partner and Chairman, Executive Committee of Southern California, for the public accounting firm Deloitte & Touche. He currently is an adjunct professor in the Marshall School of Business at the University of Southern California. He serves as a director on the boards of two publicly held companies, East West Bancorp, Inc. since 2000 and 21st Century Insurance Group since 2002. Mr. Renken is a Certified Public Accountant in the states of Arizona and California, as well as a member of the American Institute of Certified Public Accountants and the California Society of Certified Public Accountants. He received a B.S. in Business Administration in 1957 from the University of Arizona, and a M.S. in Business Administration from the University of Arizona in 1959.

Chell Smith joined our Board of Directors in September 2006. Ms. Smith was the Chief Executive Officer Americas for Capgemini, a global consulting and technology services company, formerly Cap Gemini Ernst & Young. Ms. Smith was responsible for Capgemini's North American operations from April 2004 until she retired in June 2005. Prior to holding this position, she served as Capgemini's Group Managing Director—Global Operations from December 2002 to April 2004 and its Managing Director—Technology Services from May 2000 to December 2002. Previously, she was Partner and Global Practice Leader—Critical Technologies for Ernst & Young, LLP from October 1997 to May 2000. Ms. Smith held other management and partnership positions within Ernst & Young from

January 1989 through October 1997. She currently serves as a director on the board of ITSolutions, LLC.

Del Conrad has been our Vice President of Financial Reporting and Compliance since April 2006. He oversees our timely compliance with all applicable reporting requirements and regulations. From 2002 until joining us, he developed a consulting practice that specialized in addressing public companies' financial reporting problems and Sarbanes-Oxley compliance. From 1995 to 2002, Mr. Conrad was the Chief Financial Officer, Treasurer and Secretary at Troy Group, a technology company, where he managed its public offering. Prior to his work at Troy Group, Mr. Conrad spent 10 years as an audit partner with McGladrey & Pullen, LLP. He received a B.A. in Business Administration in 1972 from the University of Iowa.

Frank G. Tripepi has been the President and Chief Executive Officer of our subsidiary, MuniFinancial, since June 2002. Prior to joining MuniFinancial, Mr. Tripepi served as the city manager of Rosemead, California for approximately 28 years. In April 2004, Mr. Tripepi received an appointment to the Board of Governors of the Rose Institute of State and Local Government. The Rose Institute conducts and publishes research on California government and politics. Mr. Tripepi received his B.A. in Political Science in 1969 from California State University, Fullerton.

Ross Khiabani has been the President and Chief Executive Officer of our subsidiary, Arroyo Geotechnical, since September 2003. Prior to joining Arroyo Geotechnical, he was the President of Leighton Consulting, a division of Leighton Group, Inc., where he spent 23 years. Mr. Khiabani has over 25 years experience in geotechnical engineering, including assignments in commercial, residential, industrial and institutional development, ports and harbors, public works, transportation (including major bridges, local roads, freeways and toll roads) and water and wastewater facilities. Mr. Khiabani received a B.S. in Geology and a M.S. in Geotechnical Engineering from Pahlavi University in Iran. He is a registered civil engineer in California, Arizona and Nevada, and a registered geotechnical engineer in California.

Kenneth L. Bayless is the President and Chief Executive Officer of our subsidiary, American Homeland Solutions, or AHS. He joined AHS in 2005, after his retirement as a Division Chief with the Los Angeles County Sheriff's Department, or LASD. During his 33 years of service with the LASD, he worked closely with the 40 cities under contract for law enforcement services, specializing in the design and implementation of risk management training. As a member of the LASD, Mr. Bayless was significantly involved in the planning and security for the 1984 Olympic Games held in Los Angeles, California. During the Games, he commanded the Olympic Security Coordination Center, a multi-jurisdictional command center which directed security and emergency operations for the dozens of local, state and federal law enforcement agencies involved in security for the Games. He also has extensive emergency operations experience, including field command assignments and emergency operations center command during response to riots, earthquakes and fires. Mr. Bayless holds a B.A. in Psychology from the University of California, Los Angeles and a M.A. in Public Administration from the University of Southern California.

Board Committees

Our board of directors has established an audit committee, a compensation committee and a nominating and corporate governance committee, each of which will operate pursuant to a separate charter adopted by our board of directors. The composition and functioning of all of our committees will comply with all applicable SEC rules and regulations and the Nasdaq Global Market listing standards.

Audit Committee. Our audit committee will be comprised of Mr. Lenocker, Mr. Renken and Ms. Smith. Mr. Renken will serve as the committee's chairman and will also qualify as the "audit committee financial expert" as defined by the SEC. The audit committee's responsibilities include:

- appointing, approving the compensation of, and assessing the independence of our independent registered public accounting firm;
- pre-approving auditing and permissible non-audit services, and the terms of such services, to be provided by our independent registered public accounting firm;
- reviewing, at least annually, a report by the independent registered public accounting firm regarding the independent registered public accounting firm's internal quality control procedures and various issues relating thereto;
- reviewing and discussing with management and the independent registered public accounting firm our annual and quarterly financial statements and related disclosures;
- coordinating the oversight and reviewing the adequacy of our internal control over financial reporting with both management and the independent registered public accounting firm;
- establishing policies and procedures for the receipt and retention of accounting related complaints and concerns, including a confidential, anonymous mechanism for the submission of concerns by employees;
- periodically reviewing legal compliance matters, including securities trading policies, periodically reviewing significant accounting and other risks or exposures to our company, reviewing and, if appropriate, approving all transactions between our company or its subsidiaries and any related party (as described in Item 404 of Regulation S-K) and periodically reviewing business expenses of our Chief Executive Officer;
- establishing policies for the hiring of employees and former employees of the independent registered public accounting firm; and
- preparing the audit committee report required by SEC rules to be included in our annual proxy statement.

Compensation Committee. Our compensation committee will be comprised of Mr. Lenocker, who will be the chairman of the committee, Mr. Renken and Ms. Smith. Mr. Renken and Ms. Smith will be "non-employee directors" within the meaning of Rule 16b-3(d)(3) promulgated under the Securities Exchange Act of 1934. Mr. Lenocker, however, will not be a "non-employee director" until our fiscal year 2008. Until the compensation committee is composed solely of non-employee directors, our board of directors will approve any grants and awards under our 2006 Stock Incentive Plan to its officers and directors as is required by Rule 16b-3(d)(1). Mr. Renken and Ms. Smith will also be "outside directors" within the meaning of Section 162(m) of the Internal Revenue Code, as amended. Mr. Lenocker will not be an "outside director" until fiscal year 2007. We will rely on the exception from compliance with Section 162(m) for new public companies until we have a compensation committee comprised entirely of outside directors. The compensation committee's responsibilities include:

- annually reviewing and approving corporate goals and objectives relevant to compensation of our chief executive officer;
- evaluating the performance of our chief executive officer in light of such corporate goals and objectives and determining the compensation of our chief executive officer;
- reviewing and approving the compensation of our other executive officers;
- overseeing and administering our compensation, welfare, benefit and pension plans and similar plans;

- reviewing and making recommendations to the board of directors with respect to director compensation; and
- preparing for inclusion in our proxy statement the report of the compensation committee required by the SEC.

Nominating and Corporate Governance Committee. Our Nominating and Corporate Governance Committee will be comprised of Mr. Lenocker, who will be the chairman of the committee, and Mr. Renken and Ms. Smith. The Nominating and Corporate Governance Committee's responsibilities include:

- developing and recommending to the board of directors criteria for board of directors and committee membership;
- identifying individuals qualified to become board of directors members;
- recommending to the board of directors the persons to be nominated for election as directors and to each of the board of directors' committees;
- developing and recommending to the board of directors a code of ethical conduct and a set of corporate governance policies and practices; and
- monitoring and evaluating the performance of the board of directors and leading the board in an annual self-assessment of its practices and effectiveness.

Director Compensation

We pay cash compensation to our current directors who are not employees of the company. In anticipation of this offering, we are compensating our non-employee directors as follows:

- annual retainer: $30,000
- personal attendance at board, stockholder or committee meetings: $2,500 per day
- telephonic attendance at board, stockholder or committee meetings: $1,500 per day
- annual retainer for audit committee chair: $5,000
- annual retainer for compensation committee chair: $2,500
- equity compensation: annual option grants to purchase 2,000 shares of our common stock at an exercise price equal to the fair market value of our common stock on the date of grant. The options shall vest in two equal annual installments beginning on the first anniversary of the grant date. The option grants shall be subject to the terms of our 2006 Stock Incentive Plan and the related option agreement.

We have compensatory arrangements with certain current directors other than for director services, as described in the sections of this prospectus captioned "Executive Compensation" and "Certain Relationships and Related Party Transactions".

Compensation Committee Interlocks and Insider Participation

None of our executive officers serves as a member of the board of directors or compensation committee, or other committee serving an equivalent function, of any other entity that has one or more of its executive officers serving as a member of our board of directors or compensation committee.

Limitation of Liability and Indemnification

As permitted by the Delaware General Corporation Law, we have adopted provisions in our certificate of incorporation and by-laws to be in effect at the completion of this offering that limit or eliminate the personal liability of our directors. Consequently, a director will not be personally liable to us or our stockholders for monetary damages for breach of fiduciary duty as a director, except for liability for:

- any breach of the director's duty of loyalty to us or our stockholders;
- any act or omission not in good faith or that involves intentional misconduct or a knowing violation of law;
- any unlawful payments related to dividends or unlawful stock repurchases, redemptions or other distributions; or
- any transaction from which the director derived an improper personal benefit.

These limitations of liability do not alter director liability under the federal securities laws and do not affect the availability of equitable remedies such as an injunction or rescission.

In addition, our by-laws provide that:

- we will indemnify our directors, officers and, at the discretion of our board of directors, certain employees and agents to the fullest extent permitted by the Delaware General Corporation Law; and
- we will advance expenses, including attorneys' fees, to our directors and to our officers and certain employees, in connection with legal proceedings, subject to limited exceptions.

Contemporaneous with the completion of this offering, we intend to enter into indemnification agreements with each of our executive officers and directors. These agreements provide that we will indemnify each of our executive officers and directors to the fullest extent permitted by law and advance expenses to each indemnitee in connection with any proceeding in which indemnification is available.

We also maintain general liability insurance that covers certain liabilities of our directors and officers arising out of claims based on acts or omissions in their capacities as directors or officers, including liabilities under the Securities Act of 1933, as amended. Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers, or persons controlling the registrant pursuant to the foregoing provisions, we have been informed that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

The above provisions may discourage stockholders from bringing a lawsuit against our directors for breach of their fiduciary duty. The provisions may also have the effect of reducing the likelihood of derivative litigation against directors and officers, even though such an action, if successful, might otherwise benefit us and our stockholders. Furthermore, a stockholder's investment may be adversely affected to the extent we pay the costs of settlement and damage awards against directors and officers pursuant to these indemnification provisions. We believe that these provisions, the indemnification agreements and the insurance are necessary to attract and retain talented and experienced directors and officers.

At present, there is no pending litigation or proceeding involving any of our directors or officers where indemnification will be required or permitted. We are not aware of any threatened litigation or proceedings that might result in a claim for such indemnification.

Code of Ethical Conduct

Our board of directors has adopted a code of ethical conduct applicable to our non-employee directors, principal executive officer, principal financial officer and employees in accordance with applicable rules and regulations of the SEC and the Nasdaq Global Market. Upon completion of this offering, our code of ethical conduct will be available on our website.

Executive Compensation

Compensation Earned. The following table summarizes the compensation earned during fiscal year 2005 by our former and current chief executive officer and our other executive officer on December 30, 2005. We refer to these individuals as our "named executive officers."

Summary Compensation Table

Name and Principal Position	Salary	Bonus	All Other Compensation[3]
Dan W. Heil[1] President, Chief Executive Officer and Chairman of the Board	$ 230,006	$ 200,000	$ —
Win Westfall[1] President, Chief Executive Officer and Chairman of the Board	$ 117,550	$ 50,000	$ 7,989
Mallory McCamant[2] Senior Vice President, Chief Financial Officer	—	—	—
Richard Kopecky Senior Vice President and President and Chief Executive Officer of Willdan subsidiary	$ 203,861	$ 175,000	$ 5,964

(1) Dan W. Heil passed away on May 15, 2006. On May 3, 2006, our board of directors elected Win Westfall to be our president and chief executive officer. Effective July 18, 2006, Mr. Westfall's compensation includes an annual base salary of $215,000 per year and a company-owned automobile. Prior to this, Mr. Westfall served as a senior vice president of corporate relations, and worked a reduced schedule. His compensation for fiscal year 2005 reflects that modified schedule. See "Certain Relationships and Related Party Transactions" for information on medical benefits extended to Mr. Westfall and his spouse, Patricia Westfall.

(2) Ms. McCamant was not hired as an employee until January 1, 2006. Refer to the discussion below regarding her employment agreement under "—Employment and Severance Agreements." Prior to Ms. McCamant's return to the company, Mr. Heil served as our Chief Financial Officer.

(3) All other compensation includes automobile allowances and the value of personal use of a company-owned automobile.

We only recently adopted and approved our first stock incentive plan pursuant to which we may grant options to our employees. See "—2006 Stock Incentive Plan." Prior to the adoption of this plan, we did not have any incentive stock option plans nor any outstanding options to purchase shares of our common stock. Concurrent with the completion of this offering, we intend to grant an option to purchase 10,000 shares of our common stock to each of Win Westfall and Mallory McCamant at an exercise price equal to the initial public offering price of our common stock. Each option shall be fully vested upon the date of grant and shall expire two years from the date of grant.

Employment and Severance Arrangements

We entered into a restated employment agreement, effective August 1, 2006, with Mallory McCamant, in her capacity as our Chief Financial Officer. Ms. McCamant's employment agreement provides for an annual base salary of $185,000, a bonus, an automobile allowance of $910 per month plus a gas allowance and additional benefits. Either party may terminate this agreement at any time. Pursuant to the agreement, should we terminate Ms. McCamant's employment without cause prior to December 31, 2006, we agree to pay Ms. McCamant her salary and benefits through June 30, 2007. Should we terminate Ms. McCamant's employment without cause at any time after December 31, 2006, we agree to pay her a severance benefit equal to six months salary plus the cash equivalent of six months of regular employee benefits. If she is terminated without cause during the first three months of 2007, she also will be provided with the 2006 bonus she otherwise would have been paid had she been employed through that period.

2006 Stock Incentive Plan

In connection with this offering, our board of directors adopted our 2006 Stock Incentive Plan, which we refer to as the 2006 Plan. We plan to submit the 2006 Plan to our stockholders for approval following the completion of this offering. If our stockholders do not approve the 2006 Plan within twelve months of the date the 2006 Plan was approved by our board of directors, then any Award (as defined below) previously made will be automatically cancelled without any further act.

The 2006 Plan will terminate ten years after it was approved by our board of directors. The 2006 Plan provides for the grant of incentive stock options, or ISOs, as defined in section 422 of the Internal Revenue Code of 1986, as amended, or the Code, and nonstatutory stock options, which we refer to collectively as Awards, to our directors, executives, officers, employees, consultants and advisors.

Shares Reserved

Up to 300,000 shares of our common stock are reserved for issuance upon the grant or exercise of Awards under the 2006 Plan. The shares subject to the 2006 Plan, the limitations on the number of shares that may be awarded under the 2006 Plan and shares and option prices subject to awards outstanding under the 2006 Plan may be adjusted by the compensation committee of the board of directors to reflect any stock dividend or split, recapitalization, merger, consolidation, combinations or exchanges of shares or similar corporate change. As of September 15, 2006, we have not yet granted any Awards under the 2006 Plan. However, concurrent with the completion of this offering, we intend to grant an option to purchase 10,000 shares of our common stock to each of Win Westfall and Mallory McCamant at an exercise price equal to the initial public offering price of our common stock. Each option shall be fully vested upon the date of grant and shall expire two years from the date of grant.

Shares withheld for taxes, shares used to pay the exercise price of an option in a net exercise and shares tendered to us to pay the exercise price of an Award may be available for future grants of Awards under the 2006 Plan. In addition, shares subject to Awards that have expired, been forfeited or otherwise terminated without having been exercised may be subject to new Awards. Shares issued under the 2006 Plan may be previously authorized but unissued shares, treasury shares or reacquired shares bought on the open market.

Administration

Generally, the compensation committee of our board of directors administers the 2006 Plan. The committee has the authority to

- select the individuals who will receive Awards;
- determine the type or types of Awards to be granted;
- determine the number of Awards to be granted and the number of shares to which an Award will relate;
- determine the terms and conditions of any Award, including the exercise price, the exercisability of an Award, and any restrictions or limitations;
- determine the terms of settlement of any Award;
- prescribe the form of Award agreement;
- decide all other matters that must be determined in connection with an Award;
- establish, adopt or revise rules for administration of the 2006 Plan;
- interpret the terms of the 2006 Plan and any matters arising under the 2006 Plan or any Award agreement; and
- make all other decisions and determinations as may be necessary to administer the 2006 Plan.

The compensation committee, with the approval of the board of directors, may also terminate or amend the 2006 Plan. Termination of, or amendments to, the 2006 Plan are subject to stockholder approval to the extent required by law, or the rules or regulations of the Nasdaq Global Market (or any national securities exchange on which our shares are listed). Additionally, stockholder approval will be specifically required to increase the number of shares available for issuance under the 2006 Plan, to permit the granting of options for our common stock with an exercise price that is below fair market value on the date of grant, or to extend the term of an option beyond ten years.

Eligibility

Awards under the 2006 Plan may be granted to individuals who are directors, officers, executives, employees, and our consultants and advisors. However, options that are intended to qualify as ISOs may only be granted to employees.

Awards

The following will briefly describe the principal features of the various Awards that may be granted under the 2006 Plan.

Options. Options provide for the right to purchase our common stock at a specified price, and usually will become exercisable at the discretion of the compensation committee in one or more installments after the grant date. The option exercise price may be paid in cash, by check, promissory note, shares of our common stock, which have been held by the option holder for longer than six months, or other property with equal value acceptable to the compensation committee, or through other methods as the compensation committee may approve from time to time. Options may take two forms, nonstatutory stock options, or NSOs, and incentive stock options, or ISOs.

NSOs may be granted for any term specified by the compensation committee, but shall not exceed ten years. Unless an Award agreement provides otherwise, NSOs will lapse immediately upon termination of the participant's employment with us for cause. NSOs may not be granted at an exercise price that is less than the fair market value of our common stock on the date of grant.

ISOs will be designed to comply with the relevant provisions of the Code, including regulations promulgated thereunder, and will be subject to certain restrictions contained in the Code in order to qualify as ISOs. Among such restrictions ISOs must:

- have an exercise price not less than the fair market value of our common stock on the date of grant or, if granted, to certain individuals who own or are deemed to own at least 10% of the total combined voting power of all of our classes of stock, or 10% stockholders, then such exercise price may not be less than 110% of the fair market value of our common stock on the date of grant;

- be granted only to our employees and employees of our subsidiary corporations;

- expire with a specified time following the option holder's termination of employment;

- be exercised within ten years after the date of grant, or with respect to 10% stockholders, no more than five years after the date of grant; and

- not be first exercisable for more than $100,000, determined based on the exercise price.

No ISO may be granted under the 2006 Plan after 10 years from the date our board of directors approved the 2006 Plan. No participant may be granted an option to purchase more than 100,000 shares in any fiscal year.

Change of Control

Upon a change of control as defined in the 2006 Plan, all Awards will become fully exercisable and all restrictions will lapse if the Awards are converted, assumed, or replaced by a successor and the participant's employment with us is terminated without cause within 90 days following the date of the change of control. If a change of control occurs and Awards are not converted, assumed, or replaced by a successor, all outstanding Awards shall become fully exercisable and all restrictions will lapse. In addition, the compensation committee may cause the Awards to terminate but will give the holder of the Awards the right to exercise their outstanding Awards for a period of time prior to the change of control, the length of which shall be determined by the compensation committee in its sole and absolute discretion.

Adjustments upon Certain Events

The number and kind of securities subject to an Award and the exercise price or base price may be adjusted at the discretion of the compensation committee to reflect any stock dividend or split, recapitalization, merger, consolidation, combination or exchanges of shares or similar corporate change.

Awards Not Transferable

The Awards may not be pledged, encumbered or hypothecated other than to the Company or one of our subsidiaries. Generally, the Awards may not be assigned or transferred other than by will or by laws of descent and distribution. A participant may, in a manner determined by the compensation committee, designate a beneficiary to exercise the rights of the participant and to receive any distribution with respect to any Award upon the participant's death.

Miscellaneous

As a condition to the issuance or delivery of stock or payment of other compensation pursuant to the exercise or lapse of restrictions on any Award, we require participants to discharge all applicable withholding tax obligations. Shares held by or to be issued to a participant may also be used to discharge tax withholding obligations, subject to the discretion of the compensation committee to disapprove of such use.

The 2006 Plan will expire and no further Awards may be granted after the tenth anniversary of its approval by our board of directors.

2006 Employee Stock Purchase Plan

We have adopted our 2006 Employee Stock Purchase Plan, which is designed to allow our eligible employees and the eligible employees of our participating subsidiaries to purchase shares of common stock, at semi-annual intervals, with their accumulated payroll deductions.

We have reserved 300,000 shares of our common stock 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 will commence on January 1, 2007 and will end on June 30, 2007.

Individuals who customarily work more than 20 hours per week and for more than five months per calendar year may join on the first day of any offering period. However, no employee is eligible to participate in the plan if that employee would, immediately upon enrollment, be deemed to own, for purposes of Section 423(b)(3) of the Code, an aggregate of 5% or more of the total combined voting power or value of all outstanding shares of all classes of our stock or the participating subsidiary. Eligible employees must file a properly executed enrollment form with us at least two weeks prior to the first day of an offering period. When an employee first files a properly completed enrollment form the employee must select a contribution level of not less than 1% nor more than 10% of such employee's salary and wages, including overtime but excluding bonuses. Our board of directors may specify a lower minimum rate or higher maximum rate, but only in compliance with Section 423 of the Code. After enrolling in the plan, each participant will be automatically re-enrolled in the plan for the next offering period at the same contribution level unless the participant withdraws from the plan, changes his or her contribution level or is no longer eligible to participate.

Participants make contributions under the plan only by means of payroll deductions each payroll period. The accumulated contributions will be applied to the purchase of shares. Shares will be purchased under the plan on, or as soon as practicable after, the last day of the offering period. The purchase price per share will equal 95% of the fair market value of a share on the last day of such offering period. If the number of shares to be purchased for an offering period exceeds the number of shares then available under the plan, the board of directors will make a pro rata allocation of the shares remaining available for purchase in as uniform a manner as shall be practicable and as it shall determine to be equitable.

In the event of any extraordinary dividend or other distribution, recapitalization, forward or reverse split, reorganization, merger, consolidation, spin-off, combination, repurchase, or share exchange or other similar corporate transaction or event affecting the stock, the number and kind of shares subject to the plan will be proportionately adjusted, as determined by our board of directors.

401(k) Plan

We maintain a 401(k) plan for employees meeting certain service requirements. Generally, the plans allow eligible employees to contribute a portion of their compensation, with the company matching a percentage thereof.

Cash Bonus Plans

Certain of our employees are eligible to earn bonus compensation pursuant to the terms of our incentive compensation plans, based upon attainment of corporate, subsidiary, region, division and individual performance goals. Target bonuses range from 10% to 25% of base salary for corporate executive officers, subsidiary company presidents, and regional managers, and 5% to 15% for division managers and employees of an equivalent level. Bonuses are paid only if the threshold corporate target is met. Participants must have been actively employed for the last six months of the calendar year for which a bonus is paid in order to be eligible for a bonus, and must be employed with the company at the time bonuses are paid. Other employees may also receive cash bonuses, at the discretion of the board of directors, as recommended by the company presidents. In addition, all employees are eligible for our "hot hand" bonus program, which pays on-the-spot awards of up to $2,500 for outstanding performance.

CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

Since 2001 we have had an agreement to receive sub-consultant services from Lenocker & Associates. Tracy Lenocker, the former president, principal and majority owner of Lenocker & Associates, has been a director of our company periodically since the 1980's and continuously since 1997. During fiscal years 2003, 2004 and 2005, we paid to Lenocker & Associates $77,385, $43,195 and $67,817, respectively. We paid $23,430 to Lenocker & Associates in the first six months of fiscal year 2006. Effective July 1, 2006, Mr. Lenocker was no longer affiliated with Lenocker & Associates.

Since 1987, we have had a legislative representation agreement with Joe A. Gonsalves & Son. Anthony Gonsalves, the principal and sole owner of Joe A. Gonsalves & Son, Inc. was a director of our company from March 2005 until September 2006. During fiscal years 2003, 2004 and 2005, we paid to Joe A. Gonsalves & Son $20,045, $35,480 and $41,978, respectively. We paid $15,705 to Joe A. Gonsalves & Son in the first six months of fiscal year 2006.

Prior to or upon the completion of this offering, we will enter into a Tax Agreement Relating to S Corporation Distributions with each of our stockholders, including Mrs. Heil, Ms. McCamant (former stockholder), and Messrs. Westfall, Kopecky, Lenocker and Gonsalves. Pursuant to these agreements, we have agreed to indemnify, defend and hold harmless each stockholder on an after-tax basis against additional income taxes, plus interest and penalties resulting from adjustments made, as a result of a final determination made by a competent tax authority, to the taxable income we reported as an S Corporation. Such indemnification will also include any losses, costs or expenses, including reasonable attorneys' fees, arising out of a claim for such tax liability.

Mrs. Heil has provided personal guarantees to our lender in connection with our term loan and $8.0 million revolving line of credit. As of September 30, 2006, the outstanding balance of the term loan was $0.3 million and there was no outstanding balance on the revolving line of credit. We intend to obtain releases of the foregoing personal guarantees upon the completion of this offering. As a result of obtaining these releases, we expect that our minimum tangible net worth covenant under our credit facility will increase from $9 million to $16 million.

On May 19, 2006, our board of directors approved the extension of lifetime medical benefits to Mrs. Heil and Mr. Westfall and his spouse, Patricia Westfall. Mrs. Heil's eligible dependents are included through the maximum age allowable under our benefits plan.

In connection with this offering, we will enter into an Indemnification Agreement with Mrs. Heil, as trustee of The 1994 Dan W. Heil and Linda Lee Heil Revocable Trust, the selling stockholder in this offering. Pursuant to this agreement, we will agree to indemnify the selling stockholder against certain liabilities, including liabilities under the Securities Act of 1933, and to contribute to payments that the selling stockholder may be required to make for certain liabilities.

PRINCIPAL AND SELLING STOCKHOLDERS

The following table sets forth the beneficial ownership information of our common stock at September 30, 2006, and as adjusted to reflect the sale of the shares of common stock in the offering, for:

- each person known to us to be the beneficial owner of more than 5% of our common stock;
- each executive officer;
- each of our directors;
- all of our executive officers and directors as a group; and
- the selling stockholder.

To our knowledge, the selling stockholder purchased the shares of our stock in the ordinary course of business and, at the time of acquiring the securities to be resold, the selling stockholder had no agreements or understandings, directly or indirectly, with any person to distribute the securities.

Unless otherwise noted below, the address of the persons listed on the table is c/o Willdan Group, Inc., 2401 East Katella Avenue, Suite 300, Anaheim, California 92806. The amounts and percentages of common stock beneficially owned are reported on the basis of regulations of the SEC governing the determination of beneficial ownership of securities. Under the rules of the SEC, a person is deemed to be a "beneficial owner" of a security if that person has or shares "voting power," which includes the power to vote or to direct the voting of such security, or "investment power," which includes the power to dispose of or to direct the disposition of such security. A person is also deemed to be a beneficial owner of any securities of which that person has a right to acquire beneficial ownership within 60 days. Under these rules, more than one person may be deemed a beneficial owner of the same securities and a person may be deemed a beneficial owner of securities as to which he has no economic interest. We believe, based on the information furnished to us, that the persons named in the table below have sole voting and investment power with respect to all shares of common stock reflected as beneficially owned, subject to applicable community property laws. We have based our calculation of the percentage of beneficial ownership on 4,712,640 shares of common stock outstanding on September 30, 2006, and 6,712,640 shares of common stock outstanding upon completion of this offering.

	Shares Beneficially Owned Prior to the Offering			**Shares Beneficially Owned After the Offering**	
Executive Officers and Directors	**Number**	**Percent**	**Shares Offered**	**Number**	**Percent**
Win Westfall	800	*	—	800	*
Mallory McCamant	—	—	—	—	—
Linda L. Heil(1)	1,820,120	38.6%	800,000	1,020,120	15.2%
Richard Kopecky(2)	336,020	7.1%	—	336,020	5.0%
W. Tracy Lenocker(3)	200,000	4.2%	—	200,000	3.0%
Keith W. Renken	—	—	—	—	—
Chell Smith	—	—	—	—	—
Executive officers and directors as a group (7 persons)	2,356,940	50.0%	800,000	1,556,940	23.2%
5% Stockholder					
John F. Knipe(4)	320,800	6.8%	—	320,800	4.8%

* Represents beneficial ownership less than 1%.

(1) Represents shares of common stock held in The 1994 Dan W. Heil and Linda Lee Heil Revocable Trust ("Trust"). Mrs. Heil is the sole trustee and beneficiary of the Trust, and has voting and investment control over our shares of common stock held therein.

(2) Represents shares of common stock held in The Richard & Patricia Kopecky 1994 Family Trust.

(3) Represents shares of common stock held in The 1996 Tracy and Joanne Lenocker Family Trust.

(4) Represents shares of common stock held in The John & Alice Knipe 1999 Family Trust.

DESCRIPTION OF CAPITAL STOCK

General

Our authorized capital stock consists of 40,000,000 shares of common stock, par value $0.01 per share, and 10,000,000 shares of preferred stock, par value $0.01 per share. We refer in this section to our amended and restated certificate of incorporation as our certificate of incorporation, and we refer to our amended and restated by-laws as our by-laws.

Common Stock

As of September 30, 2006, there were 4,712,640 shares of our common stock outstanding and held of record by 75 stockholders.

Holders of our common stock are entitled to one vote for each share of common stock held of record for the election of directors and on all matters submitted to a vote of stockholders. Holders of our common stock are entitled to receive dividends ratably, as may be declared by our board of directors out of legally available funds, subject to any preferential dividend rights of any preferred stock then outstanding. Upon our dissolution, liquidation or winding up, holders of our common stock are entitled to share ratably in our net assets legally available after the payment of all our debts and other liabilities, subject to the preferential rights of any preferred stock then outstanding. Holders of our common stock have no preemptive, subscription, redemption or conversion rights. The rights, preferences and privileges of holders of common stock are subject to, and may be adversely affected by, the rights of the holders of shares of any series of preferred stock that we may designate and issue in the future. Except as described below in "—Provisions of our Certificate of Incorporation and By-Laws and Delaware Anti-Takeover Law," a majority vote of common stockholders is generally required to take action under our certificate of incorporation and by-laws.

Preferred Stock

Our board of directors will be authorized, without action by the stockholders, to designate and issue up to an aggregate of 10,000,000 shares of preferred stock in one or more series. Currently, we have not designated any series of preferred stock or otherwise issued any shares of preferred stock. The board of directors can fix the rights, preferences and privileges of the shares of each series and any of its qualifications, limitations or restrictions. Our board of directors may authorize the issuance of preferred stock with voting or conversion rights that could adversely affect the voting power or other rights of the holders of common stock. The issuance of preferred stock, while providing flexibility in connection with possible future financings and acquisitions and other corporate purposes could, under certain circumstances, have the effect of delaying, deferring or preventing a change in control of our company and might harm the market price of our common stock.

Provisions of our Certificate of Incorporation and By-Laws and Delaware Anti-Takeover Law

Our certificate of incorporation and by-laws include a number of provisions that may have the effect of encouraging persons considering unsolicited tender offers or other unilateral takeover proposals to negotiate with our board of directors rather than pursue non-negotiated takeover attempts. These provisions include the items described below.

No Written Consent of Stockholders. Our by-laws provide that all stockholder actions are required to be taken by a vote of the stockholders at an annual or special meeting, and that stockholders may not take any action by written consent in lieu of a meeting.

Meetings of Stockholders. Our by-laws provide that our president, a majority of the members of our board of directors then in office, or stockholders owning at least 25% of the outstanding shares may call special meetings of stockholders and only those matters set forth in the notice of the special meeting may be considered or acted upon at a special meeting of stockholders. Our by-laws limit the business that may be conducted at an annual meeting of stockholders to those matters properly brought before the meeting.

Amendment to By-Laws and Certificate of Incorporation. Any amendment of our certificate of incorporation must first be approved by a majority of our board of directors and, if required by law or our certificate of incorporation, thereafter be approved by not less than 75% of the outstanding shares entitled to vote on the amendment. Our by-laws may be amended by the affirmative vote of a majority of the directors then in office, subject to any limitations set forth in the by-laws, certificate of incorporation or Delaware General Corporation Law; and may also be amended by the affirmative vote of at least 75% of the outstanding shares entitled to vote on the amendment.

Blank Check Preferred Stock. Our certificate of incorporation provides for 10,000,000 authorized shares of preferred stock. The existence of authorized but unissued shares of preferred stock may enable our board of directors to render more difficult or to discourage an attempt to obtain control of us by means of a merger, tender offer, proxy contest or otherwise. For example, if in the due exercise of its fiduciary obligations, our board of directors were to determine that a takeover proposal is not in the best interests of us or our stockholders, our board of directors could cause shares of preferred stock to be issued without stockholder approval in one or more private offerings or other transactions that might dilute the voting or other rights of the proposed acquirer or insurgent stockholder or stockholder group. In this regard, our certificate of incorporation grants our board of directors broad power to establish the rights and preferences of authorized and unissued shares of preferred stock. The issuance of shares of preferred stock could decrease the amount of earnings and assets available for distribution to holders of shares of common stock. The issuance may also adversely affect the rights and powers, including voting rights, of these holders and may have the effect of delaying, deterring or preventing a change in control of us.

Section 203 of the Delaware General Corporate Law

Upon completion of this offering, we will be subject to the provisions of Section 203 of the Delaware General Corporation Law. In general, Section 203 prohibits a publicly held Delaware corporation from engaging in a "business combination" with an "interested stockholder" for a three-year period following the time that this stockholder becomes an interested stockholder, unless the business combination is approved in a prescribed manner. A "business combination" includes, among other things, a merger, asset or stock sale or other transaction resulting in a financial benefit to the interested stockholder. An "interested stockholder" is a person who, together with affiliates and associates, owns, or did own within three years prior to the determination of interested stockholder status, 15% or more of the corporation's voting stock. Under Section 203, a business combination between a corporation and an interested stockholder is prohibited unless it satisfies one of the following conditions:

- before the stockholder became interested, the board of directors approved either the business combination or the transaction which resulted in the stockholder becoming an interested stockholder;

- upon consummation of the transaction which resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced, excluding for purposes of determining the voting stock outstanding, shares owned by persons who are directors and also officers, and employee stock plans, in some instances; or

- at or after the time the stockholder became interested, the business combination was approved by the board of directors of the corporation and authorized at an annual or special meeting of the stockholders by the affirmative vote of at least two-thirds of the outstanding voting stock which is not owned by the interested stockholder.

Nasdaq Global Market Listing

We have applied to have our common stock approved for quotation on the Nasdaq Global Market under the trading symbol "WLDN."

Transfer Agent and Registrar

The transfer agent and registrar for our common stock is U.S. Stock Transfer Corporation.

SHARES ELIGIBLE FOR FUTURE SALE

Immediately prior to this offering, there was no public market for our common stock. Future sales of substantial amounts of common stock in the public market, or the perception that such sales may occur, could adversely affect the market price of our common stock. Although we have applied to have our common stock approved for quotation on the Nasdaq Global Market, we cannot assure you that there will be an active public market for our common stock.

Upon completion of this offering, we will have outstanding an aggregate of 6,712,640 shares of common stock, assuming the issuance of 2,000,000 shares of common stock offered hereby by us. Of our total outstanding shares, the 2,800,000 shares sold in this offering will be freely tradable without restriction or further registration under the Securities Act, except for any shares purchased by our "affiliates," as that term is defined in Rule 144 under the Securities Act, whose sales would be subject to certain limitations and restrictions described below.

The remaining 3,912,640 shares of common stock held by existing stockholders will be subject to "lock-up" agreements with the underwriters on the effective date of this offering. See "Underwriting." Upon expiration of the lock-up agreements 180 days after the effective date of this offering (subject to extension of the period), all 3,912,640 shares will become eligible for sale, subject in most cases to the limitations of Rule 144.

In general, under Rule 144 as currently in effect, beginning 90 days after the date of this prospectus, a person who has beneficially owned shares of our common stock for at least one year, including an affiliate, would be entitled to sell in "broker's transactions" or to market makers, within any three-month period, a number of shares that does not exceed the greater of:

- 1% of the number of shares of our common stock then outstanding, which will equal approximately 67,126 shares immediately after this offering; or

- the average weekly trading volume in our common stock on the Nasdaq Global Market during the four calendar weeks preceding the filing of a notice on Form 144 with respect to such sale.

Sales under Rule 144 are generally subject to the availability of current public information about us.

Under Rule 144(k), a person who is not deemed to have been an affiliate of ours at any time during the three months preceding a sale, and who has beneficially owned the shares proposed to be sold for at least two years, is entitled to sell such shares without having to comply with the manner of sale, public information, volume limitation or notice filing provisions of Rule 144. Therefore, unless otherwise restricted, "144(k) shares" may be sold immediately upon the completion of this offering.

We intend to file registration statements on Form S-8 under the Securities Act of 1933 to register all shares of common stock subject to stock options and common stock issued or issuable under our 2006 Stock Incentive Plan and 2006 Employee Stock Purchase Plan. We expect to file the registration statements shortly after the date of this prospectus, permitting the resale of such shares by nonaffiliates in the public market without restriction under the Securities Act of 1933, subject to the lock-up agreements.

UNDERWRITING

Wedbush Morgan Securities Inc. is acting as representative of the underwriters named below. Subject to the terms and conditions described in an underwriting agreement among us, the selling stockholder and the underwriters, we and the selling stockholder will agree to sell to the underwriters, and the underwriters severally will agree to purchase from us and the selling stockholder, the number of shares listed opposite their names below.

Underwriter	**Number of Shares**
Wedbush Morgan Securities Inc.	
Total	2,800,000

The underwriters will agree to purchase all of the shares sold under the underwriting agreement if any of these shares are purchased, other than those shares covered by the over-allotment option described below. If an underwriter defaults, the underwriting agreement provides that the purchase commitments of the nondefaulting underwriters may be increased or the underwriting agreement may be terminated.

We will grant to the underwriters an option to purchase up to 420,000 additional shares of common stock at the public offering price less the underwriting discount. The underwriters may exercise this option for 30 days from the date of this prospectus solely for the purpose of covering over-allotments, if any, made in connection with the offering of the shares of common stock offered by this prospectus. If the underwriters exercise this option, each underwriter will be obligated, subject to conditions contained in the underwriting agreement, to purchase a number of additional shares proportionate to that underwriter's initial amount reflected in the above table.

We and the selling stockholder will agree to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act of 1933, and to contribute to payments that the underwriters may be required to make for certain liabilities.

Wedbush Morgan Securities Inc. has advised us that the underwriters propose to offer the shares of common stock directly to the public initially at the public offering price set forth on the cover page of this prospectus, and to dealers at the public offering price less a selling concession not in excess of $ per share. The underwriters also may allow, and the dealers may reallow, a concession not in excess of $ per share to brokers and dealers. After the initial public offering, the underwriters may change the offering price and other selling terms.

The following table shows the public offering price, underwriting discount and proceeds before expenses to us and the selling stockholder. The information assumes either no exercise or full exercise by the underwriters of their over-allotment options.

	Per Share	**Without Over-allotment Exercise**	**With Over-allotment Exercise**
Public offering price	$	$	$
Underwriting discount payable by us			
Proceeds, before expenses, to us			
Proceeds, before expenses, to the selling stockholder			

The expenses of the offering, not including the underwriting discount, are estimated at $1,500,000 and are payable by us. These expenses include a portion of the fees and expenses of the underwriters' counsel.

Upon purchase by the underwriters of the 2,800,000 shares of common stock offered hereby, we will sell to Wedbush Morgan Securities Inc. for its own account, five-year stock purchase warrants covering an aggregate of 280,000 shares of common stock exercisable at a price equal to 120% of the initial public offering price set forth on the cover of this prospectus. Wedbush Morgan Securities Inc. will pay a price of $0.001 per share issuable upon exercise of the warrant, or $280.00. Wedbush Morgan Securities Inc.'s warrants may be exercised as to all or any lesser number of shares of common stock commencing 24 months after the effective date of this offering or earlier, but not earlier than 12 months after the effective date of this offering, if and when we file a registration for the sale by us of shares of common stock or securities exercisable for, convertible into or exchangeable for shares of common stock (including pursuant to a stock option or other employee benefit or similar plan, or in connection with a merger or an acquisition). Wedbush Morgan Securities Inc.'s warrants will contain provisions that require us, under certain circumstances, to register one time for sale or to qualify for an exemption from time to time under applicable securities laws the shares of common stock issuable upon exercise of Wedbush Morgan Securities Inc.'s warrants. Wedbush Morgan Securities Inc.'s warrants also have additional registration rights permitting the warrant holders, with certain restrictions, to elect to participate in registered public offerings of securities by us. For a period of one year after the effective date of this offering, Wedbush Morgan Securities Inc.'s warrants are not transferable by the warrant holder other than to officers or partners of Wedbush Morgan Securities Inc. and members of any selling group in connection with this offering and/or their officers or partners. Wedbush Morgan Securities Inc.'s warrants' exercise price and the number of shares of common stock are subject to adjustment to protect the warrant holders against dilution in certain events.

We and each of our executive officers, directors and stockholders have agreed that, subject to certain exceptions, during the period ending 180 days after the date of this prospectus, which we refer to as the restricted period, neither we nor our executive officers, directors and stockholders will, without the prior consent Wedbush Morgan Securities Inc., directly or indirectly (1) sell, offer to sell, contract or agree to sell, hypothecate, pledge, grant any option to purchase or otherwise dispose of or agree to dispose of, or establish or increase a put equivalent position or liquidate or decrease a call equivalent position within the meaning of Section 16 of the Securities Exchange Act of 1934 and the rules and regulations of the SEC promulgated thereunder, with respect to our common stock or securities convertible into or exchangeable or exercisable for our common stock, (2) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of our common stock or securities convertible into or exchangeable or exercisable for our common stock, whether any such transaction is to be settled by delivery of common stock or any such securities, in cash or otherwise, or (3) publicly announce an intention to effect any transaction specified in clause (1) or (2) above. We and each of our executive officers, directors and stockholders have also agreed that, subject to certain exceptions, during the restricted period neither we nor our executive officers, directors and stockholders will, without the prior consent Wedbush Morgan Securities Inc., make any demand for or exercise any right with respect to, the registration of any securities. The 180-day restricted period will be extended if (a) during the 17 calendar days before the last day of the restricted period, we issue an earnings release or material news or a material event relating to us occurs, or (b) prior to the expiration of the restricted period, we announce that we will release earnings results during the 16-day period after the end of the restricted period.

Wedbush Morgan Securities Inc. may release any of the securities subject to these lock-up agreements at any time without notice. Wedbush Morgan Securities Inc. has advised us that it will determine to waive or shorten the lock-ups on a case-by-case basis after considering such factors as the current equity market conditions, the performance of the price of our common stock since the offering, the likely impact of any waiver on the price of our common stock and the requesting party's reason for making the request. Wedbush Morgan Securities Inc. has advised us that it has no present intent or arrangement to release any of the securities subject to these lock-up agreements.

Before this offering, there has been no public market for our common stock. The public offering price has been determined through negotiations among us and the underwriters. In addition to prevailing market conditions, the factors considered in determining the public offering price were:

- the valuation multiples of publicly traded companies that the underwriters believe to be comparable to us;
- our financial information;
- the history of, and the prospects for, our company and the industry in which we compete;
- an assessment of our management, our past and present operations, and the prospects for, and timing of, our future revenues;
- the present state of our development; and
- the above factors in relation to market values and various valuation measures of other companies engaged in activities similar to ours.

An active trading market for the shares may not develop. It is also possible that after this offering the shares will not trade in the public market at or above the public offering price.

In connection with the offering, the underwriters may purchase and sell shares of common stock in the open market. These transactions may include short sales, stabilizing transactions and purchases to cover positions created by short sales. Short sales involve the sale by the underwriters of a greater number of shares than they are required to purchase in the offering. "Covered" short sales are sales made in an amount not greater than the underwriters' option to purchase additional shares from us in the offering. The underwriters may close out any covered short position by either exercising their option to purchase additional shares or purchasing shares in the open market. In determining the source of shares to close out the covered short position, the underwriters will consider, among other things, the price of shares available for purchase in the open market as compared to the price at which they may purchase additional shares pursuant to the option granted to them. "Naked" short sales are any sales in excess of such option. The underwriters must close out any naked short position by purchasing shares in the open market. A naked short position is more likely to be created if the underwriters are concerned that there may be downward pressure on the price of the common stock in the open market after pricing that could adversely affect investors who purchase in the offering. Stabilizing transactions consist of various bids for or purchases of shares of common stock made by the underwriters in the open market prior to the completion of the offering.

The underwriters also may impose a penalty bid, whereby the underwriters may reclaim selling concessions allowed to syndicate members or other broker-dealers in respect of the common stock sold in the offering for their account if the underwriters repurchase the shares in stabilizing or covering transactions.

Purchases to cover a short position and stabilizing transactions, as well as other purchases by the underwriters for their own accounts, may have the effect of preventing or retarding a decline in the market price of the shares, and together with the imposition of the penalty bid, may stabilize, maintain or otherwise affect the market price of the common stock. As a result, the price of the common stock may be higher than the price that otherwise might exist in the open market. If these activities are commenced, they may be discontinued at any time. These transactions may be effected on The Nasdaq Global Market, in the over-the-counter market or otherwise.

Neither we nor any of the underwriters makes any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the common shares. In addition, neither we nor any of the underwriters makes any representation that Wedbush Morgan Securities Inc. will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice.

The underwriters will not execute sales in discretionary accounts without the prior written specific approval of the customers.

The underwriters have reserved for sale at the initial public offering price up to 280,000 shares of common stock for employees, directors and other persons associated with us who have expressed an interest in purchasing common stock in the offering. The number of shares available for sale to the general public in the offering will be reduced to the extent these persons purchase the reserved shares. Any reserved shares not so purchased will be offered by the underwriters to the general public on the same terms as the other shares.

Some of the underwriters and their affiliates have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with us. They have received customary fees and commissions for these transactions.

LEGAL MATTERS

Snell & Wilmer L.L.P., Costa Mesa, California, will pass upon the validity of the shares of common stock offered hereby. O'Melveny & Myers LLP, Los Angeles, California, will pass upon legal matters relating to this offering for the underwriters.

EXPERTS

The consolidated financial statements of Willdan Group, Inc. and subsidiaries as of December 30, 2005 and December 31, 2004 and for each of the fiscal years in the three-year period ended December 30, 2005 are included herein and in the registration statement in reliance on the report of KPMG LLP, independent registered public accounting firm, appearing elsewhere herein, and upon the authority of said firm as experts in auditing and accounting.

WHERE YOU CAN FIND MORE INFORMATION

We filed a registration statement on Form S-1 with the SEC with respect to the registration of the common stock offered for sale with this prospectus. This prospectus does not contain all of the information set forth in the registration statement and the exhibits to the registration statement. For further information about us, the common stock we are offering by this prospectus and related matters, you should review the registration statement, including the exhibits filed as a part of the registration statement. Statements contained in this prospectus about the contents of any contract or any other document that is filed as an exhibit to the registration statement are not necessarily complete, and we refer you to the full text of the contract or other document filed as an exhibit to the registration statement. A copy of the registration statement and the exhibits that were filed with the registration statement may be inspected without charge at the public reference facilities maintained by the SEC at 100 F Street N.E., Washington, D.C. 20549, and copies of all or any part of the registration statement may be obtained from the SEC upon payment of the prescribed fee. Information on the operation of the public reference facilities may be obtained by calling the SEC at 1-800-SEC-0330. The SEC maintains a World Wide Web site that contains reports, proxy and information statements and other information regarding registrants that file electronically with the SEC. The address of the site is *http://www.sec.gov*. You may also request copies of these filings, at no cost, by telephone at (800) 424-9144 or by mail to: Willdan Group, Inc., 2401 East Katella Avenue, Suite 300, Anaheim, California 92806, Attention: Chief Financial Officer.

Upon completion of this offering, we will become subject to the information and periodic reporting requirements of the Securities and Exchange Act of 1934, and, in accordance with such requirements, will file periodic reports, proxy statements and other information with the SEC. These periodic reports, proxy statements and other information will be available for inspection and copying at the regional offices, public reference facilities and web site of the SEC referred to above. We intend to furnish our shareholders with annual reports containing consolidated financial statements audited by our independent registered accounting firm.

WILLDAN GROUP, INC.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors
Willdan Group, Inc.:

We have audited the accompanying consolidated balance sheets of Willdan Group, Inc. and subsidiaries (Successor to The Willdan Group of Companies and subsidiaries) as of December 30, 2005 and December 31, 2004 and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the fiscal years in the three-year period ended December 30, 2005. 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 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. An audit includes 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, as well as evaluating the overall financial statement presentation. We believe that our audits provide 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 December 30, 2005 and December 31, 2004 and the results of their operations and their cash flows for each of the fiscal years in the three-year period ended December 30, 2005 in conformity with U.S. generally accepted accounting principles.

/s/ KPMG LLP

Los Angeles, California
August 3, 2006

WILLDAN GROUP, INC. AND SUBSIDIARIES
(Successor to The Willdan Group of Companies and Subsidiaries)

Consolidated Balance Sheets

	December 31, 2004	December 30, 2005	June 30, 2006
			(Unaudited)
Assets			
Current assets:			
Cash and cash equivalents	$ 266,000	$ 3,066,000	$ 119,000
Accounts receivable, net of allowance for doubtful accounts of $430,000, $492,000 and $596,000 (unaudited) at December 31, 2004, December 30, 2005 and June 30, 2006, respectively	9,493,000	11,680,000	14,167,000
Costs and estimated earnings in excess of billings on uncompleted contracts	7,184,000	7,229,000	7,317,000
Prepaid expenses	865,000	1,323,000	1,482,000
Other receivables	231,000	3,415,000	5,290,000
Total current assets	18,039,000	26,713,000	28,375,000
Equipment and leasehold improvements, net	2,027,000	2,802,000	4,073,000
Goodwill	2,763,000	2,763,000	2,911,000
Other assets	394,000	519,000	726,000
Total assets	$ 23,223,000	$ 32,797,000	$ 36,085,000
Liabilities and Redeemable Common Stock			
Current liabilities:			
Excess of outstanding checks over bank balance	$ 196,000	$ 372,000	$ 317,000
Borrowings under line of credit	1,663,000	—	—
Accounts payable	1,134,000	1,044,000	1,405,000
Accrued liabilities	5,724,000	13,080,000	12,369,000
Billings in excess of costs and estimated earnings on uncompleted contracts	960,000	1,356,000	1,746,000
Current portion of notes payable	946,000	1,230,000	662,000
Current portion of notes payable to related parties	10,000	5,000	62,000
Current portion of capital lease obligations	115,000	147,000	179,000
Deferred state income taxes	96,000	58,000	106,000
Total current liabilities	10,844,000	17,292,000	16,846,000
Borrowings under line of credit	—	—	1,319,000
Notes payable, excluding amount due to related parties, less current portion	367,000	253,000	—
Notes payable to related parties	250,000	—	90,000
Capital lease obligations, less current portion	192,000	223,000	348,000
Deferred lease obligations	93,000	369,000	373,000
Redeemable common stock ($14,250,000, $17,043,000 aggregate redemption value at December 31, 2004 and December 30, 2005, respectively and $20,400,000 (unaudited) estimated aggregate redemption value at June 30, 2006):			
Common stock, $0.01 par value and 40,000,000 shares authorized as of June 30, 2006; no par and 15,000,000 shares authorized at December 31, 2004 and December 30, 2005 shares; issued and outstanding 3,760,000, 4,708,000 and 4,713,000 (unaudited) shares at December 31, 2004, December 30, 2005 and June 30, 2006, respectively	2,436,000	8,023,000	47,000
Additional paid-in capital	—	—	7,994,000
Receivable from stockholders	(16,000)	(38,000)	(38,000)
Retained earnings	9,057,000	6,675,000	9,106,000
Total redeemable common stock	11,477,000	14,660,000	17,109,000
Preferred stock, $0.01 par value, 10,000,000 shares authorized, no shares issued and outstanding	—	—	—
Commitments and contingencies			
Total liabilities and redeemable common stock	$ 23,223,000	$ 32,797,000	$ 36,085,000

See accompanying notes to consolidated financial statements.

WILLDAN GROUP, INC. AND SUBSIDIARIES
(Successor to The Willdan Group of Companies and Subsidiaries)

Consolidated Statements of Operations

	Fiscal Year			Fiscal Six Months Ended	
	2003	2004	2005	July 1, 2005	June 30, 2006
				(Unaudited)	(Unaudited)
Contract revenues	$ 54,485,000	$ 58,263,000	$ 67,263,000	$ 32,581,000	$ 38,093,000
Direct costs of contract revenues:					
Salaries and wages	14,522,000	15,623,000	20,918,000	10,106,000	12,158,000
Production expenses	1,327,000	1,497,000	1,529,000	791,000	768,000
Subconsultant services	7,360,000	6,089,000	4,745,000	2,685,000	1,960,000
Total direct costs of contract revenues	23,209,000	23,209,000	27,192,000	13,582,000	14,886,000
General and administrative expenses:					
Salaries and wages, payroll taxes and employee benefits	17,473,000	19,711,000	22,720,000	10,966,000	13,045,000
Facilities	3,466,000	3,267,000	3,481,000	1,679,000	1,863,000
Stock-based compensation	—	—	2,002,000	—	—
Depreciation and amortization	865,000	1,056,000	1,257,000	523,000	723,000
Litigation accrual	—	—	2,686,000	—	—
Other	6,202,000	6,923,000	7,935,000	3,733,000	4,717,000
Total general and administrative expenses	28,006,000	30,957,000	40,081,000	16,901,000	20,348,000
Income (loss) from operations	3,270,000	4,097,000	(10,000)	2,098,000	2,859,000
Other income (expense):					
Interest	(366,000)	(272,000)	(630,000)	(166,000)	(411,000)
Other, net	1,000	(6,000)	11,000	15,000	2,355,000
Total other income (expense)	(365,000)	(278,000)	(619,000)	(151,000)	1,944,000
Income (loss) before income taxes	2,905,000	3,819,000	(629,000)	1,947,000	4,803,000
Income tax provision	53,000	47,000	17,000	18,000	38,000
Net income (loss)	$ 2,852,000	$ 3,772,000	$ (646,000)	$ 1,929,000	$ 4,765,000
Net income (loss) per share:					
Basic and diluted	$ 0.79	$ 1.03	$ (0.16)	$ 0.51	$ 1.01
Weighted-average shares outstanding:					
Basic and diluted	3,633,000	3,653,000	3,994,000	3,758,000	4,712,000
Pro Forma Data (unaudited):					
Pro forma provision for income taxes	$ 1,162,000	$ 1,528,000	$ 549,000	$ 779,000	$ 1,021,000
Pro forma net income (loss)	$ 1,743,000	$ 2,291,000	$ (1,178,000)	$ 1,168,000	$ 3,782,000
Pro forma earnings per common share, basic and diluted	$ 0.48	$ 0.63	$ (0.29)	$ 0.31	$ 0.80

See accompanying notes to consolidated financial statements.

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WILLDAN GROUP, INC. AND SUBSIDIARIES
(Successor to The Willdan Group of Companies and Subsidiaries)

Consolidated Statements of Redeemable Common Stock

	Redeemable Common stock					
	Shares	Amount	Additional paid-in capital	Receivable from stockholders	Retained earnings	Total redeemable common stock
Balance at December 27, 2002	3,576,000	$ 1,530,000	$ —	$ (3,000)	$ 4,373,000	$ 5,900,000
Shares purchased and canceled in connection with buy/sell stock plan	(36,000)	(40,000)	—	—	(48,000)	(88,000)
Shares issued in connection with buy/sell stock plan	180,000	412,000	—	(18,000)	—	394,000
Receipt of stockholder receivable	—	—	—	3,000	—	3,000
Distributions	—	—	—	—	(400,000)	(400,000)
Net income	—	—	—	—	2,852,000	2,852,000
Balance at January 2, 2004	3,720,000	1,902,000	—	(18,000)	6,777,000	8,661,000
Shares purchased and canceled in connection with buy/sell stock plan	(168,000)	(94,000)	—	—	(407,000)	(501,000)
Shares issued in connection with buy/sell stock plan	208,000	628,000	—	(16,000)	—	612,000
Receipt of stockholder receivable	—	—	—	18,000	—	18,000
Distributions	—	—	—	—	(1,085,000)	(1,085,000)
Net income	—	—	—	—	3,772,000	3,772,000
Balance at December 31, 2004	3,760,000	2,436,000	—	(16,000)	9,057,000	11,477,000
Shares purchased and canceled in connection with buy/sell stock plan	(6,000)	(9,000)	—	—	(16,000)	(25,000)
Shares issued in connection with buy/sell stock plan	954,000	3,594,000	—	(38,000)	—	3,556,000
Stock-based compensation	—	2,002,000	—	—	—	2,002,000
Receipt of stockholder receivable	—	—	—	16,000	—	16,000
Distributions	—	—	—	—	(1,720,000)	(1,720,000)
Net loss	—	—	—	—	(646,000)	(646,000)
Balance at December 30, 2005	4,708,000	8,023,000	—	(38,000)	6,675,000	$ 14,660,000
Shares issued in connection with buy/sell stock plan (unaudited)	5,000	18,000	—	—	—	18,000
Distributions	—	—	—	—	(2,334,000)	(2,334,000)
Net income (unaudited)	—	—	—	—	4,765,000	4,765,000
Reclassification from common stock to additional paid in capital	—	(7,994,000)	7,994,000	—	—	—
Balance at June 30, 2006 (unaudited)	4,713,000	$ 47,000	$ 7,994,000	$ (38,000)	$ 9,106,000	$ 17,109,000

See accompanying notes to consolidated financial statements.

WILLDAN GROUP, INC. AND SUBSIDIARIES
(Successor to The Willdan Group of Companies and Subsidiaries)

Consolidated Statements of Cash Flows

	Fiscal Year			Fiscal Six Months Ended	
	2003	2004	2005	July 1, 2005	June 30, 2006
				(Unaudited)	(Unaudited)
Cash flows from operating activities:					
Net income (loss)	$ 2,852,000	$ 3,772,000	$ (646,000)	$ 1,929,000	$ 4,765,000
Adjustments to reconcile net income to net cash provided by operating activities:					
Depreciation and amortization	865,000	1,056,000	1,274,000	524,000	724,000
Loss (gain) on sale of equipment	19,000	18,000	24,000	(6,000)	(13,000)
Allowance for doubtful accounts	227,000	257,000	321,000	110,000	84,000
Stock-based compensation	—	—	2,002,000	—	—
Changes in operating assets and liabilities:					
Accounts receivable	(1,336,000)	(906,000)	(2,508,000)	(1,842,000)	(2,571,000)
Costs and estimated earnings in excess of billings on uncompleted contracts	(901,000)	(1,056,000)	(45,000)	(888,000)	(88,000)
Prepaid expenses	(30,000)	110,000	(458,000)	94,000	182,000
Other receivables	(88,000)	(95,000)	(3,184,000)	34,000	(1,875,000)
Other assets	(2,000)	(211,000)	(115,000)	(336,000)	(111,000)
Accounts payable	93,000	(43,000)	(90,000)	89,000	361,000
Accrued liabilities	605,000	1,139,000	7,356,000	(540,000)	(711,000)
Billings in excess of costs and estimated earnings on uncompleted contracts	364,000	(257,000)	396,000	191,000	390,000
Deferred state income taxes	—	69,000	(38,000)	—	48,000
Deferred lease obligations	(46,000)	26,000	276,000	187,000	4,000
Net cash provided by (used in) operating activities	2,622,000	3,879,000	4,565,000	(454,000)	1,189,000
Cash flows from investing activities:					
Purchase of equipment and leasehold improvements	(650,000)	(981,000)	(1,885,000)	(738,000)	(1,754,000)
Proceeds from sale of equipment	13,000	36,000	28,000	7,000	4,000
Purchase of other assets	—	—	(15,000)	—	(100,000)
Net cash used in investing activities	(637,000)	(945,000)	(1,872,000)	(731,000)	(1,850,000)
Cash flows from financing activities:					
Changes in excess of outstanding checks over bank balance	287,000	(497,000)	176,000	299,000	(55,000)
Payments on notes payable	(1,463,000)	(1,393,000)	(1,685,000)	(1,550,000)	(820,000)
Proceeds from notes payable	1,488,000	602,000	1,855,000	1,258,000	—
Borrowings under line of credit	14,061,000	15,682,000	12,504,000	23,553,000	10,060,000
Repayments of line of credit	(15,673,000)	(16,228,000)	(14,167,000)	(19,688,000)	(8,741,000)
Principal payments on capital leases	(97,000)	(126,000)	(148,000)	(60,000)	(70,000)
Payments on liabilities to stockholders	(250,000)	(250,000)	(255,000)	(3,000)	(3,000)
Proceeds from stockholder receivables	3,000	18,000	16,000	—	—
Proceeds from issuance of common stock	394,000	612,000	3,556,000	—	18,000
Distributions to stockholders	(400,000)	(1,085,000)	(1,720,000)	(1,320,000)	(2,334,000)
Payments to acquire retired stock	(88,000)	(501,000)	(25,000)	(15,000)	—
Payment of deferred offering costs	—	—	—	—	(341,000)
Net cash provided by (used in) financing activities	(1,738,000)	(3,166,000)	107,000	2,474,000	(2,286,000)
Net increase (decrease) in cash and cash equivalents	247,000	(232,000)	2,800,000	1,289,000	(2,947,000)
Cash and cash equivalents at beginning of the period	251,000	498,000	266,000	266,000	3,066,000
Cash and cash equivalents at end of the period	$ 498,000	$ 266,000	$ 3,066,000	$ 1,555,000	$ 119,000
Supplemental disclosures of cash flow information:					
Cash paid during the period for:					
Interest	$ 371,000	$ 266,000	$ 239,000	$ 166,000	$ 102,000
Income taxes	15,000	35,000	79,000	65,000	38,000
Supplemental disclosures of noncash investing and financing activities:					
Equipment acquired under capital leases	$ 102,000	$ 223,000	$ 211,000	$ 134,000	$ 271,000
Amounts receivable from issuance of common stock	18,000	16,000	38,000	—	—
Note payable issued in connection with acquisition of assets	—	—	—	—	150,000

See accompanying notes to consolidated financial statements.

Notes to the Consolidated Financial Statements

1. ORGANIZATION AND OPERATIONS OF THE COMPANY

Nature of Business

Willdan Group, Inc. and subsidiaries (the Company) is a provider of outsourced services to small and mid-sized public agencies in California and other western states. Outsourcing enables these agencies to provide a wide range of specialized services, without having to incur and maintain the overhead necessary to develop staffing in-house. The Company provides a broad range of services to public agencies including civil engineering, building and safety services, geotechnical engineering, financial and economic consulting, and disaster preparedness and homeland security. Clients primarily consist of cities, counties, redevelopment agencies, water districts, school districts and universities, state agencies, federal agencies, a variety of other special districts and agencies, and trial governments.

Willdan Group, Inc., a Delaware corporation, is the successor to The Willdan Group of Companies, a California corporation. Willdan Group, Inc. was formed during fiscal year 2006, as a subsidiary of The Willdan Group of Companies, and on June 30, 2006, the assets and liabilities of The Willdan Group of Companies were transferred to Willdan Group, Inc. Since the transaction occurred between entities under common control, the transfer was recorded at historical carrying values in a manner similar to the pooling of interests method of accounting. Hereinafter, Willdan Group refers to both Willdan Group, Inc and its predecessor, The Willdan Group of Companies.

The Company, which is owned by its employees, board members and a service provider, with the consent of its stockholders, has elected to be treated as an S Corporation for purposes of federal and state income taxes. Effective upon completion of the Company's proposed initial public offering (IPO), the S Corporation status will terminate and thereafter the Company will be subject to federal and state income taxes as a C Corporation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of Willdan Group and its wholly owned subsidiaries, Willdan, MuniFinancial, and Arroyo Geotechnical, which was previously a division of Willdan. Additionally, two other wholly owned subsidiaries, American Homeland Solutions and Public Agency Resources, were formed during fiscal year 2004 and began operations in fiscal year 2005. All significant intercompany balances and transactions have been eliminated in consolidation.

Fiscal Years

The Company operates and reports financial results on a fiscal year of 52 or 53 weeks ending on the Friday closest to December 31. Fiscal year 2003 was a 53-week year. Fiscal years 2004 and 2005 were 52-week years. All references to years in the notes to consolidated financial statements represent fiscal years.

Stock Dividend

On August 4, 2004, the Company's board of directors declared a four-for-one stock split effected in the form of a stock dividend. Stockholders of record as of the close of business on January 1, 2005 received three additional shares for each share held on the record date. Share and per share data for all periods presented in the consolidated financial statements and related disclosures have been adjusted to give effect to this stock dividend.

Cash and Cash Equivalents

All highly liquid investments purchased with an original maturity of three months or less are considered to be cash equivalents. Cash and cash equivalents include money market funds and various deposit accounts. Outstanding checks in excess of cash on deposit have been reclassified to current liabilities.

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

Fair Value of Financial Instruments

As of December 31, 2004 and December 30, 2005, the carrying amounts of the Company's cash and cash equivalents, accounts receivable, costs and estimated earnings in excess of billings on uncompleted contracts, prepaid expenses, other receivables, accounts payable, excess of outstanding checks over bank balance, accrued liabilities, billings in excess of costs and estimated earnings on uncompleted contracts, and payable to stockholders approximate their fair values because of the relatively short period of time between the origination of these instruments and their expected realization. The carrying amounts of notes payable under lines of credit, note payable to stockholders and other notes payable 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

The Company consists of six legal entities organized as a holding company with five subsidiary companies. The Company presents segment information externally the same way management uses financial data internally to make operating decisions and assess performance. Willdan Group, the holding company, performs all administrative functions on behalf of the subsidiary companies, such as treasury, legal, accounting, information systems and human resources, and earns revenues that are only incidental to the activities of the enterprise. As a result, Willdan Group does not meet the definition of an operating segment. Three of the five subsidiary companies are aggregated into one segment since they have similar characteristics including the nature of services, the methods used to provide services and the type of customer. The remaining two subsidiary companies each comprise an operating segment.

Off-Balance Sheet Financings and Liabilities

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

Accounting for Contracts

The Company enters into contracts with its clients that contain three principal types of pricing provisions: fixed fee, time-and-materials, and unit-based. Revenues on fixed fee contracts are recognized on the percentage-of-completion method based generally on the ratio of direct costs incurred to date to estimated total direct costs at completion. Revenue on time-and-materials and unit-based contracts are recognized as the work is performed in accordance with specific terms of the contract. 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 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 unpriced 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 unpriced change orders if realization of the expected price of the change order is assured beyond a reasonable doubt.

Applying the percentage-of-completion method of recognizing revenue requires the Company to estimate the indicated 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 revenues and earnings. Such changes could have a material effect on future consolidated financial statements.

Direct costs of contract revenues 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 revenues also include production expenses, subconsultant services and other expenses that are incurred in connection with revenue producing projects. Direct costs of contract revenues exclude that portion of technical and nontechnical salaries and wages related to marketing efforts, vacations, holidays and other time not spent directly generating revenues 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 revenues. No allocation of facilities costs is made to direct costs of contract revenues nor is depreciation and amortization allocated to direct costs. Other companies may classify as direct costs of contract revenues some of the costs that the Company classifies as general and administrative costs. We expense direct costs of contract revenues when incurred.

Accounts receivables are carried at original invoice amount less an estimate made for doubtful receivables based upon a review of all outstanding amounts on a monthly 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 minimal with governmental entities. Accounts receivables are written off when deemed uncollectible. Recoveries of accounts receivables previously written off are recorded when received.

The value of retainage is included in accounts receivable in the accompanying consolidated financial statements. Retainage represents the billed amount that is retained by the customer, in accordance with the terms of the contract, generally until performance is substantially complete. At December 31, 2004 and December 30, 2005, the Company had retained accounts receivable of approximately $53,000 and $67,000, respectively.

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 financial statements. 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 rents 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 we make to the leased office space is capitalized as leasehold improvements.

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. Depreciation and amortization on equipment are calculated using the straight-line method over estimated useful lives of two to five years. Leasehold improvements and assets under capital leases are amortized using the straight-line method over the shorter of estimated useful lives or the term of the related lease.

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

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

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

Goodwill

Goodwill represents the excess of costs over fair value of the assets acquired. The 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. An impairment loss is recognized to the extent that the carrying amount exceeds the asset's fair value. As of December 31, 2004 and December 30, 2005, all of the goodwill relates to MuniFinancial assets acquired. As of June 30, 2006, goodwill also includes amounts related to the acquisition of the assets of an entity that developed and delivered training courses (unaudited).

Accounting for Claims Against the Company

The Company records liabilities to claimants for probable and estimable claims on its consolidated balance sheet, which is included in accrued liabilities, and records a corresponding receivable from the insurance company for the portion of the claim that is probable of being covered by insurance, which is included in other receivables. The estimated claim amount net of the amount estimated to be recoverable from the insurance company is included in general and administrative expense.

Redeemable Common Stock

Prior to fiscal year 2005, the Company recognized no compensation expense related to its book value stock purchase plan based on changes in the formula price during the employment period since the employees make a substantive investment that would be at risk for a reasonable period of time.

Book value shares granted under the purchase plan during fiscal year 2005 were considered to have been granted in contemplation of the IPO, and, accordingly, compensation cost was recorded for the difference between the formula value and the estimated fair value of those shares at the date of issuance.

In the evaluation of the fair value of the stock considered to be issued in contemplation of the IPO, the Company considered the proximity of the issuance to the offering, intervening events, transfer restrictions and exercise dates, and profitability and financial condition of the Company.

Income Taxes

For federal income tax purposes, the Company reports as an S Corporation wherein the Company elected and the stockholders consented to be taxed in a manner similar to partners in a general partnership. Since federal income taxes on S Corporation income are the responsibility of the individual stockholders, no federal tax provision is included in the accompanying consolidated financial statements. Effective January 1, 2002, the Company elected to be treated as an S Corporation for state tax purposes and has provided for state income taxes at the applicable statutory rate.

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences of temporary differences between the financial reporting basis and tax basis of the Company's assets and liabilities. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Operating Cycle

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

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

New Accounting Pronouncement

In December 2004, the FASB issued SFAS No. 123 (revised 2004), *Share-Based Payment* (SFAS 123R), which addresses the accounting for transactions in which an entity exchanges its equity instruments for goods or services, with a primary focus on transactions in which an entity obtains employee services in share-based payment transactions. This Statement is a revision of FASB Statement No. 123, *Accounting for Stock-Based Compensation,* and supersedes APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and its related implementation guidance. This Statement requires measurement of the cost of employee services received in exchange for stock compensation based on the grant-date fair value of the awards. Incremental compensation costs arising from subsequent modifications of awards after the grant date must be recognized. The Company adopted this Statement on January 1, 2006 under the modified prospective method of application. Under that method, compensation costs are recognized for new grants of share-based awards, awards modified after the adoption date, and the remaining portion of the fair value of the unvested awards at the adoption date; however, the Company has no unvested awards as of the adoption date. The adoption of SFAS 123R did not have any effect on the Company's consolidated financial statements as of the date of adoption.

Unaudited Interim Consolidated Financial Information

The accompanying consolidated financial statements as of June 30, 2006 and for the fiscal six months ended June 30, 2006 and July 1, 2005 are unaudited and they do not include all of the disclosures required by U.S. generally accepted accounting principles (GAAP) for complete financial statements. In the opinion of management, such financial statements reflect all adjustments necessary for a fair presentation of the results of the respective interim periods in accordance with GAAP. All such adjustments are of a normal and recurring nature. The results of operations for the interim periods are not necessarily indicative of the results to be obtained for the full fiscal year.

3. EQUIPMENT AND LEASEHOLD IMPROVEMENTS

Equipment and leasehold improvements consist of the following:

	December 31, 2004	December 30, 2005
Furniture and fixtures	$ 3,630,000	$ 4,061,000
Computer hardware and software	3,108,000	3,126,000
Leasehold improvements	643,000	791,000
Equipment under capital leases	485,000	618,000
Automobiles, trucks, and field equipment	330,000	373,000
	8,196,000	8,969,000
Accumulated depreciation and amortization	6,169,000	6,167,000
	$ 2,027,000	$ 2,802,000

Included in accumulated depreciation and amortization is $107,000 and $139,000 of amortization related to equipment held under capital leases in 2004 and 2005, respectively.

4. ACCRUED LIABILITIES

Accrued liabilities consist of the following:

	December 31, 2004	December 30, 2005
Accrued bonuses	$ 1,987,000	$ 2,934,000
Paid leave bank	1,306,000	1,453,000
Compensation and payroll taxes	1,112,000	1,376,000
Accrued legal	261,000	73,000
Accrued workers' compensation insurance	206,000	257,000
Litigation accrual	—	5,951,000
Accrued interest	5,000	377,000
Other	847,000	659,000
	$ 5,724,000	$ 13,080,000

5. NOTES PAYABLE AND LINE OF CREDIT

Notes payable, excluding amount due to stockholder, consist of the following:

	2004	2005
Note payable to bank, bearing interest at prime plus 0.25% (7.50% at December 30, 2005), payable in monthly principal and interest installments of $40,000 with maturity on July 1, 2007, secured by accounts receivable and equipment, guaranteed by a principal stockholder	$ —	$ 718,000
Unsecured notes payable to insurance companies to finance insurance premiums, interest at 4.93%, payable in monthly principal and interest installments of $96,000 through August 2006	406,000	755,000
Notes payable for automobiles, 36-48-month terms, bearing interest at 6.25% to 7.20%, payable in monthly principal and interest installments of $3,000 and $1,000 at December 31, 2004 and December 30, 2005, respectively, maturing through 2007, secured by Company vehicles	94,000	10,000
Equipment term loan payable to bank for equipment financing, secured by equipment purchased, bearing interest at the prime rate plus 1.00% (6.25% at December 31, 2004), this note was repaid during 2005	121,000	—
Note payable to bank, secured by substantially all the assets of the Company, bearing interest at the prime rate plus 0.75% (6.0% at December 31, 2004), this note was repaid during 2005	528,000	—
Note payable to bank for equipment financing, bore interest at the prime rate plus 1.25% (6.50% at December 31, 2004), this note was repaid during 2005	121,000	—
Note payable to a former stockholder of the Company bearing interest equal to the interest on a three-year US Treasury Note plus 1.00% (2.29% at December 31, 2004), adjusted annually, this note was repaid during 2005	43,000	—
	1,313,000	1,483,000
Less current portion	946,000	1,230,000
Other notes payable, excluding amount due to stockholder, less current portion	$ 367,000	$ 253,000

Under a revolving line of credit dated June 24, 2005, the Company has available an $8,000,000 line of credit facility with a bank. The line of credit, which matures on July 31, 2007, bears interest at prime plus 0.25% (7.50% at December 30, 2005), is secured by substantially all assets of the Company and is personally guaranteed by a principal stockholder. Additionally, pursuant to the Company's stock buy/sell agreement, where a stockholder is, or has been, required to guarantee the debts of the Company, each of the remaining stockholders has agreed to share such guarantee in proportion to their ownership interest in the Company. There were no outstanding borrowings under this agreement at December 30, 2005. The outstanding borrowings as of June 30, 2006 totaled $1,319,000 (unaudited).

The loan agreements for the revolving line-of-credit and the note payable for which $718,000 is outstanding as of December 30, 2005, limits dividend distributions other than to enable stockholders to satisfy income tax obligations and require the Company to obtain written consent to enter into certain transactions with its stockholders. Borrowings outstanding under these agreements are subject to repayment acceleration and a defined default rate of interest in the event of default in the performance or observance, when due, of any term, covenant, or condition of the agreements. At December 30, 2005 the Company was in compliance with covenants included in the line-of-credit and term loan agreements.

The Company had available a $5,500,000 line of credit with a bank that expired in June 2005, of which $1,663,000 was outstanding at December 31, 2004. The line of credit bore interest at the prime rate plus 0.5% (5.75% at December 31, 2004) and was secured by substantially all assets of the Company and was guaranteed by a principal stockholder.

As of December 31, 2004, the Company had an outstanding note payable with a principal stockholder of the Company. This subordinated note, secured by the accounts receivable of the Company, bore interest at the prime rate plus 1.5% and was due January 1, 2006; however, the note was repaid in full during fiscal year 2005. Interest paid to the stockholder amounted to approximately $43,000, $29,000 and $14,000 during fiscal years 2003, 2004 and 2005, respectively.

Principal maturities of notes payable as of December 30, 2005 are as follows:

2006	$	1,230,000
2007		253,000
	$	1,483,000

6. BOOK VALUE STOCK PURCHASE PLAN

The Company has a program whereby selected employees, contract employees, officers and directors of the Company may purchase redeemable shares of the Company's stock. The purpose of the program is to provide for continuity of management by establishing a plan under which the stock of the Company will remain in the hands of those individuals who are or will be actively responsible for the continued success of the Company and who desire to own such stock. The existing stockholders must approve additional sales of stock and the Company's board of directors determines which individuals and how many shares each of these individuals may purchase. Company employees and directors own most of the Company's stock and every share of the Company's stock is covered by the stock buy/sell agreement (the Agreement).

The stockholders may not transfer ownership of the stock other than to hold title to the stock in a trust for the benefit of the stockholder and/or his or her spouse, children or estate. Stockholders who wish to sell the stock must tender an offer of the stock to the Company or to another Company stockholder. Termination of employment with the Company does not trigger a requirement to sell the stock back to the Company. However, the Company has the right to repurchase any of the stock at any time from any stockholder.

All purchases and repurchases of stock are priced based on the same formula and there is no vesting period. The Company has various options with respect to repurchasing the stock tendered by the stockholders as specified in the Agreement. If the repurchase of stock is involuntary (i.e., the Company demands the repurchase), then the Company must immediately pay cash for 100% of the shares.

The Agreement shall terminate upon agreement of all parties, dissolution or bankruptcy of the Company, and if the Company becomes a public company.

During fiscal year 2005, individuals purchased 954,000 shares of the Company's redeemable common stock at $3.77 per share pursuant to awards of stock purchase rights granted by the Company's board of directors. At the time of the stock sales, the Company had preliminary plans to become a public company. Accordingly, the fiscal year 2005 sales of common stock were considered to be in contemplation of the Company's proposed IPO and the difference between the aggregate estimated fair value of the shares and the aggregate formula-based price was recorded as an expense in fiscal year 2005. The expense totaled $2.0 million and is included as stock based compensation within general and administrative expenses.

In the evaluation of the fair value of the stock considered to be issued in contemplation of the IPO, the Company considered the profitability and financial condition of the Company, the proximity of the issuance to the offering, intervening events, transfer restrictions and exercise dates.

7. COMMITMENTS

Leases

The Company is obligated under capital leases for certain furniture and office equipment that expire at various dates through the year 2009.

The Company also leases certain office facilities under noncancelable operating leases that expire at various dates through the year 2012 and is committed under noncancelable operating leases for the lease of computer equipment and automobiles through the year 2008.

Future minimum rental payments under capital and noncancelable operating leases are summarized as follows:

	Capital	Operating
Fiscal year:		
2006	$ 165,000	$ 3,228,000
2007	140,000	3,215,000
2008	76,000	2,494,000
2009	25,000	1,800,000
2010	—	1,530,000
Thereafter	—	1,850,000
Total future minimum lease payments	$ 406,000	$ 14,117,000
Amount representing interest (at rates ranging from 4.75% to 10.0%)	36,000	
Present value of net minimum lease payments under capital leases	370,000	
Less current portion	147,000	
	$ 223,000	

Rent expense and related charges for common area maintenance for all facility operating leases for 2003, 2004 and 2005 was approximately $2,236,000, $2,322,000 and $2,483,000, respectively.

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 $201,000, $224,000 and $231,000 during 2003, 2004 and 2005, respectively.

The Company has an incentive bonus plan for regional managers, division managers and others as determined by the Company president. Bonuses are awarded under this plan based on five to twenty-five percent of the eligible employee's annual salary 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. Bonuses declared for fiscal years 2003, 2004 and 2005 totaled approximately $1,602,000, $2,427,000 and $3,322,000, respectively, of which approximately $1,987,000 and $2,934,000, which represents annual performance bonuses, is included in accrued liabilities at December 31, 2004 and December 31, 2005, respectively.

Post employment health benefits (unaudited)

In May 2006, the Company's board of directors approved providing lifetime health insurance coverage for the Company's chief executive officer and his spouse and for the widow of the Company's former chief executive officer, Mrs. Heil, who is also a Company board member. Additionally, the board approved health insurance coverage for Mrs. Heil's two dependents until they reach the maximum age for dependent coverage under the Company's health insurance policy.

During the second fiscal quarter of 2006, the Company recorded general and administrative expense equal to the present value of the expected payments for health insurance coverage for Mrs. Heil and her dependents and began to amortize, to general and administrative expense, the present value of the expected payments for post employment health coverage for the Company's chief executive officer and his spouse over the period from approval of the benefit to the estimated date of retirement.

8. INCOME TAXES

The provision (benefit) for income taxes consists of:

	Fiscal Year		
	2003	2004	2,005
Current state taxes	$ 26,000	$ 46,000	$ 55,000
Deferred state taxes	27,000	1,000	(38,000)
	$ 53,000	$ 47,000	$ 17,000

The provision (benefit) for income taxes differ from the amount of income tax determined by applying the U. S. federal income tax rate to pretax income due to the lack of federal income taxes resulting from the Company's S Corporation election and due to state income taxes.

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

	December 31, 2004	December 30, 2005
Deferred tax assets:		
Accrued litigation judgment	$ —	$ 46,000
Accounts receivable allowance	4,000	4,000
Equipment and leasehold improvement depreciation	5,000	7,000
Other accrued liabilities	13,000	9,000
	22,000	66,000
Deferred tax liabilities:		
Deferred revenue	(106,000)	(105,000)
Goodwill amortization	(12,000)	(15,000)
Other	—	(4,000)
	(118,000)	(124,000)
Net deferred tax assets (liabilities)	$ (96,000)	$ (58,000)

Management believes it is more likely than not that the Company will realize the benefit of the deferred tax assets existing at December 30, 2005. Further, management believes the existing net deductible temporary differences will reverse during periods in which the Company generates net taxable income. There can be no assurance, however, that the Company will generate taxable earnings or any specific level of continuing earnings in the future.

9. SEGMENT INFORMATION

The Company has three segments, engineering services, public finance services and homeland security services. The engineering services segment includes Willdan, Arroyo Geotechnical and Public Agency Resources. The engineering services segment performs services for a broad range of public agency clients and offers a full complement of engineering, building and safety, construction management, and municipal planning services to clients throughout the western United States. The public finance services segment, which consists of MuniFinancial, 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 American Homeland Solutions, provides homeland security and public safety consulting services to cities, counties and related municipal service agencies.

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 for each of the fiscal years in the three-year period ended December 30, 2005. Management evaluates the performance of each segment based upon income or loss before year-end performance bonuses and 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 revenues are 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	Public Finance Services	Homeland Security Services	Unallocated Corporate	Intersegment	Consolidated Total
Fiscal Year 2003						
Contract revenue	$ 45,498,000	$ 8,987,000	$ —	$ —	$ —	$ 54,485,000
Depreciation and amortization	627,000	238,000	—	—	—	865,000
Interest expense	317,000	49,000	—	—	—	366,000
Segment profit before bonuses and income taxes	2,996,000	1,165,000	—	—	—	4,161,000
Annual performance bonuses	799,000	267,000	—	190,000	—	1,256,000
Income tax provision	39,000	13,000	—	1,000	—	53,000
Net income (loss)	2,158,000	885,000	—	(191,000)(2)	—	2,852,000
Segment assets	16,673,000	6,766,000	—	7,672,000 (3)	(9,651,000)	21,460,000
Fiscal Year 2004						
Contract revenue	48,615,000	9,648,000	—	—	—	58,263,000
Depreciation and amortization	786,000	270,000	—	—	—	1,056,000
Interest expense	229,000	43,000	—	—	—	272,000
Segment profit before bonuses and income taxes	4,229,000	1,576,000	—	1,000	—	5,806,000
Annual performance bonuses	1,137,000	411,000	—	439,000	—	1,987,000
Income tax provision	29,000	17,000	—	1,000	—	47,000
Net income (loss)	3,063,000	1,148,000	—	(439,000)(1)	—	3,772,000
Segment assets	19,754,000	8,236,000	—	8,356,000 (2)	(13,123,000)	23,223,000
Fiscal Year 2005						
Contract revenue	56,908,000	10,265,000	90,000	—	—	67,263,000
Depreciation and amortization	969,000	283,000	5,000	—	—	1,257,000
Interest expense	578,000	40,000	12,000	—	—	630,000
Segment profit (loss) before bonuses and income taxes	3,583,000	1,118,000	(352,000)	(2,044,000)	—	2,305,000
Annual performance bonuses	1,967,000	340,000	20,000	607,000	—	2,934,000
Income tax provision	3,000	1,000	1,000	12,000	—	17,000
Net income (loss)	1,613,000	777,000	(373,000)	(2,663,000)(1)	—	(646,000)
Segment assets	29,757,000	9,013,000	97,000	13,385,000 (2)	(19,455,000)	32,797,000

(1) The following sets forth the amounts included in the net income (loss) that was Unallocated Corporate for fiscal years 2003, 2004 and 2005:

	Fiscal Year 2003	Fiscal Year 2004	Fiscal Year 2005
Unallocated net income (loss):			
Annual performance bonuses	$ 190,000	$ 439,000	$ 607,000
Special bonuses	—	—	42,000
Stock-based compensation	—	—	2,002,000
Income tax provision	1,000	—	12,000
	$ (191,000)	$ (439,000)	$ (2,663,000)

Most types of overhead costs incurred by Willdan Group are allocated to the Company's segments. However, because management makes operating decisions and assesses performance of the Company's segments based on financial information before bonuses, the bonuses for Willdan Group employees were not allocated to the segments. The stock compensation expense incurred during fiscal year 2005 as a result of the proposed IPO was not allocated for a similar reason.

(2) The following sets forth the assets that are included in Unallocated Corporate for fiscal years 2003, 2004 and 2005.

	Fiscal Year 2003	Fiscal Year 2004	Fiscal Year 2005
Assets:			
Cash	$ 64,000	$ 112,000	$ 2,912,000
Prepaid expenses	131,000	184,000	1,093,000
Intercompany receivables	1,829,000	2,108,000	3,028,000
Other receivables	13,000	98,000	40,000
Equipment and leasehold improvements, net	172,000	304,000	779,000
Investments in subsidiaries	5,354,000	5,354,000	5,354,000
Other assets	109,000	196,000	179,000
	$ 7,672,000	$ 8,356,000	$ 13,385,000

10. OTHER RELATED PARTY TRANSACTIONS

Included in subconsultant services expenses in the accompanying consolidated statements of operations are expenses for services provided to the Company by an affiliate of a member of the Company's board of directors totaling $77,000, $43,000 and $68,000 for fiscal years 2003, 2004 and 2005, respectively.

Included in other general and administrative expenses in the accompanying consolidated statements of operations are expenses for services provided to the Company by an affiliate of a member of the Company's board of directors totaling $20,000, $35,000 and $42,000 for fiscal years 2003, 2004 and 2005, respectively.

11. PRO FORMA INCOME TAXES (UNAUDITED)

Upon completion of the proposed IPO (as more fully described in Note 1), the Company will not qualify as an S corporation. Thus, the Company will be taxed at regular corporate rates. For informational purposes, the Company's consolidated statements of operations include pro forma adjustments for income taxes at a 40% rate that would have been recorded if the Company was a C corporation. The pro forma tax provision for fiscal year 2005 reflects the non-deductibility of stock based compensation expense and the pro forma tax provision for the fiscal six months ended June 30, 2006 reflects the nontaxability of life insurance proceeds.

Assuming the proposed IPO closed June 30, 2006, the company would have recorded a one-time noncash charge of approximately $2.8 million to adjust its deferred tax accounts resulting from the change in the Company's tax status.

12. CONTINGENCIES

Claims and Lawsuits

The Company is subject from time to time to various claims and lawsuits, 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 loss.

The Company is currently involved in a dispute with the City of West Hollywood that was initiated in fiscal year 2002. This matter concerns a construction project in the City of West Hollywood, California, for the improvement of Santa Monica Boulevard. The project required the reconstruction of approximately three miles of roadway. The city and the general contractor claimed that the structural design the Company prepared was inadequate for the volume and type of traffic on Santa Monica Boulevard.

In the fourth quarter of 2005, following a trial in the Los Angeles County Superior Court in California, the jury rendered a verdict against the Company and awarded damages in the amount of $6.3 million, including attorney's fees, interest and costs. As of December 30, 2005, management estimated that approximately $3.2 million of the damages was covered by the Company's professional liability insurance policy. Accordingly, in fiscal year 2005, the Company expensed $2.7 million of this judgment, and recorded related interest expense of $0.4 million. See Note 11 for further information on the increase to the insurance coverage related to this matter during fiscal year 2006. Related to this matter, the Company has recorded $3.2 million in other receivables and $6.3 million in accrued liabilities in the accompanying consolidated balance sheet as of December 30, 2005.

The Company's insurance carrier has posted bonds and retained counsel to file an appeal with respect to this matter. During the appeal process, interest will accrue on the outstanding judgment at the rate of 10% per annum. The Company cannot predict the outcome of this appeal process.

Rescission Offer

The Company's redeemable common stock issued during fiscal year 2005 may not have been exempt from registration or qualification under federal and state securities laws and the Company may not have obtained the required registrations or qualifications. Accordingly, the Company made rescission offers to the holders of these shares during July 2006 as permitted under California securities law. Each of the holders who purchased shares during fiscal year 2005 irrevocably rejected the Company's rescission offer. Prior to the rescission offer, management believed there was only a remote likelihood that a rescission offer would be accepted by any of the affected stockholders and prior to issuing the fiscal year 2005 consolidated financial statements, all of the holders of these shares had rejected the rescission offer, which further substantiated management's belief that the likelihood of rescission was remote. Further, management believes that the 2005 stock offering satisified the

Section 4(2) exemption of the Securites Act of 1933, as amended, based on the limited nature of the offering, the level of knowledge and relationships of the purchasers and the information provided by the Company to the purchasers.

13. SUBSEQUENT EVENTS

Life Insurance Proceeds

On May 15, 2006, the Company's co-founder and chief executive officer, Dan W. Heil, passed away. The Company carried two life insurance policies on Mr. Heil totaling $2.3 million in coverage. In June 2006, the proceeds from the $0.3 million policy were received by the Company. In July 2006, the Company received the proceeds from the $2.0 million policy. The $2.3 million is included in other, net under other income (expense) in the accompanying consolidated statement of operations for the fiscal six months ended June 30, 2006 (unaudited) and the $2.0 million received in July 2006 is included in other receivables in the accompanying consolidated balance sheet as of June 30, 2006 (unaudited). Accordingly, $0.3 million is included in net cash provided by operating activities in the accompanying consolidated statement of cash flows for the fiscal six months ended June 30, 2006 and the $2.0 million will be included in net cash provided by operating activities for the fiscal nine months ended September 29, 2006. (unaudited).

Litigation

In the third fiscal quarter of 2006, the Company obtained a court ruling awarding the Company approximately $1.0 million that had been previously paid by the Company's insurance policy in an unrelated claim that arose in fiscal year 2002. Because the claim arose in 2002, the Company will be able to replenish its insurance coverage and deductible by $1.0 million for that policy year. As a result, the Company has $1.0 million of additional insurance coverage available for the West Hollywood case discussed in note 12 since that claim also arose in 2002. Therefore, the Company expects to reflect an additional receivable of approximately $1.0 million from the insurance company in the third fiscal quarter and a corresponding reduction in the litigation accrual expense related to the West Hollywood litigation.

2,800,000 Shares

WILLDAN GROUP, INC.

Common Stock

PROSPECTUS

Wedbush Morgan Securities

, 2006

Until , 2006 (25 days after the commencement of this offering), all dealers that effect transactions in these securities, whether or not participating in this offering, may be required to deliver a prospectus. This delivery is in addition to the dealers' obligation to deliver a prospectus when acting as an underwriter and with respect to their unsold allotments or subscriptions.

PART II
INFORMATION NOT REQUIRED IN PROSPECTUS

Item 13.

Other Expenses of Issuance and Distribution.

The following table sets forth the costs and expenses, other than the underwriting discount, payable by us in connection with the sale of common stock being registered. All amounts are estimated except the SEC registration fee and the NASD filing fees.

SEC registration fee	$	3,790
NASD filing fee		4,042
Nasdaq Global Market listing fee		100,000
Printing and engraving expenses		100,000
Legal fees and expenses		600,000
Accounting fees and expenses		550,000
Blue Sky fees and expenses (including legal fees)		10,000
Transfer agent and registrar fees and expenses		100,000
Miscellaneous		32,812
Total	$	1,500,000

Item 14.

Indemnification of Directors and Officers

Section 145(a) of the Delaware General Corporation Law provides, in general, that a corporation may indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the corporation), because he or she is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by the person in connection with such action, suit or proceeding, if he or she acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the best interests of the corporation and, with respect to any criminal action or proceeding, had no reasonable cause to believe his or her conduct was unlawful.

Section 145(b) of the Delaware General Corporation Law provides, in general, that a corporation may indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the corporation to procure a judgment in its favor because the person is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees) actually and reasonably incurred by the person in connection with the defense or settlement of such action or suit if he or she acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the best interests of the corporation, except that no indemnification shall be made with respect to any claim, issue or matter as to which he or she shall have been adjudged to be liable to the corporation unless and only to the extent that the Court of Chancery or other adjudicating court determines that, despite the adjudication of liability but in view of all of the circumstances of the case, he or she is fairly and reasonably entitled to indemnity for such expenses which the Court of Chancery or other adjudicating court shall deem proper.

Section 145(g) of the Delaware General Corporation Law provides, in general, that a corporation may purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against any liability asserted against such person and incurred by such person in any such capacity, or arising out of his or her status as such, whether or not the corporation would have the power to indemnify the person against such liability under Section 145 of the Delaware General Corporation Law.

Article V of our certificate of incorporation (the "Charter"), provides that no director of our company shall be personally liable to us or our stockholders for monetary damages for any breach of fiduciary duty as a director, except for liability (1) for any breach of the director's duty of loyalty to us or our stockholders, (2) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (3) in respect of unlawful dividend payments or stock redemptions or repurchases or other distributions pursuant to Section 174 of the Delaware General Corporation Law, or (4) for any transaction from which the director derived an improper personal benefit. In addition, our Charter provides that if the Delaware General Corporation Law is amended to authorize the further elimination or limitation of the liability of directors, then the liability of a director of our company shall be eliminated or limited to the fullest extent permitted by the Delaware General Corporation Law, as so amended.

Article V of the Charter further provides that any repeal or modification of such article by our stockholders or an amendment to the Delaware General Corporation Law will not adversely affect any right or protection existing at the time of such repeal or modification with respect to any acts or omissions occurring before such repeal or modification of a director serving at the time of such repeal or modification.

Article IX of our amended and restated by-laws (the "By-Laws"), provides that we will indemnify each of our directors and officers certain employees and agents, to the fullest extent permitted by the Delaware General Corporation Law as the same may be amended (except that in the case of an amendment, only to the extent that the amendment permits us to provide broader indemnification rights than the Delaware General Corporation Law permitted us to provide prior to such the amendment) against any and all expenses, judgments, penalties, fines and amounts reasonably paid in settlement that are incurred by the director, officer or such employee or on the director's, officer's or employee's behalf in connection with any threatened, pending or completed proceeding or any claim, issue or matter therein, to which he or she is or is threatened to be made a party because he or she is or was serving as a director, officer or employee of our company, or at our request as a director, partner, trustee, officer, employee or agent of another corporation, partnership, joint venture, trust, employee benefit plan or other enterprise, if he or she acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the best interests of our company and, with respect to any criminal proceeding, had no reasonable cause to believe his or her conduct was unlawful. Article IX of the By-Laws further provides for the advancement of expenses to each of our directors and, in the discretion of the board of directors, to certain officers and employees.

In addition, Article IX of the By-Laws provides that the right of each of our directors and officers to indemnification and advancement of expenses shall be a contract right and shall not be exclusive of any other right now possessed or hereafter acquired under any statute, provision of the Charter or By-Laws, agreement, vote of stockholders or otherwise. Furthermore, Article IX of the By-Laws authorizes us to provide insurance for our directors, officers and employees, against any liability, whether or not we would have the power to indemnify such person against such liability under the Delaware General Corporation Law or the provisions of Article IX of the By-Laws.

In connection with the sale of common stock being registered hereby, we intend to enter into indemnification agreements with each of our directors and our executive officers. These agreements will provide that we will indemnify each of our directors and such officers to the fullest extent permitted by law and the Charter and By-Laws.

We also maintain a general liability insurance policy which covers certain liabilities of directors and officers of our company arising out of claims based on acts or omissions in their capacities as directors or officers.

In any underwriting agreement we enter into in connection with the sale of common stock being registered hereby, the underwriters will agree to indemnify, under certain conditions, us, our directors, our officers and persons who control us within the meaning of the Securities Act of 1933, as amended, against certain liabilities.

Item 15.

Recent Sales of Unregistered Securities.

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

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

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

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

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

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

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

From May 2003 through August 2003, we issued an aggregate of 179,600 shares of our common stock to 33 purchasers, described below, for an aggregate purchase price of $411,733 (or $2.29 per share). These issuances were all part of the same stock offering. The number of shares and per share price have been adjusted to give effect to the stock dividend on January 1, 2005.

With respect to the transactions from June 2004 through August 2004 and from May 2003 through August 2003, the purchasers were a select group of officers, directors, key managers of, or consultants to, the Company and/or its subsidiaries.

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

Item 16.

Exhibits

(a) See the Exhibit Index on the page immediately preceding the exhibits for a list of exhibits filed as part of this registration statement on Form S-1, which Exhibit Index is incorporated herein by reference.

(b) Financial Statement Schedules

None.

Item 17.

Undertakings.

*(f) The undersigned registrant hereby undertakes to provide to the underwriter at the closing specified in the underwriting agreements, certificates in such denominations and registered in such names as required by the underwriter to permit prompt delivery to each purchaser.

*(h) Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act, and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to

a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

*(i) The undersigned registrant hereby undertakes that:

(1) For purposes of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.

(2) For the purpose of determining any liability under the Securities Act of 1933, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial *bona fide* offering thereof.

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* Paragraph references correspond to those of Regulation S-K, Item 512

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, as amended, the registrant has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Anaheim, State of California on October 10, 2006.

WILLDAN GROUP, INC.

By: /s/ MALLORY MCCAMANT

Mallory McCamant
Chief Financial Officer

Pursuant to the requirements of the Securities Act of 1933, this registration statement has been signed by the following persons in the capacities indicated on October 10, 2006:

Signature	Title(s)
* Win Westfall	President, Chief Executive Officer and Director (Principal Executive Officer)
* Mallory McCamant	Chief Financial Officer (Principal Financial and Accounting Officer)
* Linda Heil	Director
* W. Tracy Lenocker	Director
* Keith W. Renken	Director
* Chell Smith	Director

*By: /s/ MALLORY MCCAMANT

Mallory McCamant
Attorney-in-Fact

EXHIBIT INDEX

Number	Description
1.1	Form of Underwriting Agreement
3.1	Amended and Restated Certificate of Incorporation of the Registrant(1)
3.2	Amended and Restated By-laws of the Registrant(1)
4.1	Specimen Stock Certificate for shares of the Registrant's Common Stock(1)
5.1	Opinion of Snell & Wilmer L.L.P.(1)
10.1	Commercial Loan Agreement for $8,000,000 Revolving Draw Loan, dated June 24, 2005, between The Willdan Group of Companies and Orange County Business Bank, N.A. relating to the Promissory Note in 10.2(1)
10.2	Promissory Note for $8,000,000 Revolving Draw Loan, dated June 24, 2005, by The Willdan Group of Companies in favor of Orange County Business Bank, N.A.(1)
10.3	Security Agreement, dated June 24, 2005, between The Willdan Group of Companies and Orange County Business Bank, N.A. relating to the Promissory Note in 10.2(1)
10.4	Commercial Loan Agreement for $900,000 Term Loan, dated June 24, 2005, between The Willdan Group of Companies and Orange County Business Bank, N.A. relating to the Promissory Note in 10.5(1)
10.5	Promissory Note for $900,000 Term Loan, dated June 24, 2005, by The Willdan Group of Companies in favor of Orange County Business Bank, N.A.(1)
10.6	Security Agreement, dated June 24, 2005, between The Willdan Group of Companies and Orange County Business Bank, N.A. relating to the Promissory Note in 10.5(1)
10.7	Willdan Associates Incentive Bonus Plan, effective May 1, 1996(1)
10.8	MuniFinancial 2005 Bonus Plan(1)
10.9	Form of Tax Agreement Relating to S Corporation Distributions by the Registrant and its shareholders(1)
10.10	Willdan Group, Inc. 2006 Stock Incentive Plan(1)
10.11	Form of Incentive Stock Option Agreement(1)
10.12	Form of Non-Qualified Stock Option Agreement(1)
10.13	Willdan Group, Inc. 2006 Employee Stock Purchase Plan(1)
10.14	Office Lease by and between Spectrum Waples Street, LLC, a California limited liability company, Spectrum Lambert Plaza, LLC, a California limited liability company and The Willdan Group of Companies dated October 15, 2004 for the principal office located at 2401 East Katella Avenue, Anaheim, California(1)
10.15	Form of Indemnification Agreement between the Registrant and its Directors and Officers(1)
10.16	First Amendment to Lease by and between 2401 Katella, LLC and The Willdan Group of Companies dated February 27, 2006 for the principal office located at 2401 Katella Avenue, Anaheim, California(1)

10.17	Second Amendment to Lease by and between 2401 Katella, LLC and The Willdan Group of Companies dated March 6, 2006 for the principal office located at 2401 Katella Avenue, Anaheim, California(1)
10.18	Employment Agreement (Re-stated) between the Registrant and Mallory McCamant dated August 1, 2006(1)
10.19	Form of Warrant Agreement to be entered into between the Registrant and Wedbush Morgan Securities Inc.(1)
10.20	Form of Indemnification Agreement to be entered into between the Registrant and Linda Heil(1)
10.21	June 19, 2006 Amendment to Commercial Loan Agreements between The Willdan Group of Companies and Orange County Business Bank, N.A. dated June 24, 2005
10.22	June 26, 2006 Amendment to Commercial Loan Agreements between The Willdan Group of Companies and Orange County Business Bank, N.A. dated June 24, 2005
21.1	List of Subsidiaries of Registrant(1)
23.1	Consent of Snell & Wilmer L.L.P. (included in Exhibit 5.1)(1)
23.2	Consent of KPMG LLP
24.1	Power of Attorney(1)

(1) Previously filed.

QuickLinks

Exhibit 1.1

WILLDAN GROUP, INC.
3,220,000 Shares*
Common Stock
($0.01 par value per share)

Underwriting Agreement

* Includes 420,000 shares subject to an option to purchase additional shares to cover over-allotments.

, 2006

Wedbush Morgan Securities Inc.
as Representative of the several
Underwriters named in Schedule I hereto
c/o Wedbush Morgan Securities Inc.
1000 Wilshire Boulevard, 10th Floor
Los Angeles, California 90017

Dear Sirs:

Willdan Group, Inc., a Delaware corporation (the "**Company**"), proposes, subject to the terms and conditions stated herein, to issue and sell to the several underwriters named in *Schedule I* hereto (collectively, the "**Underwriters**") an aggregate of 2,000,000 shares of common stock, par value $0.01 per share, of the Company ("**Common Stock**"), and the stockholder of the Company named in *Schedule II* hereto (the "**Selling Stockholder**") proposes, subject to the terms and conditions stated herein, to sell to the Underwriters an aggregate of 800,000 shares of Common Stock. The aggregate of 2,800,000 shares to be sold by the Company and the Selling Stockholder is herein called the "**Firm Shares**." In addition, the Company proposes to grant to the Underwriters an option to purchase up to an additional 420,000 shares (the "**Optional Shares**") of Common Stock from the Company for the purpose of covering over-allotments in connection with the sale of the Firm Shares. The Firm Shares and the Optional Shares which the Underwriters elect to purchase pursuant to Section 3 hereof are herein collectively called the "**Shares**."

The Company hereby acknowledges that, in connection with the proposed offering of the shares, it has requested Wedbush Morgan Securities Inc. to administer a directed share program (the "**Directed Share Program**") under which up to 280,000 Firm Shares, or 10% of the Firm Shares to be purchased by the Underwriters (the "**Reserved Shares**"), shall be reserved for sale by Wedbush Morgan Securities Inc. at the initial public offering price to the Company's officers, directors, employees and consultants and other persons having a relationship with the Company as designated by the Company (the "**Directed Share Participants**") as part of the distribution of the Shares by the Underwriters, subject to the terms of this Agreement, the applicable rules, regulations and interpretations of the National Association of Securities Dealers, Inc. (the "**NASD**") and all other applicable laws, rules and regulations. The number of Shares available for sale to the general public will be reduced to the extent that Directed Share Participants purchase Reserved Shares. The Underwriters may offer any Reserved Shares not purchased by Directed Share Participants to the general public on the same basis as the other Shares being issued and sold hereunder. The Company has supplied Wedbush Morgan Securities Inc. with the names, addresses and telephone number of the individuals or other entities which the Company has designated to be participants in the Directed Share Program. It is understood that any number of those so designated to participate in the Directed Share Program may decline to do so.

1. *Representations and Warranties*.

(a) *Representations and Warranties of the Company*. The Company represents and warrants to, and agrees with, each of the Underwriters that:

(i) A registration statement on Form S-1 (File No. 333-136444) (the "**Initial Registration Statement**") in respect of the Shares has been filed with the Securities and Exchange Commission (the "**Commission**"); the Initial Registration Statement including any pre-effective amendments thereto and any post-effective amendments thereto, each in the form heretofore delivered to Wedbush Morgan Securities Inc. have been declared effective by the Commission in such form; other than a registration statement, if any, increasing the size of the offering (a "**Rule 462(b) Registration Statement**"), filed pursuant to Rule 462(b) under the Securities Act of 1933, as amended (the "**Act**"), which became effective upon filing, no other document with respect to the Initial Registration Statement or document incorporated by reference therein has heretofore been filed with the Commission; and no stop order suspending the effectiveness of the Initial Registration Statement, any post-effective amendment thereto or the Rule 462(b) Registration Statement, if any, has been issued and no proceeding for that purpose has been initiated or, to the Company's knowledge, threatened by the Commission (any preliminary prospectus included in the Initial Registration Statement or filed with the Commission pursuant to Rule 424(a) of the rules and regulations of the Commission under the Act is hereinafter called a "**Preliminary Prospectus**"); the various parts of the Initial Registration Statement and the Rule 462(b) Registration Statement, if any, including all exhibits to the foregoing; and including the information contained in the form of final prospectus filed with the Commission pursuant to Rule 424(b) under the Act in accordance with Section 5(a) hereof or the Rule 462(b) Registration Statement, if any, at the time it became effective, each as amended at the time such part of such Initial Registration Statement became effective, are hereinafter collectively called the "**Registration Statement**"; such final prospectus, in the form first filed pursuant to Rule 424(b) under the Act, is hereinafter called the "**Prospectus**"; the term "**Pricing Prospectus**" as used herein means the Preliminary Prospectus that was included in the Registration Statement immediately prior to the Applicable Time (as defined in Section 1(a)(ii) hereof); any reference herein to "**Issuer Free Writing Prospectus**" refers to any "issuer free writing prospectus" as defined in Rule 433 under the Act;

(ii) For the purposes of this Agreement, the "**Applicable Time**" is p.m. (Eastern Time) on the date of this Agreement; the Pricing Prospectus as supplemented by the Issuer Free Writing Prospectuses, if any, and other documents listed on *Schedule III(a)* hereto, taken together (collectively, the "**Pricing Disclosure Package**") as of the Applicable Time, did not include any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading; and each Issuer Free Writing Prospectus listed on *Schedule III(a)* or *Schedule III(b)* hereto does not conflict with the information contained in the Registration Statement, the Pricing Prospectus or the Prospectus and each Issuer Free Writing Prospectus listed on *Schedule III(b)* hereto, as supplemented by and taken together with the Pricing Disclosure Package as of the Applicable Time, did not include any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading; *provided*, *however*, that these representations and warranties shall not apply to any statements or omissions made in the Pricing Disclosure Package or any other Issuer Free Writing Prospectus in reliance upon and in conformity with information furnished in writing to the Company by an Underwriter through Wedbush Morgan Securities Inc. expressly for use therein or by the Selling Stockholder expressly for use in the preparation of the answers therein to Item 7 of Form S-1;

(iii) No order preventing or suspending the use of any Preliminary Prospectus or any Issuer Free Writing Prospectus has been issued by the Commission, and each Preliminary Prospectus, at the time of filing thereof, conformed in all material respects to the requirements of the Act and the rules and regulations of the Commission thereunder, and did not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; *provided*, *however*, that this representation and warranty shall not apply to any statements or omissions made in reliance upon and in conformity with information furnished in writing to the Company by an Underwriter through Wedbush Morgan Securities Inc. expressly for use therein or by the Selling Stockholder expressly for use in the preparation of the answers therein to Item 7 of Form S-1;

(iv) The Registration Statement and all Preliminary Prospectuses conform, at the time of filing thereof, and the Prospectus and any further amendments or supplements to the Registration Statement, any Preliminary Prospectus or the Prospectus will conform, at the time of filing thereof, in all material respects to the requirements of the Act and the rules and regulations of the Commission thereunder; the Registration Statement, any Preliminary Prospectus and the Prospectus do not and will not, as of the applicable effective date as to the Registration Statement and any amendment thereto, as of the applicable filing date as to any Preliminary Prospectus, and as of the applicable filing date and the applicable Time of Delivery (as hereinafter defined) as to the Prospectus and any amendment or supplement thereto, contain an untrue statement of a material fact or omit to state a material fact, in the case of the Registration Statement or any amendment thereto, required to be stated therein or necessary to make the statements therein not misleading and, in the case of any Preliminary Prospectus or the Prospectus or any supplement thereto, necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; *provided*, *however*, that this representation and warranty shall not apply to any statements or omissions made in reliance upon and in conformity with information furnished in writing to the Company by an Underwriter through Wedbush Morgan Securities Inc. expressly for use therein or by the Selling Stockholder expressly for use in the preparation of the answers therein to Item 7 of Form S-1;

(v) There are no contracts or other documents required to be described in the Registration Statement or to be filed as exhibits to the Registration Statement by the Act or by the rules and regulations thereunder which have not been described in, filed as exhibits to, or incorporated by reference in the Registration Statement, as required; the contracts so described in the Pricing Prospectus and the Prospectus to which the Company or any of its subsidiaries is a party have been duly authorized, executed and delivered by the Company or its subsidiaries, constitute valid and binding agreements of the Company or its subsidiaries and are enforceable against the Company or its subsidiaries in accordance with their respective terms, except as such enforceability may be limited by (i) applicable bankruptcy, insolvency, moratorium, reorganization, fraudulent conveyance or similar laws in effect which affect the enforcement of creditors' rights generally, (ii) general principles of equity, whether considered in a proceeding at law or in equity and (iii) state or federal securities laws or policies relating to the non-enforceability of the indemnification provisions contained therein, and, to the Company's knowledge, such contracts are enforceable in accordance with their respective terms by the Company against the other parties thereto, except as such enforceability may be limited by (x) applicable bankruptcy, insolvency, moratorium, reorganization, fraudulent conveyance or similar laws in effect which affect the enforcement of creditors' rights generally, (y) general principles of equity, whether considered in a proceeding at law or in equity and (z) state or federal securities laws or policies relating to the non-enforceability of the indemnification provisions contained therein, and such contracts are in full force and effect on the date hereof; and neither the Company nor any of its subsidiaries, nor, to the best of the Company's knowledge, any other party thereto, is in breach of or default under any of such contracts, except for such breaches or defaults that will not result in a material adverse change in the general affairs, business, assets, management, financial position, stockholders' equity or results of operations of the Company and its subsidiaries taken as a whole;

(vi) Neither the Company nor any of its subsidiaries has sustained since the date of the latest audited financial statements included in the Pricing Prospectus any loss or interference with its business from fire, explosion, flood or other calamity, whether or not covered by insurance, or from any labor dispute or court or governmental action, order or decree, that is in each case material to the Company and its subsidiaries taken as a whole, otherwise than as set forth or contemplated in the Pricing Prospectus; and, since the respective dates as of which information is given in the Registration Statement and the Pricing Prospectus, (i) there has not been any change in the capital stock or long-term debt of the Company or any of its subsidiaries or any material adverse change, in or affecting the general affairs, business, assets, management, financial position, stockholders' equity or results of operations of the Company and its subsidiaries taken as a whole, and (ii) the Company or its subsidiaries have not entered into any material transaction or incurred any material obligation outside of the ordinary course of business, otherwise than as set forth in the Pricing Prospectus;

(vii) The Company and its subsidiaries have good and marketable title in fee simple to all real property and good and marketable title to all other tangible properties and assets described in the Pricing Prospectus as owned by it, in each case free and clear of all liens, charges, claims, encumbrances or restrictions, except such as (i) are described in the Pricing Prospectus or (ii) do not materially affect the value of such property and do not interfere with the use made and proposed to be made of such property by the Company and its subsidiaries; any real property and buildings held under lease by the Company and its subsidiaries are held by them under valid, subsisting and enforceable leases with such exceptions as are not material and do not interfere with the use made and proposed to be made of such property and buildings by the Company and its subsidiaries; the Company and its subsidiaries own or lease all such properties as are necessary to its operations as now conducted;

(viii) Each of the Company and its subsidiaries has been duly incorporated and is validly existing as a corporation in good standing under the laws of its respective jurisdiction of organization, each with full power and authority (corporate and otherwise) to own or hold its properties and conduct its business as described in the Pricing Prospectus, and each has been duly qualified as a foreign corporation for the transaction of business and is in good standing under the laws of each other jurisdiction in which it owns or leases properties or conducts any business so as to require such qualification, except where the failure to have such power or authority or be so qualified or in good standing would not have a material adverse effect on the business, management, financial positions, or results of operations of the Company and its subsidiaries taken as a whole (a "**Material Adverse Effect**");

(ix) The Company has an authorized capitalization as set forth in the Pricing Prospectus and the Prospectus, and all the outstanding shares of capital stock of the Company have been duly and validly authorized and issued, are fully paid and non-assessable and conform to the descriptions thereof contained or incorporated by reference in the Pricing Prospectus and the Prospectus; all of the issued shares of capital stock of each subsidiary of the Company (i) have been duly and validly authorized and issued, are fully paid and non-assessable and (ii) except as disclosed in the Pricing Prospectus and the Prospectus, are owned directly by the Company, free and clear of all liens, encumbrances, equities or claims; except as disclosed in or contemplated by the Pricing Prospectus and the Prospectus and the consolidated financial statements of the Company and the related notes thereto contained in the Pricing Prospectus and the Prospectus, neither the Company nor any subsidiary has outstanding any options to purchase, or any preemptive rights or other rights to subscribe for or to purchase any securities or obligations convertible into, or any contracts or commitments to issue or sell, shares of its capital stock or any such options, rights, convertible securities or obligations; and the description of the Company's stock option and stock purchase plans and the options or other rights granted and exercised thereunder set forth in the Pricing Prospectus and the Prospectus are materially accurate and fairly present the information required by the Act and the published rules and regulations of the Commission thereunder to be shown with respect to such plans, options and rights;

(x) The unissued Shares to be issued and sold by the Company to the Underwriters hereunder have been duly authorized and, when issued and delivered against payment therefor as provided herein, will be duly and validly issued and fully paid and non-assessable and will conform to the description of the Common Stock contained in the Pricing Prospectus and the Prospectus; no preemptive rights or other rights to subscribe for or purchase exist with respect to the issuance and sale of the Shares by the Company pursuant to this Agreement; no stockholder of the Company has any right, which has not been waived, to require the Company to register the sale of any shares of capital stock owned by such stockholder pursuant to the public offering contemplated by this Agreement;

(xi) The Company has full corporate power and authority to enter into this Agreement; and this Agreement has been duly authorized, executed and delivered by the Company, constitutes a valid and binding obligation of the Company and is enforceable against the Company in accordance with its terms, except such enforceability may be limited by (x) applicable bankruptcy, insolvency, moratorium, reorganization, fraudulent conveyance or similar laws in effect which affect the enforcement of creditors rights generally, (y) general principles of equity, whether considered in a proceeding at law or in equity and (z) state or federal securities laws or policies relating to the non-enforceability of the indemnification provisions contained herein;

(xii) The issue and sale of the Shares by the Company, the compliance by the Company with all of the provisions of this Agreement, the application of the net proceeds received by the Company from the sale of the Shares pursuant to this Agreement in the manner specified in the Pricing Prospectus under "Use of Proceeds" and the consummation of the transactions herein contemplated will not (i) conflict with or result in a breach or violation of any of the terms or provisions of, or constitute a default under, any indenture, mortgage, deed of trust, loan agreement or other material agreement or material instrument to which the Company or any of its subsidiaries is a party or by which the Company or any of its subsidiaries is bound or to which any of the property or assets of the Company or any of its subsidiaries is subject, (ii) result in any violation of the provisions of the Certificate of Incorporation or By-laws of the Company as currently in effect or (iii) conflict with or result in a breach or violation of any statute or any order, rule or regulation of any court or governmental agency or body having jurisdiction over the Company or any of its subsidiaries or any of their properties except, for clauses (i) and (iii), any such conflict, breach or violation that could not, individually, or in the aggregate, be reasonably expected to have a Material Adverse Effect. No consent, approval, authorization, order, registration or qualification of or with any such court or governmental agency or body is required for the issue and sale of the Shares or the consummation by the Company of the transactions contemplated by this Agreement, except for the registration under the Act of the Shares and such consents, approvals, authorizations, registrations or qualifications as may be required under state securities or Blue Sky laws or the bylaws and rules of the National Association of Securities Dealers, Inc. ("**NASD**") in connection with the purchase and distribution of the Shares by the Underwriters;

(xiii) All offers, sales or other issuances of the Company's capital stock prior to the date hereof were at all relevant times exempt from the registration requirements of the Act and were duly registered with or the subject of an available exemption from the registration of the applicable state securities or Blue Sky laws, except for such sales or other issuances for which the Company has conducted rescission offers in accordance with applicable state securities laws;

(xiv) Neither the Company nor any of its subsidiaries is (i) in violation of its Certificate of Incorporation or By-laws or (ii) in default in the performance or observance of any material obligation, agreement, covenant or condition contained in any indenture, mortgage, deed of trust, loan agreement, lease or other agreement or instrument to which it is a party or by which it or any of its properties may be bound, except in the case of clause (ii) only, for any such default that could not, individually, or in the aggregate, reasonably be expected to have a Material Adverse Effect;

(xv) There are no legal or governmental proceedings pending or threatened to which the Company or any of its subsidiaries is a party or to which any of the properties of the Company or any of its subsidiaries is subject that are required to be described in the Registration Statement or the Pricing Prospectus and are not so described or any statutes, regulations, contracts or other documents that are required to be described in the Registration Statement or the Pricing Prospectus or to be filed as exhibits to the Registration Statement that are not described or filed as required; no labor disturbance by the employees of the Company or any of its subsidiaries that is reasonably like to result in a Material Adverse Effect exists or, to the knowledge of the Company, is imminent; and neither the Company nor any of its subsidiaries is a party or subject to the provisions of any injunction, judgment, decree or order of any court, regulatory body;

(xvi) Except as could not reasonably be expected to, individually or in the aggregate, result in a Material Adverse Effect, (i) the Company and its subsidiaries possess all licenses, certificates, authorizations or permits issued by the appropriate governmental or regulatory agencies or authorities that are necessary to enable them to own, lease and operate their respective properties and to carry on their respective businesses as presently conducted; and (ii) neither the Company nor any of its subsidiaries has received any notice of proceedings relating to the revocation or modification of any such license, certificate, authority or permit;

(xvii) The Company and its subsidiaries (i) are in compliance in all material respects with any and all applicable foreign, federal, state and local laws and regulations relating to the protection of human health and safety, including, without limitation, those relating to occupational safety and health, the environment or hazardous or toxic substances or wastes, pollutants or contaminants, including, without limitation, those relating to the storage, handling or transportation of hazardous or toxic materials (collectively, "**Environmental Laws**") and (ii) are in material compliance with all terms and conditions of any such permit, license or approval. The Company, in its reasonable judgment, has concluded that any costs or liabilities associated with Environmental Laws (including, without limitation, any capital or operating expenditures required for clean-up, closure of properties or compliance with Environmental Laws or any permit, license or approval, any related constraints on operating activities and any potential liabilities to third parties) would not, singly or in the aggregate, reasonably be expected to result in a Material Adverse Effect;

(xviii) KPMG LLP, who have audited certain financial statements of the Company, is an independent registered public accounting firm with respect to the Company as required by the Act and the rules and regulations of the Commission thereunder;

(xix) The consolidated financial statements of the Company, and the related notes thereto, included in the Registration Statement and the Pricing Prospectus present fairly the financial position of the Company as of the respective dates of such financial statements, and the results of operations and cash flows of the Company for the respective periods covered thereby; such statements and related notes have been prepared in accordance with generally accepted accounting principles in the United States applied on a consistent basis as certified by the independent registered public accounting firm named in paragraph (xviii) above; no other financial statements or schedules are required to be included in the Registration Statement; and the selected financial data set forth in the Pricing Prospectus under the captions "Capitalization," "Selected Consolidated Financial and Other Data" and "Prospectus Summary—Summary Consolidated Financial and Other Data" fairly present the information set forth therein on the basis stated in the Registration Statement;

(xx) The Company and its subsidiaries own, or possess and/or have been granted valid and enforceable licenses for, all registered patents, patent applications, trademarks, trademark applications, tradenames, servicemarks and copyrights necessary to the conduct of its business as such business is described in the Pricing Prospectus (collectively, the "**Registered Intellectual Property**"). The Company and its subsidiaries have no knowledge of any infringement or misappropriation by third parties of conflict with asserted rights of others of (a) any of the Registered Intellectual Property, or (b) any inventions, manufacturing processes, formulae, trade secrets, know-how, unregistered trademarks, and other intangible property and assets necessary to the conduct of its business as such business is described in the Pricing Prospectus (collectively, the "**Other Intellectual Property**," and together with the Registered Intellectual Property, the "**Intellectual Property**") which could reasonably be expected to result in a Material Adverse Effect, nor is there any pending or, to the best knowledge of the Company, threatened action, suit, proceeding or claim by others challenging the Company's rights of title or other interest in or to any Intellectual Property. There is no pending or, to the best knowledge of the Company, threatened action, suit, proceeding or claim by others challenging the validity and scope of any Intellectual Property. There is no pending or, to the best knowledge of the Company, threatened action, suit, proceeding or claim by others that the Company or any of its products or processes or the Intellectual Property infringe or otherwise violate any patent, trademark, servicemark, copyright, trade secret or other proprietary right of others. The Company is not aware of (i) any grounds for an interference proceeding before the United States Patent and Trademark Office in relation to any of the patents or patent applications currently owned by the Company, or (ii) any facts which would bar the grant of a patent from each of the patent applications, if any, described in the Pricing Prospectus. There is no pending or, to the knowledge of the Company, threatened action, suit proceeding or claim by any current or former employee, consultant or agent of the Company seeking either ownership rights to any invention or other intellectual property right or compensation from the Company for any invention or other intellectual property right made by such employee, consultant or agent in the course of his/her employment with the Company or otherwise. There is no act or omission by the Company or its agents or representatives of which the Company has knowledge that may render any patent or patent application within the Intellectual Property unpatentable, unenforceable or invalid;

(xxi) Except as for such taxes, assessments, fines or penalties, the non-payment of which would not, individually or in the aggregate, result in a Material Adverse Effect, the Company and each of its subsidiaries have filed all necessary federal, state and foreign income and franchise tax returns, each of which has been true and correct in all material respects, and have paid all taxes shown as due thereon; and the Company has no knowledge of any material tax deficiency which has been or might be asserted or threatened against the Company or any of its subsidiaries;

(xxii) The Company is not, and after giving effect to the offering and sale of the Shares and the application of the net proceeds as described in the Pricing Prospectus will not be, an "investment company" or an "affiliated person" of, or "promoter" or "principal underwriter" for, an "investment company", as such terms are defined in the Investment Company Act of 1940, as amended (the "**Investment Company Act**");

(xxiii) The Company and its subsidiaries are insured by insurers of recognized financial responsibility against such losses and risks and in such amounts as are prudent and customary in the businesses in which they are engaged; neither the Company nor any of its subsidiaries has been refused any insurance coverage sought or applied for; and neither the Company nor any of its subsidiaries has any reason to believe that it will not be able to renew its existing insurance coverage as and when such coverage expires or to obtain similar coverage from similar insurers as may be necessary to continue its business at a cost that would not have a Material Adverse Effect, except as described in the Pricing Prospectus;

(xxiv) The board or executive officers of the Company, its subsidiaries or, to the Company's knowledge, any other person associated with or acting on behalf of the Company or its subsidiaries including, without limitation, any director, officer, agent or employee of the Company or its subsidiaries, has not, directly or indirectly, while acting on behalf of the Company or its subsidiaries (i) used any corporate funds for unlawful contributions, gifts, entertainment or other unlawful expenses relating to political activity; (ii) made any unlawful contribution to any candidate for foreign office, or failed to disclose fully any contribution in violation of law; (iii) made any payment to any foreign, federal or state governmental officer or official, or other person charged with similar public or quasi-public duties, other than payments required or permitted by the laws of the United States and any respective jurisdiction thereof; (iv) violated any provision of the Foreign Corrupt Practices Act of 1977, as amended; or (v) made any other unlawful payment;

(xxv) The Company has not taken and will not take, directly or indirectly through any of its directors, officers or controlling persons, any action which is designed to or which has constituted or which might reasonably be expected to cause or result in stabilization or manipulation of the price of any security of the Company to facilitate the sale or resale of the Shares;

(xxvi) The Common Stock of the Company has been registered pursuant to Section 12(b) of the Securities and Exchange Act of 1934, as amended (the "**Exchange Act**") and the Company is not required to take any further action for the inclusion of the Shares on the Nasdaq Global Market;

(xxvii) There are no business relationships or related-party transactions involving the Company or any subsidiary or any other person required to be described in the Pricing Prospectus which have not been described as required;

(xxviii) The Company maintains a system of internal control over financial reporting (as such term is defined in Rule 13a-15(f) under the Exchange Act) that complies with the requirements of the Exchange Act and has been designed by the Company's principal executive officer and principal financial officer, or under their 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. Except as disclosed in the Pricing Prospectus, the Company's internal control over financial reporting is effective and the Company is not aware of any material weaknesses in its internal control over financial reporting;

(xxix) Since the date of the latest audited financial statements included in the Pricing Prospectus, there has been no change in the Company's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting;

(xxx) The Company is in compliance in all material respects with all applicable provisions of the Sarbanes-Oxley Act and all rules and regulations promulgated thereunder to which the Company is subject, and is actively taking steps to ensure that it will be in compliance with other applicable provisions of the Sarbanes-Oxley Act not currently applicable to the Company upon the effectiveness of such provisions;

(xxxi) Without the prior consent of Wedbush Morgan Securities Inc., the Company has not made and will not make any offer relating to the Shares that would constitute a "free writing prospectus" as defined in Rule 405 under the Act; and any free writing prospectuses, the use of which have been consented to by the Company and Wedbush Morgan Securities Inc., are listed on *Schedule III(a)* or *III(b)* hereto;

(xxxii) The Company has complied and will comply with the requirements of Rules 164 and 433 under the Act applicable to any Issuer Free Writing Prospectus, including timely filing with the Commission or retention where required and legending;

(xxxiii) The Company has taken all actions necessary so that any "road show" (as defined in Rule 433 under the Act) in connection with the offering of the Shares will not be required to be filed pursuant to the Act and the rules and regulations adopted by the Commission thereunder; and

(xxxiv) Except as otherwise disclosed in the Pricing Prospectus, the Company and its subsidiaries and any "employee benefit plan" (as defined under the Employee Retirement Income Security Act of 1974, as amended, and the regulations and published interpretations thereunder (collectively, "**ERISA**")) established or maintained by the Company, its subsidiaries or their ERISA Affiliates (as defined below) are in compliance in all material respects with ERISA. "**ERISA Affiliate**" means, with respect to the Company or a subsidiary, any member of any group of organizations described in Sections 414(b),(c),(m) or (o) of the Internal Revenue Code of 1986, as amended, and the regulations and published interpretations thereunder (the "**Code**") of which the Company or such subsidiary is a member. No "reportable event" (as defined under ERISA) has occurred or is reasonably expected to occur with respect to any "employee benefit plan" established or maintained by the Company, its subsidiaries or any of their ERISA Affiliates. No "employee benefit plan" established or maintained by the Company, its subsidiaries or any of their ERISA Affiliates, if such "employee benefit plan" were terminated, would have any "amount of unfunded benefit liabilities" (as defined under ERISA). Neither the Company, its subsidiaries nor any of their ERISA Affiliates has incurred or reasonably expects to incur any liability under (i) Title IV of ERISA with respect to termination of, or withdrawal from, any "employee benefit plan" or (ii) Sections 412, 4971, 4975 or 4980B of the Code. Each "employee benefit plan" established or maintained by the Company, its subsidiaries or any of their ERISA Affiliates that is intended to be qualified under Section 401(a) of the Code is so qualified and nothing has occurred, whether by action or failure to act, which would cause the loss of such qualification.

(b) *Representations, Warranties and Covenants of the Selling Stockholder.* The Selling Stockholder represents and warrants to, and agrees with, each of the Underwriters and the Company that:

(i) All consents, approvals, authorizations and orders necessary for the execution and delivery by the Selling Stockholder of this Agreement and the Power of Attorney and the Custody Agreement hereinafter referred to, and for the sale and delivery of the Shares to be sold by the Selling Stockholder hereunder, have been obtained; and the Selling Stockholder has full right, power and authority to enter into this Agreement, the Power of Attorney and the Custody Agreement and to sell, assign, transfer and deliver the Shares to be sold by the Selling Stockholder hereunder;

(ii) The sale of the Shares to be sold by the Selling Stockholder hereunder and the compliance by the Selling Stockholder with all of the provisions of this Agreement, the Power of Attorney and the Custody Agreement and the consummation of the transactions herein and therein contemplated will not (i) conflict with or result in a breach or violation of any of the terms or provisions of, or constitute a default under, any statute, indenture, mortgage, deed of trust, loan agreement or other agreement or instrument to which the Selling Stockholder is a party or by which the Selling Stockholder is bound or to which any of the property or assets of the Selling Stockholder is subject, (ii) result in any violation of the Trust Agreement or Declaration of Trust of the Selling Stockholder, or (iii) result in any violation of any statute or any order, rule or regulation of any court or governmental agency or body having jurisdiction over the Selling Stockholder or the property of the Selling Stockholder, except in the case of clauses (i) and (iii), any such breach, conflict or violation that would not, individually, or in the aggregate, result in a Material Adverse Effect;

(iii) Upon delivery of such Shares and payment therefor pursuant hereto, the Selling Stockholder will transfer to the several Underwriters, good and valid title to such Shares, free and clear of all liens, encumbrances, equities or claims;

(iv) The Selling Stockholder is not prompted to sell shares of Common Stock by any material information concerning the Company that is not set forth in the Pricing Prospectus;

(v) The Selling Stockholder has not taken and will not take, directly or indirectly, any action which is designed to or which has constituted or which might reasonably be expected to cause or result in stabilization or manipulation of the price of any security of the Company to facilitate the sale or resale of the Shares;

(vi) To the extent that any statements or omissions made in the Registration Statement, any Preliminary Prospectus, the Prospectus or any amendment or supplement thereto are made in reliance upon and in conformity with written information furnished to the Company by the Selling Stockholder expressly for use therein, such Registration Statement and Preliminary Prospectus did not, and the Prospectus and any further amendments or supplements to the Registration Statement and the Prospectus, when they become effective or are filed with the Commission, as the case may be, will not, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading;

(vii) In order to document the Underwriters' compliance with the reporting and withholding provisions of the Tax Equity and Fiscal Responsibility Act of 1982 with respect to the transactions herein contemplated, the Selling Stockholder will deliver to Wedbush Morgan Securities Inc. prior to or at the First Time of Delivery (as hereinafter defined) a properly completed and executed United States Treasury Department Form W-9 (or other applicable form or statement specified by Treasury Department regulations in lieu thereof);

(viii) Certificates in negotiable form representing all of the Shares to be sold by the Selling Stockholder hereunder have been placed in custody under a Custody Agreement, in the form heretofore furnished to the Underwriters (the "**Custody Agreement**"), duly executed and delivered by the Selling Stockholder to U.S. Stock Transfer Corporation, as custodian (the "**Custodian**"), and the Selling Stockholder has duly executed and delivered a Power of Attorney, in the form heretofore furnished to Wedbush Morgan Securities Inc. (the "**Power of Attorney**"), appointing the persons indicated in *Schedule II* hereto, and each of them, as the Selling Stockholder's attorneys-in-fact (the "**Attorneys-in-Fact**") with authority to execute and deliver this Agreement on behalf of the Selling Stockholder, to determine the purchase price to be paid by the Underwriters to the Selling Stockholder as provided in Section 2 hereof, to authorize the delivery of the Shares to be sold by the Selling Stockholder hereunder and otherwise to act on behalf of the Selling Stockholder in connection with the transactions contemplated by this Agreement and the Custody Agreement;

(ix) The Shares represented by the certificates held in custody for the Selling Stockholder under the Custody Agreement are subject to the interests of the Underwriters hereunder; the arrangements made by the Selling Stockholder for such custody, and the appointment by the Selling Stockholder of the Attorneys-in-Fact by the Power of Attorney, are irrevocable to the extent provided thereunder, subject to the terms and conditions of this Agreement; the obligations of the Selling Stockholder hereunder shall not be terminated by operation of law, whether by the death or incapacity of any individual Selling Stockholder or, in the case of an estate or trust, by the death or incapacity of any executor or trustee or the termination of such estate or trust; if any individual Selling Stockholder or any such executor or trustee should die or become incapacitated, or if any such estate or trust should be terminated, or if any other such event should occur, before the delivery of the Shares hereunder, certificates representing the Shares shall be delivered by or on behalf of the Selling Stockholder, subject to and in accordance with, the terms and conditions of this Agreement and of the Custody Agreements; and actions taken by the Attorneys-in-Fact pursuant to the Powers of Attorney shall be as valid as if such death, incapacity, termination, dissolution or other event had not occurred, regardless of whether or not the Custodian, the Attorneys-in-Fact, or any of them, shall have received notice of such death, incapacity, termination, dissolution or other event;

(x) the Selling Stockholder is not a member of or an affiliate of or associated with any member of the NASD;

(xi) Nothing has come to the attention of the Selling Stockholder that has caused the Selling Stockholder to believe that the representations and warranties of the Company in Section 1(a) are not true and correct, and the Selling Stockholder is familiar with the Registration Statement and has no knowledge of any material fact, condition or information not disclosed in the Registration Statement, the Pricing Prospectus or the Prospectus, or any amendment of supplement thereto, or any Issuer Free Writing Prospectus that has adversely affected or is reasonably expected to adversely affect the business of the Company or any of its subsidiaries; and

(xii) Neither the Selling Stockholder nor any person acting on behalf of the Selling Stockholder (other than, if applicable, the Company and the Underwriters) has used or referred or will use or refer to any "free writing prospectus" as defined in Rule 405 under the Act, relating to the Shares.

2. *Shares Subject to Sale.* On the basis of the representations, warranties and agreements contained herein, and subject to the terms and conditions of this Agreement:

(a) The Company and the Selling Stockholder agree, severally and not jointly (in accordance with the allocation set forth in *Schedule II* hereto), to sell to each of the Underwriters, and each of the Underwriters agrees, severally and not jointly, to purchase from the Company and the Selling Stockholder, at the First Time of Delivery, at a purchase price per share of $[ ], the number of Firm Shares (to be adjusted by Wedbush Morgan Securities Inc. so as to eliminate fractional shares) determined in each case by multiplying the aggregate number of Shares to be sold by the Company and the Selling Stockholder as set forth opposite their respective names in *Schedule II* hereto by a fraction, the numerator of which is the aggregate number of Firm Shares to be purchased by such Underwriter as set forth opposite the name of such Underwriter in *Schedule I* hereto and the denominator of which is the aggregate number of Firm Shares to be purchased by the Underwriters from the Company and the Selling Stockholder hereunder; and

(b) In the event and to the extent that the Underwriters shall exercise the election to purchase Optional Shares as provided below, the Company (as and to the extent indicated in *Schedule II* hereto) agrees to sell to each of the Underwriters, and each of the Underwriters agrees, severally and not jointly, to purchase from the Company, the Second Time of Delivery, at the purchase price per share set forth in clause (a) of this Section 2, that number of Optional Shares determined by multiplying the number of Optional Shares as to which such election shall have been exercised (to be adjusted by Wedbush Morgan Securities Inc. so as to eliminate fractional shares) by a fraction, the numerator of which is the maximum number of Optional Shares which such Underwriter is entitled to purchase as set forth opposite the name of such Underwriter in *Schedule I* hereto and the denominator of which is the maximum number of Optional Shares that all of the Underwriters are entitled to purchase hereunder.

The Company, as and to the extent indicated in *Schedule II* hereto, hereby grants to the Underwriters the right to purchase at their election up to 420,000 Optional Shares, at the purchase price per share set forth in clause (a) of this Section 2, for the sole purpose of covering sales of shares in excess of the number of Firm Shares. Any such election to purchase Optional Shares shall be made in proportion to the maximum number of Optional Shares to be sold by the Company as set forth in *Schedule II* hereto. Any such election to purchase Optional Shares may be exercised only by written notice (the "**Election Notice**") from Wedbush Morgan Securities Inc. to the Company, given within a period of 30 calendar days after the date of this Agreement and setting forth the aggregate number of Optional Shares to be purchased and the date on which such Optional Shares are to be delivered, as determined by Wedbush Morgan Securities Inc. but in no event earlier than the First Time of Delivery or, unless Wedbush Morgan Securities Inc. and the Company otherwise agree in writing, earlier than two or later than ten business days after the date of such notice.

3. *Offering.* Upon the authorization by Wedbush Morgan Securities Inc. of the release of the Firm Shares, the several Underwriters propose to offer the Firm Shares for sale upon the terms and conditions set forth in the Prospectus.

4. *Closing.* Certificates in definitive form for the Shares to be purchased by each Underwriter hereunder, and in such denominations and registered in such names as Wedbush Morgan Securities Inc. may request upon at least forty-eight hours' prior notice to the Company and the Selling Stockholder, shall be delivered by or on behalf of the Company and the Selling Stockholder to Wedbush Morgan Securities Inc. for the account of such Underwriter, against payment by such Underwriter or on its behalf of the purchase price therefor by wire transfer of same day funds to the account specified by the Company and the Custodian, as their interests may appear, all at the office of Wedbush Morgan Securities Inc., 1000 Wilshire Boulevard, 10th Floor, Los Angeles, California 90017. The time and date of such delivery and payment shall be, with respect to the Firm Shares, 9:30 a.m., Eastern time, on , 2006 or such other time and date as Wedbush Morgan Securities Inc. and the Company may agree upon in writing, and, with respect to the Optional Shares, 9:30 a.m., Eastern time, on the date specified by Wedbush Morgan Securities Inc. in the Election Notice, or at such other time and date as Wedbush Morgan Securities Inc. and the Company may agree upon in writing. Such time and date for delivery of the Firm Shares is herein called the "**First Time of Delivery**," such time and

date for delivery of the Optional Shares, if not the First Time of Delivery, is herein called the "**Second Time of Delivery**," and each such time and date for delivery is herein called a "**Time of Delivery**." Such certificates will be made available for checking and packaging at least twenty-four hours prior to each Time of Delivery at such location as Wedbush Morgan Securities Inc. may specify. If the Underwriters so elect, delivery of the Shares may be made by credit through full fast transfer to the accounts at The Depository Trust Company designated by Wedbush Morgan Securities Inc.

5. *Covenants of the Company.* The Company agrees with each of the Underwriters:

(a) To prepare the Prospectus in a form approved by the Underwriters and to file such Prospectus pursuant to Rule 424(b) under the Act not later than the Commission's close of business on the second business day following the execution and delivery of this Agreement, or, if applicable, such earlier time as may be required by the rules and regulations of the Commission under the Act, to make no further amendment or any supplement to the Registration Statement, the Pricing Prospectus or Prospectus which shall be reasonably disapproved by Wedbush Morgan Securities Inc. promptly giving reasonable notice thereof; to advise Wedbush Morgan Securities Inc., promptly after it receives notice thereof, of the time when the Registration Statement, or any amendment thereto, has been filed or becomes effective or any supplement to the Pricing Prospectus or the Prospectus or any amended Pricing Prospectus or Prospectus has been filed and to furnish Wedbush Morgan Securities Inc. copies thereof; to advise Wedbush Morgan Securities Inc., promptly after it receives notice thereof, of the issuance by the Commission of any stop order or of any order preventing or suspending the use of any Issuer Free Writing Prospectus, Preliminary Prospectus or Prospectus, of the suspension of the qualification of the Shares for offering or sale in any jurisdiction, of the initiation or threatening of any proceeding for any such purpose, or of any request by the Commission for the amending or supplementing of the Registration Statement, the Pricing Prospectus or Prospectus or for additional information; and, in the event of the issuance of any stop order or of any order preventing or suspending the use of any Issuer Free Writing Prospectus, Preliminary Prospectus or Prospectus or suspending any such qualification, to use promptly its best efforts to obtain its withdrawal;

(b) The Company will file promptly all material required to be filed by the Company with the Commission pursuant to Rule 433(d) under the Act;

(c) Promptly, from time to time, to take such action as Wedbush Morgan Securities Inc. may reasonably request to qualify the Shares for offering and sale under the securities laws of such jurisdictions as Wedbush Morgan Securities Inc. may request and to comply with such laws so as to permit the continuance of sales and dealings in such jurisdictions for as long as may be necessary to complete the distribution of the Shares, provided that in connection therewith the Company shall not be required to qualify as a foreign corporation or to file a general consent to service of process in any jurisdiction;

(d) To furnish the Underwriters with copies of each Issuer Free Writing Prospectus, any Preliminary Prospectus and the Prospectus in such quantities as the Underwriters may from time to time reasonably request, and, if the delivery of a prospectus (or in lieu thereof, the notice referred to in Rule 173(a) under the Act) is required at any time prior to the expiration of nine months after the time of issuance of the Prospectus in connection with the offering or sale of the Shares and if at such time any events shall have occurred as a result of which the Prospectus as then amended or supplemented would include an untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in light of the circumstances under which they were made when such Prospectus (or in lieu thereof, the notice referred to in Rule 173(a) under the Act) is delivered, not misleading, or, if for any other reason it shall be necessary during such same period to amend or supplement the Prospectus in order to comply with the Act, to notify Wedbush Morgan Securities Inc. and upon Wedbush Morgan Securities Inc.'s request to prepare and furnish without charge to each Underwriter and to any dealer in securities as many copies as the Underwriters may from time to time reasonably request of an amended Prospectus or a supplement to the Prospectus which will correct such statement or omission or effect such compliance, and in case any Underwriter is required by law to deliver a prospectus (or in lieu thereof, the notice referred to in Rule 173(a) under the Act) in connection with sales of any of the Shares at any time nine months or more after the time of issue of the Prospectus, upon the Underwriters request but at the expense of such Underwriter, to prepare and deliver to such Underwriter as many copies as the Underwriters may request of an amended or supplemented Prospectus complying with Section 10(a)(3) of the Act;

(e) To make generally available to its security holders as soon as practicable, but in any event not later than the forty-fifth (45th) day following the end of the full fiscal quarter first occurring after the first anniversary of the effective date of the Registration Statement (as defined in Rule 158(c)), an earnings statement of the Company and its subsidiaries (which need not be audited) complying with Section 11(a) of the Act and the rules and regulations of the Commission thereunder (including, at the option of the Company, Rule 158);

(f) During the period beginning from the date hereof and continuing to and including the 180 days after the date of the Prospectus (the "**Lock-Up Period**"), will not, without the prior written consent of Wedbush Morgan Securities Inc., (i) sell, offer to sell, contract or agree to sell, hypothecate, pledge, grant any option to purchase or otherwise dispose of or agree to dispose of, directly or indirectly, or establish or increase a put equivalent position or liquidate or decrease a call equivalent position within the meaning of Section 16 of the Exchange Act and the rules and regulations of the Commission promulgated thereunder, with respect to any Common Stock or securities convertible into or exchangeable or exercisable for Common Stock, (ii) file or cause to be declared effective a registration statement under the Act relating to the offer and sale of any shares of Common Stock or securities convertible into or exercisable for Common Stock, (iii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of Common Stock or any securities convertible into or exercisable or exchangeable for Common Stock, whether any such transaction is to be settled by delivery of Common Stock or any such securities, in cash or otherwise, or (iv) publicly announce an intention to effect any transaction specified in clause (i), (ii) or (iii) above. The foregoing sentence shall not apply to (A) the registration of Shares and the sale of Shares to the Underwriters pursuant to this Agreement, (B) the issuance of Common Stock upon the exercise of options or warrants disclosed as outstanding in the Registration Statement, (C) other than the grant of options described in the Prospectus, the issuance and registration of employee stock options not exercisable during the Lock-Up Period pursuant to stock option or warrant plans described in the Registration Statement and (D) the issuance and registration of shares pursuant to the 2006 Employee Stock Purchase Plan; provided, however, that if (I) during the period that begins on the date that is 17 calendar days before the last day of the Lock-Up Period and ends on the last day of the Lock-Up Period, the Company issues an earnings release or material news or a material event relating to the Company occurs, or (II) prior to the expiration of the Lock-Up Period, the Company announces that it will release earnings results during the 16-day period beginning on the last day of the Lock-Up Period, then the restrictions imposed by this clause (f) shall continue to apply until the expiration of the date that is 18 calendar days after the date of such issuance of the earnings release or the material news or the material event occurs;

(g) To furnish to its stockholders as soon as practicable after the end of each fiscal year an annual report (including a balance sheet and statements of income, stockholders' equity and cash flow of the Company and its consolidated subsidiaries certified by independent public accountants) and to make available (within the meaning of Rule 158(b) under the Act) as soon as practicable after the end of each of the first three quarters of each fiscal year (beginning with the fiscal quarter ending after the effective date of the Registration Statement), consolidated summary financial information of the Company and its subsidiaries for such quarter in reasonable detail;

(h) During a period of three years from the effective date of the Registration Statement, to furnish to the Underwriters upon request copies of all reports or other communications (financial or other) furnished to stockholders generally, and deliver to the Underwriters as soon as they are available, copies of any reports and financial statements furnished to or filed with the Commission, the Nasdaq Global Market or any national securities exchange on which any class of securities of the Company is listed (such financial statements to be on a combined or consolidated basis to the extent the accounts of the Company and its subsidiaries are combined or consolidated in reports furnished to its stockholders generally or to the Commission); provided that the Company may satisfy each of the requirements of this subsection by making any such reports or other communications generally available on its website;

(i) To use the net proceeds acquired by it from the sale of the Shares in the manner specified in the Pricing Prospectus and the Prospectus under the caption "Use of Proceeds" and in a manner such that the Company will not become an "investment company" as that term is defined in the Investment Company Act;

(j) Not to accelerate the vesting of any option issued under any stock option plan such that any such option may be exercised during the Lock-Up Period;

(k) To use its best efforts to list for quotation, subject to notice of issuance, the Shares on the Nasdaq Global Market System;

(l) To file with the Commission such information on Form 10-Q or Form 10-K as may be required by Rule 463 under the Act;

(m) To give prompt notice to Wedbush Morgan Securities Inc. if at any time following issuance of an Issuer Free Writing Prospectus any event occurred or occurs as a result of which such Issuer Free Writing Prospectus would conflict with the information in the Registration Statement, the Pricing Prospectus or the Prospectus or would include an untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in light of the circumstances then prevailing, not misleading, and, if requested by Wedbush Morgan Securities Inc., to prepare and furnish without charge to each Underwriter an Issuer Free Writing Prospectus or other document which will correct such conflict, statement or omission; and

(n) If the Company elects to rely upon rule 462(b), to file a Rule 462(b) Registration Statement with the Commission in compliance with Rule 462(b) by 10:00 P.M. (Eastern Time), on the date of this Agreement, and at the time of filing to either pay to the Commission the filing fee for the Rule 462(b) Registration Statement or give irrevocable instructions for the payment of such fee pursuant to Rule 111(b) under the Act.

6. *Free Writing Prospectuses.* Each of the Company and the Selling Stockholder represents and agrees that, unless it obtains the prior consent of Wedbush Morgan Securities, Inc., and each Underwriter represents and agrees that, unless it obtains the prior consent of the Company and Wedbush Morgan Securities, Inc., it has not made and will not make any offer relating to the Shares that would constitute an Issuer Free Writing Prospectus, or that would otherwise constitute a "free writing prospectus," as defined in Rule 405, required to be filed with the Commission. Any such free writing prospectus consented to by the Company and Wedbush Morgan Securities, Inc. is hereinafter referred to as a "Permitted Free Writing Prospectus." The Company represents that it has treated and agrees that it will treat each Permitted Free Writing Prospectus as an "issuer free writing prospectus," as defined in Rule 433, and has complied and will comply with the requirements of Rule 165 and Rule 433 applicable to any Permitted Free Writing Prospectus, including timely Commission filing where required, legending and record keeping. The Company represents that is has satisfied and agrees that it will satisfy the conditions in Rule 433 to avoid a requirement to file with the Commission any electronic road show.

7. *Expenses.* The Company and the Selling Stockholder covenant and agree with one and another and the several Underwriters that (a) the Company will pay or cause to be paid the following: (i) the fees, disbursements and expenses of the Company's counsel and accountants in connection with the registration of the Shares under the Act and all other expenses in connection with the preparation, printing and filing of each Issuer Free Writing Prospectus and the Registration Statement, any Preliminary Prospectus and the Prospectus and amendments and supplements thereto, including $150,000 of the Underwriters' counsel's fees with respect to the drafting and preparation of the Registration Statement, any Preliminary Prospectus and the Prospectus and amendments and supplements thereto, and the mailing and delivering of copies thereof to the Underwriters and dealers; (ii) the cost of reproducing any Agreement Among Underwriters, this Agreement, any Blue Sky memoranda and any other documents in connection with the offering, purchase, sale and delivery of the Shares; (iii) all expenses and filing fees in connection with the qualification of the Shares for offering and sale under state securities laws as provided in Section 5(c) hereof and securing any required review by the NASD of the terms of the sale of the Shares, including the reasonable fees and disbursements of counsel for the Underwriters in connection with such qualification and review and in connection with any Blue Sky memoranda; (iv) all fees and expenses in connection with the preparation and filing of the registration statement on Form 8-A relating to the Common Stock and all fees and expenses in connection with listing the Shares with the Nasdaq Global Market; (v) the cost of preparing stock certificates; (vi) the cost and charges of any transfer agent or registrar; (vii) the costs and expenses of the Company relating to investor presentations on any "road show" undertaken in connection with the marketing of the offering of the Shares, including, without limitation, expenses associated with the production of road show slides and graphics, fees and expenses of any consultants engaged in connection with the road show presentations with the prior approval of the Company, travel and lodging expenses of the employees, officers and representatives (other than the Underwriters) of the Company and any such consultants, and the cost of any aircraft chartered in connection with the road show with the Company's consent; and (viii) all other costs and expenses incident to the performance of the Company's obligations hereunder which are not otherwise specifically provided for in this Section and (b) the Selling Stockholder will pay or cause to be paid all costs and expenses incident to the performance of the Selling Stockholder's obligations hereunder which are not otherwise specifically provided for in this Section, including (i) any fees and expenses of counsel for the Selling Stockholder, (ii) the fees and expenses of the Attorneys-in-Fact and the Custodian, and (iii) all expenses and taxes incident to the sale and delivery of the Shares to be sold by the Selling Stockholder to the Underwriters hereunder. In connection with clause (b)(iii) of the preceding sentence, Wedbush Morgan Securities Inc. agrees to pay New York State stock transfer tax, and the Selling Stockholder agrees to reimburse Wedbush Morgan Securities Inc. for associated carrying costs if such tax payment is not rebated on the day of payment and for any portion of such tax payment not rebated. It is understood, however, that the Underwriters will pay all of their own costs and expenses, including the fees and expenses of their counsel, except as provided in this Section, Section 9 and Section 12 hereof and stock transfer taxes on resale of any of the Shares by them.

8. *Conditions of Underwriters' Obligations*. The obligations of the Underwriters hereunder, as to the Shares to be delivered at each Time of Delivery, shall be subject, in their discretion, to the condition that all representations and warranties and other statements of the Company and of the Selling Stockholder herein are, at and as of such Time of Delivery, true and correct, the condition that the Company and the Selling Stockholder shall have performed all of their respective obligations hereunder theretofore to be performed, and the following additional conditions:

(a) The Prospectus shall have been filed with the Commission pursuant to Rule 424(b) within the applicable time period prescribed for such filing by the rules and regulations under the Act and in accordance with Section 5(a) hereof; no stop order suspending the effectiveness of the Registration Statement, any Preliminary Prospectus, the Prospectus or any Issuer Free Writing Prospectus shall have been issued and no proceeding for that purpose shall have been initiated or threatened by the Commission; all material required to be filed by the Company pursuant to Rule 433(d) under the Act shall have been filed with the Commission within the applicable time period prescribed for such filing by Rule 433 under the Act; and all requests for additional information on the part of the Commission shall have been complied with to Wedbush Morgan Securities Inc.'s reasonable satisfaction;

(b) O'Melveny & Myers LLP, counsel to the Underwriters, shall have furnished to the Underwriters such opinion or opinions, dated such Time of Delivery, with respect to this Agreement, the Registration Statement, the Pricing Disclosure Package, the Prospectus and other related matters as the Underwriters may reasonably request;

(c) Snell & Wilmer L.L.P., counsel to the Company, shall have furnished to the Underwriters their written opinion, dated such Time of Delivery, in form and substance previously agreed upon with the Underwriters;

(d) Snell & Wilmer L.L.P., counsel to the Selling Stockholder, shall have furnished to the Underwriters their written opinion with respect to the Selling Stockholder, dated such Time of Delivery, in form and substance previously agreed upon with the Underwriters,;

(e) The Underwriters shall have received, on each of the date hereof and each Time of Delivery, a letter dated the date hereof or such Time of Delivery, as the case may be, in form and substance satisfactory to the Underwriters, from KPMG LLP, independent registered public accounting firm, containing statements and information of the type ordinarily included in accountants' "comfort letters" to underwriters with respect to the financial statements and certain financial information contained in the Registration Statement and the Prospectus; provided that the letter delivered on the First Time of Delivery shall use a "cut-off date" not earlier than the date hereof;

(f) (i) Neither the Company nor any of its subsidiaries shall have sustained since the date of the latest audited financial statements included in the Pricing Prospectus any loss or interference with its business from fire, explosion, flood or other calamity, whether or not covered by insurance, or from any labor dispute or court or governmental action, order or decree, otherwise than as set forth or contemplated in the Pricing Prospectus, and (ii) since the respective dates as of which information is given in the Pricing Prospectus, there shall not have been any change in the capital stock (other than issuances of Common Stock pursuant to Company stock option and stock purchase plans described in the Registration Statement and the Pricing Prospectus) or long-term debt of the Company or any material adverse change in the general affairs, business, assets, management, financial position, stockholders' equity or results of operations of the Company and its subsidiaries taken as a whole (whether or not arising in the ordinary course of business), otherwise than as set forth or contemplated in the Pricing Prospectus, the effect of which, in any such case described in clause (i) or (ii), is in the sole judgment of Wedbush Morgan Securities Inc. so material and adverse as to make it impracticable or inadvisable to proceed with the public offering or the delivery of the Shares being delivered at such Time of Delivery on the terms and in the manner contemplated in the Prospectus;

(g) On or after the date hereof there shall not have occurred any of the following: (i) additional material governmental restrictions, not in force and effect on the date hereof, shall have been imposed upon trading in securities generally or minimum or maximum prices shall have been generally established on the New York Stock Exchange, the Nasdaq Global Market, the American Stock Exchange or in the over-the-counter market by the NASD, or trading in securities generally shall have been suspended on the New York Stock Exchange, the Nasdaq Global Market, the American Stock Exchange or in the over the counter market by the NASD, or a general banking moratorium shall have been established by federal or New York authorities, (ii) a suspension or material limitation in trading in securities generally on the Nasdaq Global Market,

(iii) a suspension or material limitation in trading in the Company's securities on the Nasdaq Global Market, (iv) an outbreak of major hostilities or other national or international calamity or any substantial change in political, financial or economic conditions shall have occurred or shall have accelerated or escalated to such an extent, as, in the sole judgment of Wedbush Morgan Securities Inc., to affect materially and adversely the marketability of the Shares or (v) there shall be any action, suit or proceeding pending or threatened, or there shall have been any development or prospective development involving particularly the business or properties or securities of the Company or any of its subsidiaries or the transactions contemplated by this Agreement, which, in the sole judgment of Wedbush Morgan Securities Inc., has materially and adversely affected the Company's business or earnings and makes it impracticable or inadvisable to proceed with the public offering or the delivery of the Shares being delivered at such Time of Delivery on the terms and in the manner contemplated in the Prospectus;

(h) The Shares to be sold at such Time of Delivery shall have been accepted for quotation, subject to notice of issuance, on the Nasdaq Global Market System;

(i) The Company shall have delivered to Wedbush Morgan Securities Inc. the executed Warrant Agreement substantially in the form set forth in Annex I hereto;

(j) Each director and executive officer of the Company and the Selling Stockholder shall have executed and delivered to the Underwriters lock-up agreements in the form of Annex II hereto;

(k) The Underwriters shall have received on each Time of Delivery certificates, dated such Time of Delivery, signed by the chief executive officer and the chief financial officer of the Company and the Selling Stockholder, as the case may be, to the effect that:

(i) the representations and warranties of the Company and the Selling Stockholder, respectively, contained in this Agreement are true and correct as of such Time of Delivery and that the Company and the Selling Stockholder, respectively, have complied in all material respects with all of the agreements and satisfied all of the conditions on their part to be performed or satisfied hereunder on or before such Time of Delivery;

(ii) no stop order or other order suspending the effectiveness of the Registration Statement or any amendment thereof has been issued, and no proceeding for that purpose has been instituted or, to the best of their knowledge, is contemplated by the Commission or any state or regulatory body;

(iii) the signers of said certificate have carefully examined the Registration Statement and the Prospectus, and any amendments thereof or supplements thereto;

(iv) such documents contain all statements and information required to be included therein, and the Registration Statement, or any amendment thereof, does not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading, and the Prospectus, as amended or supplemented, does not include any untrue statement of material fact or omit to state a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading;

(v) since the effective date of the Registration Statement, there has occurred no event required to be set forth in an amended or supplemented prospectus which has not been so set forth;

(vi) subsequent to the respective dates as of which information is given in the Registration Statement and the Prospectus, the Company has not incurred any material liabilities or obligations, direct or contingent, or entered into any material transactions, not in the ordinary course of business, or declared or paid any dividends or made any distribution of any kind with respect to its capital stock, and except as disclosed in the Prospectus, there has not been any change in the capital stock (other than a change in the number of outstanding shares of Common Stock), any change in the long-term debt, any Material Adverse Effect or any development involving a prospective Material Adverse Effect (whether or not arising in the ordinary course of business); and

(vii) except as stated in the Registration Statement and the Prospectus, there is not pending, or, to the knowledge of the Company, threatened or contemplated, any action, suit, or proceeding to which the Company is a party before or by any court or governmental agency, authority, or body, or any arbitrator, which could reasonably be expected to result in any Material Adverse Effect.

If the Company shall fail, refuse or be unable at the Time of Delivery to perform any agreement on its part to be performed hereunder or if any other condition of the Underwriters' obligations is not fulfilled, then this Agreement shall be prevented from becoming effective without any liability on the part of any of the Underwriters. No action taken pursuant to this Section 8 shall relieve the Company from liability, if any, in respect of any default by the Company of the provisions of this Agreement which occurred prior to the Underwriters' termination.

9. *Indemnification and Contribution*.

(a) The Company agrees to indemnify, defend and hold harmless the Underwriters and their partners, directors and officers, and any person who controls the Underwriters within the meaning of Section 15 of the Act or Section 20 of the Exchange Act, and the successors and assigns of all of the foregoing persons, from and against any loss, damage, expense, liability or claim (including any legal or other expenses incurred in connection with investigating any claims and defending any actions) which, jointly or severally, the Underwriters or any such person may incur under the Act, the Exchange Act, any other statute, the common law or otherwise, insofar as such loss, damage, expense, liability or claim (i) arises out of or is based upon an untrue statement or alleged untrue statement of a material fact contained in the Registration Statement, any Preliminary Prospectus, the Pricing Prospectus or the Prospectus, or any amendment or supplement thereto, any Issuer Free Writing Prospectus or any "issuer information" filed or required to be filed pursuant to Rule 433(d) under the Act, or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, (ii) arises out of or is based upon any untrue statement or alleged untrue statement of a material fact contained in any material prepared by or on behalf or with the consent of the Company for distribution to Directed Share Participants in connection with the Directed Share Program or caused by any omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, (iii) is or was caused by the failure of any Directed Share Participant to pay for and accept delivery of Reserved Shares that the Directed Share Participant has agreed to purchase, or (iv) otherwise arises out of or is based upon the Directed Share Program; *provided, however*, that (x) with respect to clause (i) of this paragraph, the Company shall not be liable in any such case to the extent that any such loss, claim, damage or liability arises out of or is based upon an untrue statement or alleged untrue statement or omission or alleged omission made in the Registration Statement, any Preliminary Prospectus, the Pricing Prospectus or the Prospectus, or any amendment or supplement thereto, or any Issuer Free Writing Prospectus in reliance upon and in conformity with written information furnished to the Company by any Underwriter through Wedbush Morgan Securities Inc. expressly for use therein and (y) with respect to clauses (ii), (iii) and (iv) of this paragraph, the Company shall not be liable insofar as such loss, damage, expense, liability or claim is finally judicially determined to have resulted from the gross negligence or willful misconduct of the Underwriters in conducting the Directed Share Program.

(b) The Selling Stockholder agrees to indemnify, defend and hold harmless the Underwriters and their partners, directors and officers, and any person who controls the Underwriters within the meaning of Section 15 of the Act or Section 20 of the Exchange Act, and the successors and assigns of all of the foregoing persons, from and against any loss, damage, expense, liability or claim (including any legal or other expenses incurred in connection with investigating any claims and defending any actions) which, jointly or severally, the Underwriters or any such person may incur under the Act, the Exchange Act, the common law or otherwise, insofar as such loss, damage, expense, liability or claim arises out of or is based upon an untrue statement or alleged untrue statement of a material fact contained in the Registration Statement, any Preliminary Prospectus, the Pricing Prospectus or the Prospectus, or any amendment or supplement thereto, any Issuer Free Writing Prospectus or any "issuer information" filed or required to be filed pursuant to Rule 433(d) under the Act, or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, but only to the extent, that such untrue statement or alleged untrue statement or omission or alleged omission was made in the Registration Statement, any Preliminary Prospectus, the Pricing Prospectus or the Prospectus, or any such amendment or supplement, or any Issuer Free Writing Prospectus in reliance upon and in conformity with written information furnished to the Company or such Underwriter by the Selling Stockholder expressly for use therein. Notwithstanding the foregoing, the Selling Stockholder shall not be required to indemnify, defend and hold harmless the Underwriters pursuant to this Section 9(b) in excess of the amount by which the proceeds of this offering (before payment of fees and expense but after deducting underwriting discounts and commissions) received by such Selling Stockholder exceeds the amount of any damages that such Selling Stockholder has otherwise been required to pay by reason of such untrue or alleged untrue statement or omission or alleged omission.

(c) Each Underwriter, severally and not jointly, agrees to indemnify, defend and hold harmless the Company and the Selling Stockholder from and against any loss, damage, expense, liability or claim (including any legal or other expenses incurred in connection with investigating any claims and defending any actions) which, jointly or severally, the Underwriters or any such person may incur under the Act, the Exchange Act, the common law or otherwise, insofar as such (i) loss, damage, expense, liability or claim arises out of or is based upon an untrue statement or alleged untrue statement of a material fact contained in the Registration Statement, any Preliminary Prospectus, the Pricing Prospectus or the Prospectus, or any amendment or supplement thereto, any Issuer Free Writing Prospectus or any "issuer information" filed or required to be filed pursuant to Rule 433(d) under the Act, or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, but only to the extent, that such untrue statement or alleged untrue statement or omission or alleged omission was made in the Registration Statement, any Preliminary Prospectus, the Pricing Prospectus or the Prospectus, or any such amendment or supplement, or any Issuer Free Writing Prospectus in reliance upon and in conformity with written information furnished to the Company or the Selling Stockholder by such Underwriter expressly for use therein.

(d) In case any proceeding (including any governmental investigation) shall be instituted involving any person in respect of which indemnity may be sought pursuant to Section 9(a), (b) or (c), such person (the "**indemnified party**") shall promptly notify the person against whom such indemnity may be sought (the "**indemnifying party**") in writing, provided that the omission of any indemnified party so to notify the indemnifying party of any such proceeding shall not relieve the indemnifying party from any liability which it may have to such indemnified party on account of the indemnity agreement contained in Section 9(a), (b), (c) or otherwise. The indemnifying party, upon request of the indemnified party, shall retain counsel reasonably satisfactory to the indemnified party to represent the indemnified party and any others the indemnifying party may designate in such proceeding and shall pay the fees and disbursements of such counsel related to such proceeding. In any such proceeding, any indemnified party shall have the right to retain its own counsel, but the fees and expenses of such counsel shall be at the expense of such indemnified party, unless (i) the employment of such counsel has been authorized by the indemnifying party in connection with the defense of such action, (ii) such indemnified party shall have been advised by such counsel that there are material legal defenses available to it, which are different from, conflicting with, or additional to those available to the indemnifying party, (iii) a conflict of interest arises between indemnifying party and indemnified party, or (iv) the indemnifying party shall not have employed counsel reasonably satisfactory to such indemnified party within a reasonable time after notice of commencement of such action, in any of which event, such fees and expenses shall be borne by the indemnifying party. It is understood that the indemnifying party shall not, in respect of the legal expenses of any indemnified party in connection with any proceeding or related proceedings in the same jurisdiction, be liable for the fees and expenses of more than one separate firm (in addition to any local counsel) for all such indemnified parties and that all such fees and expenses shall be reimbursed as they are incurred. Such firm shall be designated in writing by Wedbush Morgan Securities Inc., in the case of parties indemnified pursuant to Sections 9(a) and (b), and by the Company or the Selling Stockholder, as the case may be (or by mutual agreement of the Company and the Selling Stockholder if both parties are an indemnified party), in the case of parties indemnified pursuant to Section 9(c). The indemnifying party shall not be liable for any settlement of any proceeding effected without its consent, which shall not be unreasonably delayed or denied, but if settled with such consent or if there be a final judgment for the plaintiff, the indemnifying party agrees to indemnify the indemnified party from and against any loss or liability by reason of such settlement or judgment. No indemnifying party shall, without the prior consent of the indemnified party, effect any settlement of any pending or threatened proceeding in respect of which any indemnified party is or could have been a party and indemnity could have been sought hereunder by such indemnified party, unless such settlement (i) includes an unconditional release of the indemnified party from all liability arising out of such action or claim and (ii) does not include a statement as to or an admission of fault, culpability or a failure to act, by or on behalf of any indemnified party.

(e) To the extent the indemnification provided for in Sections 9(a), (b) or (c) is unavailable to an indemnified party or insufficient in respect of any losses, claims, damages or liabilities referred to therein, then each indemnifying party under such paragraph, in lieu of indemnifying such indemnified party thereunder, shall contribute to the amount paid or payable by such indemnified party as a result of such losses, claims, damages or liabilities (i) in such proportion as is appropriate to reflect the relative benefits received by the Company and/or the Selling Stockholder, on the one hand, and the Underwriters, on the other hand, from the offering of the Shares or (ii) if the allocation provided by clause (i) is not permitted by applicable law, in such proportion as is appropriate to reflect not only the relative benefits referred to in clause (i) but also the relative fault of the Company and/or the Selling Stockholder, on the one hand, and of the Underwriters, on the other hand, in connection with the statements or omissions that resulted in such losses, claims, damages or liabilities, as well as any other relevant equitable considerations. The relative benefits received by the Company and/or the Selling Stockholder, on the one hand, and the Underwriters, on the other hand, in connection with the offering of the Shares shall be deemed to be in the same respective proportions as the net proceeds from the offering of the Shares (before deducting expenses) received by the Company and/or the Selling Stockholder and the total underwriting discounts and commissions received by the Underwriters, in each case as set forth in the table on the cover of the Prospectus, bear to the aggregate public offering price of the Shares. The relative fault of the Company and/or the Selling Stockholder, on the one hand, and the Underwriters, on the other hand, shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the Company or by the Underwriters and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission. The Underwriters' respective obligations to contribute pursuant to this Section 9 are several in proportion to the respective number of Shares they have purchased hereunder, and not joint.

(f) The Company, the Selling Stockholder and the Underwriters agree that it would not be just or equitable if contribution pursuant to this Section 9 were determined by *pro rata* allocation (even if the Underwriters were treated as one entity for such purpose) or by any other method of allocation that does not take account of the equitable considerations referred to in Section 9(d). The amount paid or payable by an indemnified party as a result of the losses, claims, damages and liabilities referred to in the immediately preceding paragraph shall be deemed to include, subject to the limitations set forth above, any legal or other expenses reasonably incurred by such indemnified party in connection with investigating or defending any such action or claim. Notwithstanding the provisions of this Section 9, (i) no Underwriter shall be required to contribute any amount in excess of the amount by which the total price at which the Shares underwritten by it and distributed to the public were offered to the public exceeds the amount of any damages that such Underwriter has otherwise been required to pay by reason of such untrue or alleged untrue statement or omission or alleged omission, and (ii) the Selling Stockholder shall not be required to contribute an amount in excess of the amounts by which the proceeds of this offering (before payment of fees and expense but after deducting underwriting discounts and commissions) received by such Selling Stockholder exceeds the amount of any damages that such Selling Stockholder has otherwise been required to pay by reason of such untrue or alleged untrue statement or omission or alleged omission. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. The remedies provided for in this Section 9 are not exclusive and shall not limit any rights or remedies which may otherwise be available to any indemnified party at law or in equity.

(g) The indemnity and contribution provisions contained in this Section 9 and the representations, warranties and other statements of the Company and the Selling Stockholder contained in this Agreement shall remain operative and in full force and effect regardless of (i) any termination of this Agreement, (ii) any investigation made by or on behalf of any Underwriter or any person controlling any Underwriter or by or on behalf of the Company, its officers or directors, any person controlling the Company or the Selling Stockholder and (iii) acceptance of and payment for any of the Shares.

10. *Termination*.

(a) If any Underwriter shall default in its obligation to purchase the Shares which it has agreed to purchase hereunder at a Time of Delivery, Wedbush Morgan Securities Inc. may in its sole discretion arrange for it or another party or other parties to purchase such Shares on the terms contained herein. If within thirty-six (36) hours after such default by any Underwriter, Wedbush Morgan Securities Inc. does not arrange for the purchase of such Shares, then the Company and the Selling Stockholder shall be entitled to a further period of thirty-six (36) hours within which to procure another party or other parties satisfactory to Wedbush Morgan Securities Inc. to purchase such Shares on such terms. In the event that, within the respective prescribed periods, Wedbush Morgan Securities Inc. notifies the Company and the Selling Stockholder that it has so arranged for the purchase of such Shares, or the Company and the Selling Stockholder notify Wedbush Morgan Securities Inc. that it has so arranged for the purchase of such Shares, Wedbush Morgan Securities Inc. or the Company and the Selling Stockholder shall have the right to postpone such Time of Delivery for a period of not more than seven (7) days, in order to effect whatever changes may thereby be made necessary in the Registration Statement or the Prospectus, or in any other documents or arrangements, and the Company agrees to file promptly any amendments to the Registration Statement or the Prospectus which in Wedbush Morgan Securities Inc.'s opinion may thereby be made necessary. The term "Underwriter" as used in this Agreement shall include any person substituted under this Section with like effect as if such person had originally been a party to this Agreement with respect to such Shares.

(b) If, after giving effect to any arrangements for the purchase of the Shares of a defaulting Underwriter or Underwriters by Wedbush Morgan Securities Inc. and/or the Company and the Selling Stockholder as provided in subsection (a) above, the aggregate number of such Shares which remains unpurchased does not exceed one-tenth of the aggregate number of all the Shares to be purchased at such Time of Delivery, then the Company and the Selling Stockholder shall have the right to require each non-defaulting Underwriter(s) to purchase the number of Shares which such Underwriter(s) agreed to purchase hereunder at such Time of Delivery and, in addition, to require each non-defaulting Underwriter to purchase its *pro rata* share (based on the number of Shares which such Underwriter agreed to purchase hereunder) of the Shares of such defaulting Underwriter or Underwriters for which such arrangements have not been made; but nothing herein shall relieve a defaulting Underwriter from liability for its default.

(c) If, after giving effect to any arrangements for the purchase of the Shares of a defaulting Underwriter or Underwriters by Wedbush Morgan Securities Inc. and the Company and the Selling Stockholder as provided in subsection (a) above, the aggregate number of such Shares which remains unpurchased exceeds one-tenth of the aggregate number of all the Shares to be purchased at such Time of Delivery, or if the Company and the Selling Stockholder shall not exercise the right described in subsection (b) above to require non-defaulting Underwriters to purchase Shares of a defaulting Underwriter or Underwriters, then this Agreement (or, with respect to the Second Time of Delivery, the obligations of the Underwriters to purchase and of the Company to sell the Optional Shares) shall thereupon terminate, without liability on the part of any non-defaulting Underwriter or the Company or the Selling Stockholder, except for the expenses to be borne by the Company and the Selling Stockholder and the Underwriters as provided in Section 7 hereof and the indemnity and contribution agreements in Section 9 hereof, but nothing herein shall relieve a defaulting Underwriter from liability for its default.

11. *Survival*. The respective indemnities, agreements, representations, warranties and other statements of the Company, the Selling Stockholder and the several Underwriters, as set forth in this Agreement or made by or on behalf of them, respectively, pursuant to this Agreement, shall remain in full force and effect, regardless of any investigation (or any statement as to the results thereof) made by or on behalf of any Underwriter or any controlling person of any Underwriter, or the Company, or the Selling Stockholder or any officer or director or controlling person of the Company, or any controlling person of the Selling Stockholder and shall survive delivery of and payment for the Shares.

12. *Expenses on Termination*. If this Agreement shall be terminated pursuant to Section 10 hereof, the Company and the Selling Stockholder shall then have no liability to any Underwriter except as provided in Section 7 and Section 9 hereof; but, if for any other reason this Agreement is terminated, or the transactions contemplated hereby shall not have been consummated due to any of the conditions set forth in Section 8 hereof not having been met, or the Shares are not delivered by or on behalf of the Company and the Selling Stockholder as provided herein, the Company will reimburse the Underwriters through Wedbush Morgan Securities Inc. for all reasonable out-of-pocket expenses approved in writing by Wedbush Morgan Securities Inc., including fees and disbursements of counsel, reasonably incurred by the Underwriters in making preparations for the purchase, sale and delivery of the Shares not so delivered, but the Company and the Selling Stockholder shall have no further liability to any Underwriter in respect of the Shares not so delivered except as provided in Section 7 and Section 9 hereof.

13. *Notice*. In all dealings hereunder, Wedbush Morgan Securities Inc. shall act on behalf of each of the Underwriters, and the parties hereto shall be entitled to act and rely upon any statement, request, notice or agreement on behalf of any Underwriter made or given by Wedbush Morgan Securities Inc. on behalf of the Underwriters; and in all dealings with the Selling Stockholder hereunder, Wedbush Morgan Securities Inc. and the Underwriters shall be entitled to act and rely upon any statement, request, notice or agreement on behalf of the Selling Stockholder made or given by any or all of the Attorneys-in-Fact for the Selling Stockholder.

All statements, requests, notices and agreements hereunder shall be in writing, and if to the Underwriters shall be delivered or sent by mail, telex or facsimile transmission to the Underwriters in care of Wedbush Morgan Securities Inc., 1000 Wilshire Boulevard, 10th Floor, Los Angeles, California 90017, Attention: Equity Capital, Markets; if to the Selling Stockholder shall be delivered or sent by mail, telex or facsimile transmission to counsel for the Selling Stockholder at its address set forth in *Schedule II* hereto; and if to the Company shall be delivered or sent by mail, telex or facsimile transmission to the address of the Company set forth in the Registration Statement, Attention: Chief Financial Officer; *provided*, *however*, that any notice to an Underwriter pursuant to Section 9(d) hereof shall be delivered or sent by mail, telex or facsimile transmission to such Underwriter at its address set forth in its Underwriter's Questionnaire or telex constituting such Questionnaire, which address will be supplied to the Company by Wedbush Morgan Securities Inc. on request. Any such statements, requests, notices or agreements shall take effect upon receipt thereof.

14. *Information Provided by the Underwriters and the Selling Stockholder*.

(a) The Company, the Selling Stockholder and the Underwriters acknowledge that, for purposes of this Agreement, the statements set forth in the first sentence of the fifth paragraph and the tenth, thirteenth, fourteenth, fifteenth and seventeenth paragraphs under the heading "Underwriting" in the Pricing Prospectus and the Prospectus constitute the only information furnished in writing to the Company by any Underwriter through Wedbush Morgan Securities Inc. expressly for use in the Registration Statement, any Preliminary Prospectus or the Prospectus. In addition, the Company, the Selling Stockholder and the Underwriters acknowledge that, for purposes of this Agreement, no information has been furnished in writing to the Company by any Underwriter through Wedbush Morgan Securities Inc. expressly for use in any Issuer Free Writing Prospectus.

(b) The Company, the Selling Stockholder and the Underwriters acknowledge that, for purposes of this Agreement, the statements and information in the third and sixth paragraphs of "Certain Relationships and Related Party Transactions" relating to the Selling Stockholder and the statements and the information in the table relating to the Selling Stockholder set forth under the caption "Principal and Selling Stockholders" in the Pricing Prospectus and the Prospectus constitute the only information furnished in writing to the Company by the Selling Stockholder expressly for use in the Registration Statement, any Preliminary Prospectus or the Prospectus.

15. *Governing Law and Dispute Resolution*.

(a) This Agreement shall be governed by and construed in accordance with the laws of the State of California.

(b) Any legal suit, action or proceeding arising out of or based upon this Agreement or the transactions contemplated thereby may be instituted in the federal courts of the United States of America located in the City and County of Los Angeles or the courts of the State of California, in each case located in the City and County of Los Angeles (collectively, the "**Specified Courts**"), and each party submits to the exclusive jurisdiction of such courts in any such suit, action or proceeding. The parties irrevocably and unconditionally waive any objection to the laying of venue of any suit, action or other proceeding in the Specified Courts and irrevocably and unconditionally waive and agree not to plea or claim in any such court that any such suit, action or other proceeding brought in any such court has been brought in an inconvenient forum.

(c) Notwithstanding the clause 14(b) above, each of the Company, the Selling Stockholder and Wedbush Morgan Securities Inc. (for and on behalf of the Underwriters) shall have the option to refer any disputes which may arise out of or in connection with this Agreement to be finally resolved by arbitration before the NASD. The location for an arbitration hearing shall be in Los Angeles as the NASD may provide.

16. *Miscellaneous*.

(a) This Agreement shall be binding upon, and inure solely to the benefit of, the Underwriters, the Selling Stockholder and the Company and, to the extent provided in Sections 9 and 11 hereof, the officers and directors of the Company and each person who controls the Company, the Selling Stockholder or any Underwriter, and their respective heirs, executors, administrators, successors and assigns, and no other person shall acquire or have any right under or by virtue of this Agreement. No purchaser of any of the Shares from any Underwriter shall be deemed a successor or assign by reason merely of such purchase.

(b) Time shall be of the essence of this Agreement. As used herein, the term "**business day**" shall mean any day when the Commission's office in Washington, D.C. is open for business.

(c) This Agreement shall become effective upon the execution and delivery of this Agreement by the parties to this Agreement.

(d) This Agreement may only be amended or modified in writing, signed by all of the parties to this Agreement, and no condition herein (express or implied) may be waived, unless waived in writing by each party whom the condition is meant to benefit.

(e) This Agreement may be executed by any one or more of the parties hereto in any number of counterparts, each of which shall be deemed to be an original, but all such counterparts shall together constitute one and the same instrument.

(f) The invalidity or unenforceability of any section, paragraph or provision of this Agreement shall not affect the validity or enforceability of any other section, paragraph or provision of this Agreement. If any section, paragraph or provision of this Agreement is for any reason determined to be invalid or unenforceable, there shall be deemed to be made such minor changes as are necessary to make it valid and enforceable.

(g) The Company, the Selling Stockholder and the Underwriters acknowledge and agree that (i) the purchase and sale of the Shares pursuant to this Agreement is an arm's-length commercial transaction between the Company and the Selling Stockholder, on the one hand, and the several Underwriters, on the other, (ii) in connection therewith and with the process leading to such transaction each Underwriter is acting solely as a principal and not the agent or fiduciary of the Company or the Selling Stockholder, (iii) no Underwriter has assumed an advisory or fiduciary responsibility in favor of the Company or the Selling Stockholder with respect to the offering contemplated hereby or the process leading thereto (irrespective of whether such Underwriter has advised or is currently advising the Company or the Selling Stockholder on other matters) or any other obligation to the Company or the Selling Stockholder except the obligations expressly set forth in this Agreement and (iv) the Company and the Selling Stockholder has consulted their own legal advisors to the extent they deemed appropriate. The Company and the Selling Stockholder agree that they will not claim that the Underwriters, or any of them, has rendered advisory services of any nature or respect, or owes a fiduciary or similar duty to the Company or the Selling Stockholder, in connection with such transaction or the process leading thereto.

[remainder of page intentionally left blank]

If the foregoing is in accordance with your understanding, please sign and return to us three counterparts hereof, and upon the acceptance hereof by you, on behalf of each of the Underwriters, this letter and such acceptance hereof shall constitute a binding agreement among each of the Underwriters and the Company, and the Selling Stockholder. It is understood that your acceptance of this letter on behalf of each of the Underwriters is pursuant to the authority set forth in an Agreement among Underwriters, the form of which shall be submitted to the Company and the Selling Stockholder for examination, upon request, but without warranty on your part as to the authority of the signors thereof.

Any person executing and delivering this Agreement as Attorney in Fact for the Selling Stockholder represents by so doing that he has been duly appointed as Attorney in Fact by the Selling Stockholder pursuant to a validly existing and binding Power-of-Attorney which authorizes such Attorney in Fact to take such action.

Very truly yours,

WILLDAN GROUP, INC.

By: ______________________

Name:
Title:

THE 1994 DAN W. HEIL AND LINDA LEE HEIL
REVOCABLE TRUST, as Selling Stockholder

By: ______________________

Name: ______________________

Attorney-in-Fact

Accepted as of the date hereof
WEDBUSH MORGAN SECURITIES INC.

By:

(Wedbush Morgan Securities Inc. on behalf of each of the Underwriters)
Name:
Title:

SCHEDULE I

	Total Number of Firm Shares to be Purchased	Number of Optional Shares to be Purchased if Maximum Option Exercised
Wedbush Morgan Securities Inc.		
TOTAL	2,800,000	420,000

SCHEDULE II

	Total Number of Firm Shares to be Sold	Number of Optional Shares to be Sold if Maximum Option Exercised
The Company	2,000,000	420,000
The Selling Stockholder		
The 1994 Dan W. Heil and Linda Lee Heil Revocable Trust(1)	800,000	—
TOTAL	2,800,000	420,000

(1) The Selling Stockholder is represented by Snell & Wilmer L.L.P., and has appointed Mallory McCamant and Win Westfall as the Attorneys-in-Fact for the Selling Stockholder. The address for the Selling Stockholder is Mrs. Linda Heil, Trustee, 1994 Dan W. Heil and Linda Lee Heil Revocable Trust, 1670 Amate Drive, La Habra Heights, California 90631.

SCHEDULE III(a)

SCHEDULE III(b)

ANNEX I

Form of Warrant Agreement

ANNEX II

LOCK-UP AGREEMENT

, 2006

Wedbush Morgan Securities
As Representative of the Several Underwriters
1000 Wilshire Boulevard, 10th Floor
Los Angeles, California 90017

Re: Public Offering of Willdan Group, Inc.

Ladies and Gentlemen:

Each of the undersigned, a holder of common stock (the "***Common Stock***"), or rights to acquire Common Stock, of Willdan Group, Inc. (the "***Company***") understands that you, as Representative of the several Underwriters, propose to enter into an Underwriting Agreement (the "***Underwriting Agreement***") with the Company, providing for the public offering (the "***Public Offering***") by the several Underwriters named in Schedule I to the Underwriting Agreement (the "***Underwriters***"), of shares of Common Stock of the Company. Capitalized terms used herein and not otherwise defined shall have the meanings set forth in the Underwriting Agreement.

In consideration of the Underwriters' agreement to enter into the Underwriting Agreement and to proceed with the Public Offering of the Common Stock, and for other good and valuable consideration receipt of which is hereby acknowledged, each of the undersigned (sometimes referred to herein individually as a "***Holder***") hereby agrees for the benefit of the Company, you and the other Underwriters that, without the prior written consent of Wedbush Morgan Securities on behalf of the Underwriters, such Holder will not, commencing on the date (the "***Effective Date***") on which the Securities and Exchange Commission (the "***Commission***") declares effective the Registration Statement on Form S-1 filed with the Commission in connection with the Public Offering through and including the period ending 180 days (the "***Lock-Up Period***") after the date of the final prospectus relating to the Public Offering (the "***Prospectus***"), directly or indirectly, (1) sell, offer to sell, contract or agree to sell, hypothecate, pledge, grant any option to purchase or otherwise dispose of or agree to dispose of, or establish or increase a put equivalent position or liquidate or decrease a call equivalent position within the meaning of Section 16 of the Securities Exchange Act of 1934 and the rules and regulations of the Commission promulgated thereunder, with respect to any Common Stock or securities convertible into or exchangeable or exercisable for Common Stock (the "***Securities***"), (2) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any Securities, whether any such transaction is to be settled by delivery of Common Stock or any such securities, in cash or otherwise, or (3) publicly announce an intention to effect any transaction specified in clause (1) or (2) above (any transaction specified in clause (1), (2) or (3), being a "***Transfer***"). In addition, each of the undersigned agrees that, without the prior written consent of Wedbush Morgan Securities on behalf of the Underwriters, such Holder will not, commencing on the date hereof through and including the period ending 180 days after the date of the Prospectus, make any demand for or exercise any right with respect to, the registration of any Securities. The foregoing shall not apply to (a) the sale of any Securities directly to the Company, (b) Securities to be transferred by gift, will or intestacy, (c) the sale of any Securities to be sold pursuant to the Prospectus, (d) Securities transferred to any custodian or trustee for the account of the undersigned or such undersigned's immediate family or (e) Securities transferred to partners, members, shareholders or affiliates (as such term is defined in Rule 405 promulgated under the Securities Act of 1933, as amended) of the undersigned; provided that for clauses (b), (d) and (e), any transferee agrees in writing to be bound by the terms hereof. "Immediate family" as used herein shall mean any child, stepchild, grandchild, parent, stepparent, grandparent, spouse, former spouse, sibling, niece, nephew, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law or sister-in-law, including adoptive relationships.

Notwithstanding the foregoing, if (x) during the period that begins on the date that is 17 calendar days before the last day of the Lock-Up Period and ends on the last day of the Lock-Up Period, the Company issues an earnings release or material news or a material event relating to the Company occurs; or (y) prior to the expiration of the Lock-Up Period, the Company announces that it will release earnings results during the 16-day period beginning on the last day of the Lock-Up Period, then the restrictions imposed in this Letter Agreement shall continue to apply until the expiration of the date that is 18 calendar days after the date of such issuance of the earnings release or the material news or the material event occurs; provided, however, that this sentence shall not apply if the research published or distributed on the Company is compliant under Rule 139 of the Securities Act and the Company's securities are actively traded as defined in Rule 101(c)(1) of Regulation M of the Exchange Act.

In addition, each of the undersigned will not, commencing on the date hereof until the Effective Date, directly or indirectly Transfer any Securities to any transferee other than the Company, unless such transferee of such Transfer agrees in writing to be bound by the terms hereof.

In furtherance of the foregoing, the Company, and any duly appointed transfer agent for the registration or transfer of the Securities, are hereby authorized to decline to make any transfer of Securities if such transfer would constitute a violation or breach of this Letter Agreement.

Each of the undersigned hereby represents and warrants that such Holder has full power and authority to enter into this Letter Agreement. All authority herein conferred or agreed to be conferred and any obligations of the undersigned shall be binding upon the successors, assigns, heirs or personal representatives of the undersigned.

Each of the undersigned understands that, if the Underwriting Agreement does not become effective by November 30, 2006, or if the Underwriting Agreement (other than the provisions thereof which survive termination) shall terminate or be terminated prior to payment for and delivery of the Common Stock to be sold thereunder, the undersigned shall be released from all obligations under this Letter Agreement.

Each of the undersigned, whether or not participating in the Offering, understands that the Underwriters are entering into the Underwriting Agreement and proceeding with the Public Offering in reliance upon this Letter Agreement.

This Letter Agreement may be executed in one or more counterparts, and by the different parties hereto in separate counterparts, each of which when executed shall be deemed to be an original but all of which taken together shall constitute one and the same agreement. The obligations of the undersigned are several and not joint.

This lock-up agreement shall be governed by and construed in accordance with the laws of the State of California, without regard to the conflict of laws principles thereof.

Very truly yours,

(Name of Stockholder—Please Print)

(Signature)

(Name of Signatory if Stockholder is an entity—Please Print)

(Title of Signatory if Stockholder is an entity—Please Print)

Address:

QuickLinks

Exhibit 10.21

[ORANGE COUNTY BUSINESS BANK LOGO]

June 19, 2006

Roy L. Gill, Vice President
The Willdan Group of Companies
2401 East Katella Avenue, Suite #300
Anaheim, CA 92660

Re: Borrower: The Willdan Group of Companies, a California Corporation

Dear Mr. Gill:

In response to your letter dated March 29, 2006, Orange County Business Bank has approved the following amendments to the loan documents that pertain to Loan #10174420 and Loan #10274428.

1. Borrower's annual CPA unqualified audited financial statements as available and in no event later than two hundred and ten (210) days after fiscal year ending December 31, 2005 only, reverting to previous covenant thereafter. Said financial statements shall be the consolidated statements of all Willdan Group of Companies including but not limited to all corporate guarantors of herein described credit facilities.

2. Borrower may change its state of incorporation to Delaware from California. Borrower must file all appropriate forms to affect this change as required by the State of Delaware and the State of California.

3. Although the borrower may proceed with the due diligence associated with the transfer of its assets and liabilities to the new entity known as Willdan Group, Inc., prior to this proposed transfer, Orange County Business Bank is to be in receipt of all appropriate formation and operating documents from which new loan documents evidencing this transaction are to be executed by all parties.

In addition, in response to your letter dated June 8, 2006, Orange County Business Bank has approved the company's "zero value" stock dividend/stock split which was instituted on January 1, 2005 and completed on March 30, 2006. Please let us know if you have any questions. Thank you.

Sincerely,

/s/ NIC GOERES	/s/ CHUCK TULLOH
Nic Goeres Vice President Senior Relationship Manager (949) 999-2643	Chuck Tulloh Executive Vice President Chief Credit Officer (949) 999-3556

QuickLinks

Exhibit 10.21

Exhibit 10.22

[Orange County Business Bank Logo]

June 26, 2006

Mr. Roy Gill, Vice President
The Willdan Group of Companies
2401 East Katella, Ste #300
Anaheim, CA 92806

Dear Mr. Gill,

In further response to your letter dated March 29, 2006, Orange County Business Bank has approved additional amendments to the loan documents that pertain to Loan #10174420 and Loan #10274428.

1. Loan amendment is approved to convert Willdan Group, Inc. and all subsidiaries from Sub-S Corporations to C Corporations when the company completes its Initial Public Offering.

2. Loan amendment is approved to permit public ownership of stock contingent upon Willdan Group, Inc. becoming a public company.

The preceding amendments will be contingent upon the Willdan Group, Inc. remaining in compliance with all financial and performance covenants and legal review by Orange County Business Bank of loan documents to see if other amendments may be required as a result of the company's Initial Public Offering.

Please let me know if you have any questions.

Sincerely,

/s/ NIC GOERES	/s/ CHUCK TULLOH
Nic Goeres Vice President Senior Relationship Manager	Chuck Tulloh Executive Vice President Chief Credit Officer

QuickLinks

Exhibit 10.22

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Exhibit 23.2

Consent of Independent Registered Public Accounting Firm

The Board of Directors
Willdan Group, Inc.:

We consent to the use of our report included herein and to the reference to our firm under the headings "Experts," "Summary Consolidated Financial and Other Data," and "Selected Consolidated Financial and Other Data" in the registration statement and related prospectus.

/s/ KPMG LLP

Los Angeles, California
October 9, 2006

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Snell & Wilmer L.L.P.
600 Anton Boulevard
Suite 1400
Costa Mesa, California 92626-7689
TELEPHONE: (714) 427-7000
FACSIMILE: (714) 427-7799

James J. Scheinkman
714.427.7037
jscheinkman@swlaw.com

October 11, 2006 49901.0001

Via Federal Express

Division of Corporation Finance
Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549-7010
Mail Stop 7010
Attn.: Pamela A. Long, Assistant Director

RE: Willdan Group, Inc.
Amendment No. 1 to
Registration Statement on Form S-1
Filed September 19, 2006
File No. 333-136444

Dear Ms. Long:

On behalf of our client, Willdan Group, Inc. (the "Company"), we are responding to the comments of the Staff of the Securities and Exchange Commission (the "Commission") as set forth in your letter dated October 4, 2006 to Win Westfall, Chief Executive Officer of the Company, with respect to the Company's Amendment No. 1 to Registration Statement on Form S-1 (the "Registration Statement") which was filed with the Commission on September 19, 2006. We are enclosing Pre-Effective Amendment No. 2 to the Registration Statement on Form S-1 filed as of October 11, 2006 (the "Amended Registration Statement") marked to show changes from the Registration Statement. For your convenience, the Commission's comments have been repeated herein in bold, with the Company's response immediately following each of the Commission's comments.

General

1. **We note that if the shares are offered at $11 per share and the over-allotment option is exercised, the aggregate proceeds to the company and the selling shareholder will exceed the amount of securities being registered. Please revise the prospectus or the fee table as necessary to ensure that you are registering the full amount of your offering.**

The Company notes the Commission's comment and has revised the fee table based on an assumed maximum offering price of $11 per share. The Company advises the Commission that the resulting increase in the registration fee has been paid by the Company.

Risk Factors, page 9
Risks Related to the Offering, page 16
We may have potential liability for shares.... page 18

2. **We note your supplemental response to comment 10 of our letter dated September 6, 2006. Please revise your discussion under this risk factor and under Recent Sales of Unregistered Securities to disclose additional information with respect to the number of purchasers and their relationship with the company.**

The Company notes the Commission's comment and has revised its discussion under the risk factor on page 18 and under Recent Sales of Unregistered Securities to disclose additional information with respect to the number of purchasers and their relationship with the Company.

Capitalization, page 23

3. Please tell us why the retained earnings amount in the As Adjusted column in your capitalization table is not zero.

The Company notes the Commission's comment and advises the Commission that the retained earnings amount in the As Adjusted column of the capitalization table is due to the presentation of "redeemable common stock" and "stockholders' equity" in the capitalization table. The Company's common stock currently is classified as redeemable common stock due to the terms and provisions of its Buy/Sell Agreement. Using this classification, the Company's retained earnings are $9.1 million as of June 30, 2006. When the Company becomes a public company, the common stock will be classified as stockholders' equity, since the Company's Buy/Sell Agreement will terminate at that time. The stockholders' equity in the As Adjusted column reflects this change of classification. The amount for retained earnings in the As Adjusted column is $1.7 million, which represents the $9.1 million balance as of June 30, 2006 less the estimated $5.9 million final S Corporation distribution less $1.5 million in deferred tax liability resulting from termination of the Company's S Corporation status.

Financial Statements
Balance Sheet, page F-3

4. Please tell us why you did not record the common stock that is redeemable at the option of the holders outside of permanent equity at its redemption value. Please refer to EITF Topic No. D-98.

The Company supplementally advises the Commission that the reason the Company did not adjust the carrying value of its redeemable common stock to the aggregate redemption value is because the aggregate redemption value exceeds the amount of net assets of the Company and the Company only has one class of shareholders for all periods presented. The Company does not believe that it would be meaningful to display the common stock at its full redemption amount with a negative amount presented in permanent equity because there is no other class of shareholders that would be required to absorb this shortfall. Accordingly, the Company has parenthetically disclosed the aggregate redemption value for each period presented on the face of its consolidated balance sheets.

Please also note that as disclosed in the notes to the Company's consolidated financial statements, the Buy/Sell Agreement terminates upon a successful public offering. At such point, the common stock will no longer be redeemable and as such all of the Company's common stock will be classified in permanent equity.

Note 6—Book Value Stock Purchase Plan, page F-14

5. We have reviewed your response to comment 42. Please address each of the following questions:

- **Please tell us why the 953,500 common shares issued from August 2005 through October 2005 were valued based on a valuation report dated as of February 9, 2005.**

The Company notes the Commission's comment and advises the Commission that all stock purchases from August 2005 through October 2005 were in connection with stock awards granted by the Company's board of directors on February 9, 2005. The Company's board of directors granted rights to purchase a specified number of shares of the Company's stock to selected officers, directors, key managers and service providers pursuant to the Company's Buy/Sell Agreement. In accordance with that agreement, the purchase price of the shares issued from August 6, 2005 through October 5, 2005 was based on a pricing formula that valued the stock as of the grant date, February 9, 2005.

The shares were not issued until August through October 2005 because the formula in the Buy/Sell Agreement uses amounts included in the Company's final audited consolidated financial statements for the prior fiscal year, in this case fiscal year 2004. By using preliminary internal financial results for fiscal year 2004, the preliminary formula price was known as of the grant date. However, the final price was subject to any audit adjustments for 2004 and could not be determined until the audited financial statements for fiscal year 2004 were completed. In addition, the buyers of the common stock irrevocably purchased the Company's common stock prior to a "Partial Year Adjustment." The Partial Year Adjustment was a "true-up" calculation that was performed to allocate the Company's 2005 earnings (excluding the compensation expense related to the stock sales) to the period from the beginning of fiscal year 2005 to the February 9, 2005 grant date. Buyers of the common stock are aware that, in accordance with this provision, they will either have to make a true up payment or receive a refund for this adjustment. The 2005 buyers paid $3.73 per share for the stock and paid an additional $0.04 per share for the Partial Year Adjustment.

During 2005, there were delays in issuing the fiscal year 2004 audited financial statements and, as a result, the Company was not able to determine the formula price until the summer of 2005. The employees and other purchasers who were permitted to buy stock then had 90 days to purchase the stock after receipt of the sales documents from the Company, which include the formula price calculated based on the Company's audited consolidated financial statements for fiscal year 2004. The sales period lasted until the fall of 2005. Because the Buy/Sell Agreement required the Company to value the stock based on the formula price as of February 9, 2005, the Company obtained the independent third party valuation of its stock as of February 9, 2005.

An argument can be made that the actual stock purchase dates should have been used as the valuation dates instead of February 9, 2005. To address this argument, the Company notes that it does not believe there was a material increase or decrease in the value of the its common stock as of the purchase dates during August 2005 through October 2005 compared to February 9, 2005 as the result of:

- A modest increase in the S&P 500 index of only 2.6% from February 1, 2005 to August 31, 2005;

- Data obtained from the independent valuation firm showing moderate to slight increases in multiples used to value the stock of the Company's peer group;

- The offsetting effects of the West Hollywood litigation on the Company's financial performance in fiscal year 2005. The West Hollywood trial, which was in progress from September 22, 2005 through October 12, 2005, took place during a portion of the period in which the Company's 2005 stock purchases were made. The last stock purchase was completed on October 6, 2005 and the verdict was announced on October 12, 2005. The Company's shareholders are directors, officers, key managers and consultants of the Company and were aware of the significant uncertainty created by this situation;

- The Company's lower operating income for fiscal year 2005 as compared to fiscal year 2004, which resulted in a $0.17 per share decrease in the formula price of its stock under the Buy/Sell Agreement from the formula price at December 31, 2004; and

- The continued 27% marketability discount as the Company had still not initiated the IPO process.

- **Please tell us why the valuation price determined as of February 9, 2005, of $5.87 was used for all subsequent common stock issuances in 2005 and 2006 without a change in the valuation price.**

The Company notes the Commission's comment and advises the Commission that as noted above, the Company's Buy/Sell Agreement requires that the purchase price of the stock be computed as of the grant date, which in this case was February 9, 2005. As a result of the delay in the final audited financial statements, the Company did not begin selling the stock until summer 2005 and the selling period remained open for 90 days pursuant to the Buy/Sell Agreement. Because the Buy/Sell Agreement formula valued the stock as of February 9, 2005, the Company engaged an independent valuation firm to value the stock as of February 9, 2005 also.

Notwithstanding the valuation as of February 9, 2005, the Company, as discussed in more detail above, determined that there was no material difference between the estimated fair value of its stock as of February 9, 2005 and the dates that the individuals purchased the stock from August to October 2005.

The Company did not obtain a new valuation for the 4,900 shares issued in January 2006 and the Company did not record any stock-based compensation expense related to these shares, because the Company believes such amount is immaterial. Using the February 9, 2005 valuation of $5.87 value, the compensation expense for the stock issued in January 2006 would have been approximately $10,000, which is 0.2% of the Company's net income for the fiscal six months ended June 30, 2006. Even if one were to conclude that the value should be higher, the Company believes the compensation expense would still be immaterial to its consolidated financial statements due to the minor number of shares issued.

- **Please tell us why the marketability discount did not decrease as you neared when you engaged in discussions with underwriters and the expected IPO date.**

The Company notes the Commission's comment and advises the Commission that the Company does not believe that the marketability discount decreased during 2005. As of the dates of the 2005 issuances of the Company's stock (August 5, 2005 through October 6, 2005), the Company was beginning to contemplate ownership transition strategies. An IPO was one of several approaches that were proposed and discussed during the second half of fiscal year 2005. These different approaches, which included ESOP, merger or acquisition and private equity investment among others, offered differing levels of liquidity to the Company's shareholders. Due to the Company's investigation of these alternatives, at the time of the Company's 2005 stock purchases, the IPO process was not much further along than it was as of February 9, 2005.

The Company believes that the marketability discount began to decrease on May 31, 2006 when the Company held its first "all hands" meeting with its counsel, auditors and the underwriters and underwriters' counsel. At this meeting, the senior executives of the Company provided the underwriters and their counsel with information to allow them to understand the Company and to allow the underwriters to begin working on their valuation model. The first all hands drafting session for the registration statement took place on July 24, 2006 and the initial filing of the registration statement was made on August 9, 2006. As of the date of this response, we are more than one year after the dates of the 2005 stock purchases (August 5, 2005 to October 6, 2005) and more than 20 months from the February 9, 2005 grant date.

Despite the Company's belief that the lack of marketability discount began to decrease on May 31, 2006, the Company's Buy/Sell Agreement and the restrictions it places on stock purchases and sales remain in effect until the Company becomes a public company. In the independent appraiser's valuation report, a marketability discount of 27% was applied due primarily to these restrictions and the Company believes that this same discount was appropriate at the time of the 2005 stock purchases since the first all-hands meeting did not occur until May 31, 2006.

The valuation report, which has been provided pursuant to the Commission's request, contains the methodology and supporting data related to the marketability discount that was applied to this valuation.

- **Please tell us why you are assessing fair value based on a minority basis, which implies that you are assuming an additional discount for lack of control. In the event that you are assuming an additional discount, please provide us with objective and verifiable evidence that there is a disproportionate return to certain shareholders. Please refer to Todd E. Hardiman's speech on December 6, 2004, referenced below in addressing this question.**

The Company notes the Commission's comment and advises the Commission that fair value was assessed on a minority basis since all of the Company's stockholders held a minority interest in the Company as of February 9, 2005 and consistently thereafter through the present date. Prior to the 2005 stock purchases, Dan Heil, the Company's founder and former CEO (now deceased), was the largest shareholder, owning 48.4% of the Company's common stock. The Buy/Sell Agreement prevents any shareholder that owns 10% or more of the Company's common stock from purchasing any additional shares. As shares were purchased in 2005 and 2006, minority interests were diluted even further.

In the valuation report, the presumption is that the values arrived at through the guideline public company and income approaches already provide for a minority interest and no additional discounts were applied. In Theme #3 of Mr. Hardiman's speech, which related to discounts, he indicates that discounts related to lack of control are generally inappropriate when applied to the income approach of valuation. As an illustration, he cited the fact that cash dividends are paid to stockholders on a per-share, pro rata basis and therefore stockholders do not receive disproportionate returns as a result of having a controlling interest. All of the Company's distributions are made on a pro rata basis. No discounts for lack of control are applied in the guideline public company and income approaches in the valuation report prepared for the Company by the independent appraiser. In the valuation conclusion of the report, a weighting of 25% is given to the guideline public company approach and a weighting of 50% is given to the income approach.

The only approach in which a discount for lack of control is appropriate is the merger and acquisition method, wherein premiums may be paid for control of a business (and synergies) and such premiums are reflected in the available transaction data. A discount for lack of control is applied to the merger and acquisition approach presented in the valuation report, which is consistent with the AICPA practice aid "Valuation of Privately-Held-Company Equity Securities Issued as Compensation" (Appendix M). In the valuation conclusion found in the report, the merger and acquisition method was given a 25% weighting to the overall value.

- **Please provide us with a comprehensive explanation of the changes in the $5.87 value of your common stock on February 9, 2005, through the expected pricing for the IPO, including the events or circumstances that resulted in changes in the value of your common stock.**

The Company notes the Commission's comment and advises the Commission that as mentioned above, the Company has not completed an independent valuation since February 9, 2005. However, the Company does not believe the value of its common stock increased or decreased materially as of the purchase dates from August 2005 through October 2005 compared to February 9, 2005. The Company does believe the value of its common stock has been increasing in 2006 and also believes the marketability discount of 27% used in the February 9, 2005 valuation has been decreasing since May 2006 and will be zero as of the completion of this offering.

The Company believes the stability in the estimated value of its common stock from February 9, 2005 to the actual purchase dates in August 2005 through October 2005 was the result of:

- A modest increase in the S&P 500 index of only 2.6% from February 1, 2005 to August 31, 2005;

- Data obtained from the independent valuation firm showing moderate to slight increases in multiples used to value the stock of the Company's peer group;

- The offsetting effects of the West Hollywood litigation on the Company's financial performance in fiscal year 2005. The West Hollywood trial, which was in progress from September 22, 2005 through October 12, 2005, took place during a portion of the period in which the Company's 2005 stock purchases were made. The last stock purchase was completed on October 6, 2005 and the verdict was announced on October 12, 2005. The Company's shareholders are directors, officers, key managers and consultants of the Company and were aware of the significant uncertainty created by this situation;

- The Company's lower operating income for fiscal year 2005 as compared to fiscal year 2004, which resulted in a $0.17 per share decrease in the formula price of its stock under the Buy/Sell Agreement from the formula price at December 31, 2004; and

- The continued 27% marketability discount as the Company had still not initiated the IPO process.

In 2006, the Company's financial performance, in combination with increasing values in the overall stock market as well as the Company's specific industry sector, would indicate a substantially increased stock value.

- From the beginning of January 2006 to the end of September 2006, the S&P 500 index increased 7.0%;

- Public companies in the Company's industry sector have generally outperformed the S&P index throughout 2006, such as EMCOR Group, Inc. (EME), Granite Construction, Inc. (GVA), Matrix Service Company (MTRX), and Tetra Tech, Inc. (TTEK);;

- In the third quarter of fiscal year 2006, the Company obtained relief on another 2002 claim that had been filed, which resulted in an approximately $1.0 million reduction to its accrual for the West Hollywood litigation as described in Note 13 to the Company's consolidated financial statements;

- The Company's financial performance through the first six fiscal months of 2006 is stronger than for the same period of fiscal year 2005. Revenues increased 16.9% and operating income increased 36.3% for the first six months of 2006 as compared to the first six months of 2005;

- In June and July 2006, the Company received $2.3 million in life insurance proceeds related to term policies that were carried on Mr. Heil, which the Company primarily used to repay its revolving line of credit, which has a zero balance as of September 30, 2006; and

- The marketability discount of 27% used in the Company's February 9, 2005 valuation has been decreasing steadily since May 2006, when the Company held its kick-off meeting to initiate the IPO process and upon the completion of the IPO, the marketability discount should be at or near zero. As indicated in the AICPA practice aid "Valuation of Privately-Held-Company Equity Securities Issued as Compensation," an IPO eliminates many of the factors that give rise to a lack of marketability discount by providing liquidity, reducing valuation uncertainties and reducing ownership concentration.

As a result of the above factors, the Company believes its common stock has increased from $5.87 per share at February 9, 2005 to approximately $10.00 per share in October 2006, assuming the completion of the IPO in October 2006. The Company notes that removing the marketability discount increases the price per share to $8.04 ($8.04 × 73% = $5.87). The Company believes the above mentioned factors, along with analysis that has been completed by the underwriters of this offering as to the marketability of its stock, accounts for the additional $1.96 per share or 24% increase over the $8.04 per share valuation exclusive of the marketability discount.

- **Please provide us with a copy of the valuation report. Please also tell us whether the report represents a contemporaneous or retrospective valuation. Please refer to the AICPA's Practice Aid "Valuation of Privately-Held-Company Equity Securities Issued as Compensation" and Todd E. Hardiman's speech on December 6, 2004 at the 2004 Thirty-Second AICPA National Conference on Current SEC and PCAOB Developments.**

The valuation is a retrospective valuation. The Company wants to highlight to the Commission that the Company has historically accounted for its book value purchase plan under EITF Issue No. 87-23, *Book Value Purchase Plans*. At the time the Company issued its stock in 2005, the Company did not believe it was within one year of an initial public offering and therefore not within the scope of EITF Issue No. 88-6, *Book Value Stock Plans in An Initial Public Offering*, and therefore did not obtain a contemporaneous valuation. During the Company's year-end financial close process in February 2006, the Company determined that it was possible the Company could be within one year of an initial public offering. At that time, the Company engaged an external valuation firm to perform a valuation of the Company. The report has been delivered to the Commission under separate cover.

Note 9—Segment Information, page F-18

6. We have reviewed your response to comments 45 and 46. Please tell us in a comprehensive manner how you determined that the three subsidiaries included in your Engineering Services segment met the aggregation criteria in paragraph 17 of SFAS 131. If actual revenue growth for these three subsidiaries have trended in a materially different manner or if gross margin percentages are materially different we would expect separate presentation of the operating segments in accordance with the guidance in paragraph 17 of SFAS 131. In addition, if the operating segments operate in different regulatory environments, we would also expect separate presentation of the operating segments.

The Company notes the Commission's comments and supplementally advises the Commission that PARs and Arroyo Geotechnical were combined with Willdan in the Engineering Services segment because:

- *Consistency with the objective and basic principles of SFAS 131:* aggregation significantly impacts the user's ability to better understand the enterprise's performance, its prospects for future cash flows or the user's decision about the enterprise as a whole. PARs provides staffing exclusively for Willdan and Arroyo Geotechnical. PARs provides no services directly to customers. Arroyo Geotechnial was formerly a division of Willdan and provides geotechnical engineering to the same customer base out of the same geographic locations and earns gross margins that are similar to Willdan's gross margins.

- *Similar economic characteristics*: the chief operating decision maker utilizes the same key performance indicators to analyze the performance of these three subsidiaries. The Company believes that trends in contract revenues and gross margins move up or down in the same way in response to general economic upturns and downturns. In addition to performance indicators, the competitive and operating risks associated with each of these subsidiary's operations are similar.

- *Nature of the products or services*: the services provided by these subsidiaries have similar degrees of risk, opportunities for growth and end uses.

- *Nature of the production process*: the service process is similar for these subsidiaries in that they share (or are able to share) common or interchangeable facilities and employees. They are all labor intensive rather than capital intensive.

- *Type or class of customer for products and services*: these subsidiaries serve the same customer base utilizing common facilities as a result of similarity of marketing or promotion methods, geographic areas and the nature and use of sales forces.

- *Methods used to distribute products or provide services*: these subsidiaries provide engineering consulting services to public agencies under similar methods as a result of the segments' operating structures and similar locations.

- *If applicable, the nature of the regulatory environment*: these subsidiaries operate under and within the same regulatory environment that governs the engineering consulting industry and all subsidiaries provide services to public agencies.

Based on the criteria described above, the Company determined that the three subsidiaries included in its Engineering Services segment met the aggregation criteria in paragraph 17 of SFAS 131.

Note 13—Subsequent Events, page F-22

7. We have reviewed your response to comment 49. Please tell us whether the two life insurance policies carried on your co-founder and chief executive officer were term or whole life insurance policies. If any of the policies was a whole life insurance policy, you should disclose the cash surrender value of the policy or policies as of each balance sheet date and tell us how the increases in the cash surrender value were treated in your statements of cash flows. Please also disclose in the Liquidity and Capital Resources section and in Note 13, the statements of cash flows classification of the $2.0 million in life insurance proceeds received in July 2006.

The Company notes the Commission's comment and has added the requested disclosure to the Liquidity and Capital Resources section and to note 13 to the Company's consolidated financial statements under "Life Insurance Proceeds". Supplementally, the Company advises the Commission that the life insurance policies were both term life policies. Accordingly, there were no cash surrender values.

Exhibits
Exhibit 1.1, Form of Underwriting Agreement

8. With respect to the conditions on the underwriters' performance in Section 8(f)-(g) of the underwriting agreement, please confirm supplementally that termination may only be based on events which result in a material impairment of the investment quality of the securities offered, rather than an inability to market such securities. Please be advised that the underwriting agreement may only be terminated based on the managing underwriter's judgment in the following two circumstances:

- **Where there is a change in the business or properties of the company which materially impairs the investment quality of the securities; and**

- **Where major hostilities involving the United States commence, or a [sic] in the event of a national or international calamity or emergency.**

For guidance, please refer to the First Boston Corporation no-action letter, made publicly available September 3, 1985.

The Company notes the Commission's comment and supplementally confirms that, with respect to the conditions to the underwriters' obligations set forth in Sections 8(f) and 8(g) of the underwriting agreement, Wedbush Morgan Securities Inc., as representative of the underwriters, has advised the Company that these conditions only arise if a material, adverse event occurs affecting the Company or the Company's securities, thereby resulting in a material impairment in the investment quality of the Company's common stock. The underwriters advise that the conditions to closing are not intended to permit the underwriters to terminate this offering solely because of the underwriters' inability to market the securities.

For instance, Section 8(f) only arises if the occurrence of the event is not set forth or contemplated in the Pricing Prospectus (as defined in the underwriting agreement) and such event is so material and adverse that it renders the public offering impracticable or inadvisable. The underwriters believe that the occurrence of an event described by Section 8(f) would likely result in a recirculation of the Pricing Prospectus because the omission of the disclosure of such event would likely be the omission of a material statement and, as a result, would be material to an investor's decision to purchase the Company's common stock. With respect to Section 8(g)(i)-(iii), in the event that any of the listed U.S. markets suspend trading generally or suspend trading in the Company's securities specifically, the underwriters have advised the Company that they believe the investment quality of the Company's common stock necessarily would be materially impaired because of the effect of such a suspension on the liquidity of the Company's securities. The language in those sections is also similar to the language reviewed in the First Boston Corporation no-action letter, made publicly available September 3, 1985. Section 8(g)(iv) addresses the major hostilities and national and international calamities and emergencies referenced in the Commission's comment. With respect to Section 8(g)(v), the clause specifies that the actions or developments must materially and adversely affect the Company's business or earnings and, as a result, such events would impact the investment quality of the Company's securities.

Closing Comment

9. Please also review the representations requested on page 11 of our letter dated September 6, 2006, and provide these representations in the form requested.

The Company notes the Commission's comment and advises the Commission that it will provide such representations in its acceleration request at the time it requests the effectiveness of the Registration Statement.

If you have any questions regarding the Amended Registration Statement or the above, please do not hesitate to give me a call at (714) 427-7037.

Very truly yours,

Snell & Wilmer l.l.p.

/s/ James J. Scheinkman

James J. Scheinkman

cc: Win Westfall
Richard A. Boehmer, Esq.

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