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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**  
WASHINGTON, DC 20549

**FORM S-1**  
REGISTRATION STATEMENT  
UNDER  
THE SECURITIES ACT OF 1933

**WILLDAN GROUP, INC.**

(Exact Name of Registrant as Specified in Its Charter)

**Delaware**  
(State or Other Jurisdiction of  
Incorporation or Organization)

**8711**  
(Primary Standard Industrial  
Classification Code Number)

**14-1951112**  
(I.R.S. Employer  
Identification Number)

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

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

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

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

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

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

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.

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.

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.

**CALCULATION OF REGISTRATION FEE**

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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	\$28,750,000	\$3,077

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(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.

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.

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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 August 9, 2006

**Shares**



# WILLDAN GROUP, INC.

## COMMON STOCK

Willdan Group, Inc. is offering \_\_\_\_\_ shares of its common stock, and a selling stockholder is offering \_\_\_\_\_ shares of common stock. 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 \$ \_\_\_\_\_ and \$ \_\_\_\_\_ 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 8.**

	<u>Price to Public</u>	<u>Underwriting Discounts and Commissions</u>	<u>Proceeds to Willdan Group</u>	<u>Proceeds to Selling Stockholder</u>
<b>Per Share</b>	\$ _____	\$ _____	\$ _____	\$ _____
<b>Total</b>	\$ _____	\$ _____	\$ _____	\$ _____

We have granted the underwriters the right to purchase up to an additional \_\_\_\_\_ 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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## TABLE OF CONTENTS

	<b>Page</b>
Prospectus Summary	1
Risk Factors	8
Forward-Looking Statements	19
Market and Industry Data	19
Use of Proceeds	20
Dividend Policy	20
Capitalization	21
Dilution	22
Selected Consolidated Financial and Other Data	23
Management's Discussion and Analysis of Financial Condition and Results of Operations	26
Business	38
Management	55
Certain Relationships and Related Party Transactions	66
Principal and Selling Stockholders	67
Description of Capital Stock	68
Shares Eligible for Future Sale	71
Underwriting	72
Legal Matters	74
Experts	74
Where You Can Find More Information	75
Index to Consolidated Financial Statements	F-1

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You should rely only on the information contained in this prospectus. 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 8, 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 654 as of June 30, 2006 that includes licensed engineers and other professionals. Our core clients are public agencies in communities with populations ranging from 10,000 to 300,000 people. We believe communities of this size are underserved by large private sector outsourcing companies that tend to focus on securing large federal and state projects, as well as projects for the private sector. We seek to establish a close working relationship with our public agency clients and, over time, to expand the breadth and depth of the services we provide to them.

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

#### Market Opportunity

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

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

Conversely, we believe that much of the northeastern, midwestern and southern sections of the United States were developed by the creation of densely populated, major urban areas that are

surrounded by small towns, villages and cities, many of which chose to establish their own governmental operations, and provide discrete police, fire, building and safety, public works and other services to their constituents. As the infrastructure in these communities deteriorates, we believe outsourcing to the private sector will become a logical alternative to developing in-house expertise and staffing to rehabilitate the existing public infrastructure.

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

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

## **Competitive Strengths**

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

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

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

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

*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 organic 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.

## 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](http://www.willdangroup.com). The information on, or that can be accessed through, our website is not part of this prospectus.

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

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

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

## THE OFFERING

Common stock offered by Willdan Group, Inc.	shares
Common stock offered by selling stockholder	_____ shares
Total	_____ shares
Common stock outstanding after this offering	shares
Over-allotment option offered by Willdan Group, Inc.	shares
Use of proceeds	We intend to use the net proceeds to us from this offering to repay debt, fund our final S Corporation distribution and for working capital and other general corporate purposes, including possible acquisitions. We will not receive any proceeds from the sale of shares by the selling stockholder. See "Use of Proceeds" for more information.
Risk factors	You should read the "Risk Factors" section of this prospectus for a discussion of factors that you should consider carefully before deciding to invest in shares of our common stock.
Proposed Nasdaq Global Market symbol	"WLDN"

The number of shares of our common stock to be outstanding following this offering is based on 4,712,640 shares of our common stock outstanding as of June 30, 2006 and excludes up to 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. 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 March 31, 2006 and the historical consolidated statement of operations data for the fiscal three months ended April 1, 2005 and March 31, 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 March 31, 2006 and the historical consolidated statements of operations data for the fiscal three months ended April 1, 2005 and March 31, 2006 include all adjustments (consisting of only normal recurring adjustments) necessary to present fairly the data set forth therein. Our results of operations for the fiscal three months ended March 31, 2006 are not necessarily indicative of the results to be obtained for the full fiscal year.

	Fiscal Year			Fiscal Three Months Ended	
	2003	2004	2005	April 1, 2005	March 31, 2006
				(unaudited)	(unaudited)

(Dollars in thousands except per share data)

### Historical Consolidated Statement of Operations Data:

Contract revenues	\$	54,485	\$	58,263	\$	67,263	\$	16,077	\$	17,821
Direct costs of contract revenues		23,209		23,209		27,192		6,566		7,108
General and administrative expenses:										
Stock-based compensation		—		—		2,002		—		—
Litigation accrual		—		—		2,686		—		—
All other general and administrative		28,006		30,957		35,393		8,591		9,700
Total general and administrative expenses		28,006		30,957		40,081		8,591		9,700
Income (loss) from operations		3,270		4,097		(10)		920		1,013
Net income (loss)		2,852		3,772		(646)		848		886

### Pro Forma Data (unaudited):

Pro forma provision for income taxes <sup>(1)</sup>	\$	1,162	\$	1,528	\$	549	\$	342	\$	360
Pro forma net income (loss) <sup>(2)</sup>	\$	1,743	\$	2,291	\$	(1,178)	\$	514	\$	539
Pro forma earnings per common share, basic and diluted	\$	0.48	\$	0.63	\$	(0.29)	\$	0.14	\$	0.12
Weighted average common shares outstanding, basic and diluted		3,633,000		3,653,000		3,994,000		3,759,000		4,711,000

### Other Operating Data (unaudited):

Adjusted EBITDA <sup>(3)</sup>	\$	4,154	\$	5,163	\$	5,951	\$	1,167	\$	1,407
Revenue per employee <sup>(4)</sup>	\$	113	\$	118	\$	125	\$	31	\$	32
Employee headcount at period end		451		508		599		539		624

	Historical			March 31, 2006	
	January 2, 2004	December 31, 2004	December 30, 2005	Historical (unaudited)	As Adjusted <sup>(5)</sup> (unaudited)

(in thousands)

### Consolidated Balance Sheet Data:

Cash and cash equivalents	\$	498	\$	266	\$	3,066	\$	209	\$	
Working capital		5,199		7,195		9,421		10,772		
Total assets		21,460		23,223		32,797		31,835		
Total indebtedness		5,033		3,543		1,858		2,466		
Total liabilities		12,799		11,746		18,137		16,271		
Total stockholders' equity		8,661		11,477		14,660		15,564		

(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. 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. Management believes Adjusted EBITDA is an important measure for our company because it allows management to focus on what it deems more reliable indicators of ongoing operating performance. We believe Adjusted EBITDA is also useful to an investor in evaluating our ongoing performance because it is widely used by research analysts, investment bankers and lenders to assess our operating performance and it gives investors another measure to evaluate and compare the results of our operations from period to period by removing the impact of certain non-recurring expense items, such as stock-based compensation expense. Our definition of Adjusted EBITDA may differ from those of many companies reporting similarly named measures.

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 Three Months Ended	
	2003	2004	2005	April 1, 2005	March 31, 2006
	Net income (loss)	\$ 2,852	\$ 3,772	\$ (646)	\$ 848
Interest income	(1)	(2)	(19)	—	(17)
Interest expense	366	272	630	64	186
Income tax provision	53	47	17	8	13
Depreciation and amortization	865	1,056	1,257	246	332
Loss (gain) on sale of assets	19	18	24	1	7
Litigation accrual	—	—	2,686	—	—
Stock-based compensation expense	—	—	2,002	—	—
Adjusted EBITDA	\$ 4,154	\$ 5,163	\$ 5,951	\$ 1,167	\$ 1,407

- (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 \_\_\_\_\_ shares of our common stock by us at an assumed initial public offering price of \$ \_\_\_\_\_ 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 \$ \_\_\_\_\_ million of the net proceeds from this offering to make a special distribution to our stockholders as a result of the termination of our S Corporation status, the application of \$1.6 million to repay existing indebtedness and the recognition of a net deferred tax liability of \$ \_\_\_\_\_ million resulting from the termination of our S Corporation status, as if each had occurred as of March 31, 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 passed that limits the ability of state, regional or local agencies to contract for our privatized services. Such legislation would affect our ability to obtain new contracts and may decrease the demand for our services.***

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The market for services in the engineering, municipal consulting, public finance consulting, geotechnical, homeland security and other technical services industries is competitive and highly fragmented. Contract awards are based primarily on quality of service, relevant experience, staffing capabilities, reputation, geographic presence, stability and price. Some of our competitors in certain service areas have more personnel and greater financial, technical and marketing resources than us. With regard to engineering related services, which represents approximately 85% of our fiscal 2005

contract revenue, our competitors include many larger consulting firms such as TetraTech, Inc., Stantec, Inc., and Jacobs Engineering Group, Inc. In certain public finance consulting services, we may compete with large accounting firms, such as Ernst & Young LLP. We can offer no assurance that we will be able to compete successfully in the future with these or other competitors.

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

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

We currently maintain general liability insurance, with coverage in the amount of \$1.0 million per occurrence, subject to a \$2.0 million general aggregate limit; and professional liability insurance, with \$5.0 million in coverage per claim, and a \$10.0 million annual aggregate limit. We also carry excess coverage of an additional \$9.0 million for general liability claims. Claims may be made against us that exceed these limits. In 2002, we experienced two claims against our professional liability insurance that exceeded by \$3.1 million the aggregate annual limit of our coverage, which at that time was \$5.0 million. We are liable to pay claims from our assets if and when the aggregate settlement or judgment amount exceeds our policy limits. We recently were awarded approximately \$1.0 million on a claim for indemnity, recovering the settlement and attorneys fees expended in 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. 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 the net proceeds of this offering, together with 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 \_\_\_\_\_ shares of common stock, or approximately \_\_\_\_\_ % of our outstanding common stock. Of these shares, \_\_\_\_\_ shares, or approximately \_\_\_\_\_ % 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 \_\_\_\_\_ % 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 \$ 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 could be 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 September 2005 through January 2006, we sold an aggregate of 958,400 shares of our common stock for gross proceeds of approximately \$3.6 million. 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 rescission 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 \_\_\_\_\_ shares of common stock outstanding based on the number of shares outstanding as of June 30, 2006. This includes the \_\_\_\_\_ shares that we and the selling stockholder are selling in this offering, which may be resold in the public market immediately. The remaining \_\_\_\_\_ shares, or \_\_\_\_\_ % 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.

***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 \$ \_\_\_\_\_ per share, representing the difference between the assumed initial public offering price of \$ \_\_\_\_\_ per share, which is the midpoint of the range shown on the cover page of this prospectus, and our 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 have entered 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 have entered into tax indemnity agreements with each of our stockholders. Pursuant to the tax indemnity 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.

## 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. We have not independently verified the statistical and other industry data generated by independent parties and contained in this prospectus and, accordingly, we cannot guarantee their accuracy or completeness. 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 \$ \_\_\_\_\_ million, based on an assumed initial public offering price of \$ \_\_\_\_\_ 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 to repay approximately \$1.6 million of debt outstanding under our existing revolving line of credit and term loan, to fund a payment of \$ \_\_\_\_\_ as our final S Corporation distribution to stockholders who were stockholders prior to this offering and for working capital and other general corporate purposes, including the financing of acquisitions of complementary businesses or services. We currently have no agreements or commitments for any specific acquisitions.

Of the approximately \$1.6 million of the net proceeds we intend to use to repay debt, we intend to repay the approximately \$1.0 million outstanding at March 31, 2006 under our \$8.0 million revolving line of credit. Outstanding advances under the line of credit bear interest at prime plus 0.25% (8.0% at March 31, 2006). The line of credit expires on July 31, 2007. Amounts repaid under the revolving line of credit may be reborrowed. We also intend to repay approximately \$0.6 million outstanding under term loans at March 31, 2006. This loan bears interest at prime plus 0.25% (8.0% at March 31, 2006), requires monthly installments of principal and interest of approximately \$40,000, and matures on July 1, 2007.

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% percent of our prior year's 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 \$ \_\_\_\_\_ to our stockholders as a final distribution resulting from the termination of our S Corporation status. 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 and stockholders' equity as of March 31, 2006 on an actual and as adjusted basis to reflect our reincorporation on June 30, 2006, the sale of shares of common stock by us in this offering at an assumed initial public offering price of \$ 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."

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 March 31, 2006	
	Actual	As Adjusted <sup>(1)</sup>
Cash and cash equivalents	\$ 209,000	
Outstanding debt:		
Revolving line of credit	1,028,000	—
Long-term debt, including current portion	1,103,000	—
Capital lease obligations, including current portion	335,000	335,000
	<u>2,466,000</u>	<u>335,000</u>
Total outstanding debt	2,466,000	335,000
Stockholders' equity:		
Preferred stock, \$0.01 par value: no shares authorized, actual, 10,000,000 shares authorized, as adjusted; no shares issued and outstanding, actual and as adjusted	—	—
Common stock, no par value, net of receivable from stockholders; 15,000,000 shares authorized, actual, no shares authorized, as adjusted; 4,713,000 shares issued and outstanding, actual, no shares issued and outstanding, as adjusted	8,003,000	—
Common stock, \$0.01 par value: no shares authorized, issued and outstanding, actual; 40,000,000 shares authorized and shares issued and outstanding, as adjusted	—	
Additional paid-in capital	—	
Retained earnings	7,561,000	
	<u>15,564,000</u>	
Total stockholders' equity	15,564,000	
	<u>\$ 18,030,000</u>	
Total capitalization	\$ 18,030,000	

(1) Gives effect to the offering of shares of our common stock by us at an assumed initial public offering price of \$ 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 \$ million of the net proceeds from this offering to make a special distribution to our stockholders as a result of the termination of our S Corporation status, the application of \$1.6 million to repay existing indebtedness and the recognition of a net deferred tax liability of \$ million resulting from the termination of our S Corporation status, as if each had occurred as of March 31, 2006.

The above table excludes 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 March 31, 2006 was \$12.8 million, or \$2.72 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 March 31, 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" and the recognition of a net deferred tax liability of \$            million resulting from the termination of our S Corporation status, our adjusted net tangible book value would have been \$            million, or \$            per share. The assumed initial public offering price of \$            per share (the mid-point of the initial public offering price range indicated on the cover of this prospectus) exceeds \$            per share, which is the per share adjusted value of total tangible assets less total liabilities after this offering. This represents an immediate increase in net tangible book value of \$            per share to existing stockholders, and an immediate dilution in net tangible book value of \$            per share to new investors in the offering. The table below illustrates this per share dilution as of March 31, 2006:

Initial public offering price per share		\$
Net tangible book value as of March 31, 2006	\$	2.72
Increase attributable to this offering	\$	
		\$
Adjusted net tangible book value per share after this offering		\$
		\$
Dilution in net tangible book value per share to new investors		\$
		\$

The following table summarizes, as of March 31, 2006, on an as adjusted basis the adjustments described above, 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 of            shares offered hereby at an initial public offering price of \$            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	%	\$ 8,003,000	%	1.70
New investors		%		%	
Total		100%	\$	100%	\$

The above table excludes 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 March 31, 2006 and the historical consolidated statement of operations data for the fiscal three months ended April 1, 2005 and March 31, 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 March 31, 2006 and the historical consolidated statements of operations for the fiscal three months ended April 1, 2005 and March 31, 2006, include all adjustments (consisting of only normal recurring adjustments) necessary to present fairly the information set forth therein. Our results of operations for the fiscal three months ended March 31, 2006 are not necessarily indicative of the results to be obtained for the full fiscal year.

	Fiscal Year					Fiscal Three Months Ended	
	2001	2002	2003	2004	2005	April 1, 2005	March 31, 2006
						(unaudited)	(unaudited)
(Dollars in thousands except per share data)							
<b>Historical Consolidated Statement of Operations Data:</b>							
Contract revenues	\$ 45,434	\$ 48,778	\$ 54,485	\$ 58,263	\$ 67,263	\$ 16,077	\$ 17,821
Direct costs of contract revenues:							
Salaries and wages	12,477	13,211	14,522	15,623	20,918	4,779	5,885
Production expenses	1,378	1,318	1,327	1,211	1,815	379	330
Subconsultant services	5,518	5,781	7,360	6,375	4,459	1,408	893
Total direct costs of contract revenues	19,373	20,310	23,209	23,209	27,192	6,566	7,108
General and administrative expenses:							
Salaries and wages, payroll taxes, employee benefits	13,875	15,649	17,473	19,711	22,720	5,655	6,324
Facilities	2,859	3,096	3,466	3,267	3,481	841	890
Stock-based compensation	—	—	—	—	2,002	—	—
Depreciation and amortization	1,035	844	865	1,056	1,257	246	332
Litigation accrual	—	—	—	—	2,686	—	—
Other	5,470	6,490	6,202	6,923	7,935	1,849	2,154
Total general and administrative expenses	23,239	26,079	28,006	30,957	40,081	8,591	9,700
Loss on impairment of goodwill	—	353	—	—	—	—	—
Income (loss) from operations	2,822	2,036	3,270	4,097	(10)	920	1,013
Other income (expense):							
Interest expense	(774)	(496)	(366)	(272)	(630)	(64)	(186)
Other, net	24	—	1	(6)	11	—	72
Total other income (expense)	(750)	(496)	(365)	(278)	(619)	(64)	(114)
Income (loss) before income taxes	2,072	1,541	2,905	3,819	(629)	856	899
Income tax provision	47	34	53	47	17	8	13
Net income (loss)	\$ 2,025	\$ 1,507	\$ 2,852	\$ 3,772	\$ (646)	\$ 848	\$ 886
Earnings per common share, basic and diluted	\$ 0.56	\$ 0.42	\$ 0.79	\$ 1.03	\$ (0.16)	\$ 0.23	\$ 0.19
Weighted average common shares outstanding, basic and diluted	3,622,000	3,566,000	3,633,000	3,653,000	3,994,000	3,759,000	4,711,000
<b>Pro Forma Data (unaudited):</b>							
Pro forma provision for income taxes <sup>(1)</sup>	\$ 829	\$ 616	\$ 1,162	\$ 1,528	\$ 549	\$ 342	\$ 360
Pro forma net income (loss) <sup>(2)</sup>	\$ 1,243	\$ 925	\$ 1,743	\$ 2,291	\$ (1,178)	\$ 514	\$ 539
Pro forma earnings per common share, basic and diluted	\$ 0.34	\$ 0.26	\$ 0.48	\$ 0.63	\$ (0.29)	\$ 0.14	\$ 0.12
<b>Other Operating Data (unaudited):</b>							
Adjusted EBITDA <sup>(3)</sup>	\$ 3,897	\$ 2,897	\$ 4,154	\$ 5,163	\$ 5,951	\$ 1,167	\$ 1,407
Revenue per employee <sup>(4)</sup>	\$ 102	\$ 109	\$ 113	\$ 118	\$ 125	\$ 31	\$ 32
Employee headcount at period end	404	427	451	508	599	539	624

	December 28, 2001	December 27, 2002	January 2, 2004	December 31, 2004	December 30, 2005	March 31, 2006
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(unaudited)

(In thousands)

**Historical Consolidated**

**Balance Sheet Data:**

Cash and cash equivalents	\$ 226	\$ 251	\$ 498	\$ 266	\$ 3,066	\$ 209
Working capital	2,057	2,712	5,199	7,195	9,421	10,772
Total assets	18,463	19,229	21,460	23,223	32,797	31,835
Total indebtedness	7,948	6,866	5,033	3,543	1,858	2,466
Total liabilities	13,517	13,329	12,799	11,746	18,137	16,271
Total stockholders' equity	4,946	5,900	8,661	11,477	14,660	15,564

(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. 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 GAAP, such as operating income and net income. Management believes Adjusted EBITDA is an important measure for our company because it allows management to focus on what it deems more reliable indicators of ongoing operating performance. We believe Adjusted EBITDA is also useful to an investor in evaluating our ongoing performance because it is widely used by research analysts, investment bankers and lenders to assess our operating performance and it gives investors another measure to evaluate and compare the results of our operations from period to period by removing the impact of certain non-recurring expense items, such as stock-based compensation expense. Our definition of Adjusted EBITDA may differ from those of many companies reporting similarly named measures.

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 Three Months Ended	
	2001	2002	2003	2004	2005	April 1, 2005	March 31, 2006
	Net income (loss)	\$ 2,025	\$ 1,507	\$ 2,852	\$ 3,772	\$ (646)	\$ 848
Interest income	(1)	(2)	(1)	(2)	(19)	—	(17)
Interest expense	774	496	366	272	630	64	186
Income tax provision	47	34	53	47	17	8	13
Depreciation and amortization	1,035	844	865	1,056	1,257	246	332
Loss (gain) on sale of assets	17	18	19	18	24	1	7
Litigation accrual	—	—	—	—	2,686	—	—
Stock-based compensation expense	—	—	—	—	2,002	—	—
Adjusted EBITDA	\$ 3,897	\$ 2,897	\$ 4,154	\$ 5,163	\$ 5,951	\$ 1,167	\$ 1,407

(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.

## 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 654 as of June 30, 2006 that includes licensed engineers and other professionals. Our core clients are public agencies in communities with populations ranging from 10,000 to 300,000 people. We believe communities of this size are underserved by large 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 March 31, 2006, we would have recognized a net deferred income tax liability of \$        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 2005, and began generating revenue in this segment during the first quarter of 2006. It is not yet large enough to be discussed separately as a segment.

## **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 that had been previously paid by our insurance policy in an unrelated claim that arose in fiscal year 2002. Because the claim arose in 2002, we will be able to recover that amount for purposes of our insurance coverage and deductible for that policy year. As a result, 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.

### ***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 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.

### **Components of Income and Expense**

#### ***Contract Revenues***

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 contracts without a fixed fee 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.

#### ***Direct Costs of Contract Revenues***

Direct costs of contract revenues include that portion of technical and non-technical salaries and wages that has been incurred in connection with revenue producing projects. Payroll taxes, bonuses and employee benefit costs related to this portion of salaries and wages is included in general and administrative expenses. Direct costs of contract revenues also includes production expenses, subconsultant services and other expenses that are incurred in connection with revenue producing projects. We expense direct costs of contract revenues when incurred.

#### ***General and Administrative Expenses***

General and administrative expenses include the costs of the marketing and support staffs, other marketing expenses, management and administrative personnel costs, payroll taxes, bonuses and employee benefits for all of our employees and the portion of salaries and wages not allocated to direct costs of contract 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***

As reported in our consolidated financial statements, goodwill 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 Three Months Ended	
	2003	2004	2005	April 1, 2005	March 31, 2006
<b>Statement of Operations Data:</b>					
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	29.7	33.0
Production expenses	2.4	2.1	2.7	2.4	1.9
Subconsultant services	13.5	10.9	6.6	8.8	5.0
<b>Total direct costs of contract revenues</b>	<b>42.6</b>	<b>39.8</b>	<b>40.4</b>	<b>40.8</b>	<b>39.9</b>
General and administrative expenses:					
Salaries and wages, payroll taxes, employee benefits	32.1	33.8	33.8	35.2	35.5
Facilities	6.4	5.6	5.2	5.2	5.0
Stock-based compensation	—	—	3.0	—	—
Depreciation and amortization	1.6	1.8	1.9	1.5	1.9
Litigation accrual	—	—	4.0	—	—
Other	11.4	11.9	11.8	11.5	12.1
<b>Total general and administrative expenses</b>	<b>51.4</b>	<b>53.1</b>	<b>59.6</b>	<b>53.4</b>	<b>54.4</b>
<b>Income (loss) from operations</b>	<b>6.0</b>	<b>7.0</b>	<b>—</b>	<b>5.7</b>	<b>5.7</b>
Other income (expense):					
Interest	(0.7)	(0.5)	(0.9)	(0.4)	(1.0)
Other, net	—	—	—	—	0.4
<b>Total other income (expense)</b>	<b>0.7</b>	<b>(0.5)</b>	<b>0.9</b>	<b>0.4</b>	<b>0.6</b>
<b>Income (loss) before income taxes</b>	<b>5.3</b>	<b>6.6</b>	<b>(0.9)</b>	<b>5.3</b>	<b>5.0</b>
Income tax provision (benefit)	0.1	0.1	—	—	0.1
<b>Net income (loss)</b>	<b>5.2%</b>	<b>6.5%</b>	<b>(1.0)%</b>	<b>5.3%</b>	<b>5.0%</b>

### *Fiscal Three Months Ended March 31, 2006 Compared to Fiscal Three Months Ended April 1, 2005*

**Contract revenues.** Our contract revenues were \$17.8 million for the fiscal three months ended March 31, 2006, with \$15.1 million attributable to the Engineering Services segment and \$2.6 million attributable to the Public Finance Services segment. Our Homeland Security Services segment generated \$0.1 million during this period. Consolidated contract revenues increased \$1.7 million, or 10.6%, from \$16.1 million in the fiscal three months ended April 1, 2005. This was due primarily to increases of \$1.1 million and \$0.4 million in contract revenues of the Engineering Services and Public Finance Services segments, respectively. These increases were due to new contracts being executed in new office locations, and an increase in revenues from existing clients in our existing locations. Overall headcount increased from 539 in the fiscal three months ended April 1, 2005 to 624 in the fiscal three months ended March 31, 2006.

The Engineering Services segment opened two new office locations in the second half of fiscal year 2005 in Fresno, California and Marysville, California. The contract revenues associated with this

expansion are reflected in the increases shown in the fiscal three months ended March 31, 2006. In addition, this is the first fiscal three months in which our Homeland Security Services segment, which was established in the second half of fiscal 2005, generated revenue.

*Direct costs of contract revenues.* Direct costs of contract revenues were \$7.1 million in the fiscal three months ended March 31, 2006, with \$6.3 million attributable to the Engineering Services segment and \$0.7 million attributable to the Public Finance Services segment. The additional \$0.1 million is attributable to direct costs of contract revenues for our Homeland Security Services segment. This represented an increase of \$0.5 million, or 7.6%, from \$6.6 million in the fiscal three months ended April 1, 2005. This increase was primarily the result of the increased volume of activity that generated the increased contract revenue previously discussed. Direct costs of contract revenues as a percentage of contract revenue for the fiscal three months ended March 31, 2006 decreased to 39.9% from 40.8% for the fiscal three months ended April 1, 2005.

Within direct costs of contract revenues, salaries and wages increased from 29.7% of contract revenues in the fiscal three months ended April 1, 2005 to 33.0% in the fiscal three months ended March 31, 2006. Comparing those same periods, subcontracted services decreased from 8.8% of contract revenues to 5.0% 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 \$1.1 million, or 12.8%, to \$9.7 million in the fiscal three months ended March 31, 2006 from \$8.6 million in the fiscal three months ended April 1, 2005. This was due primarily to increases of \$0.7 million and \$0.2 million in general and administrative expenses of the Engineering Services and Public Finance Services segments, respectively. The remaining \$0.2 million is attributed to initial investment in marketing, recruitment and employee related expenses related to our Homeland Security Services segment.

The increases in general and administrative expenses in the Engineering Services and Public Finance Services segments were due to increased insurance premiums and employee related costs. The increase in employee related costs primarily related to payroll taxes, employee benefits and bonuses resulting from the increase in headcount of engineers and other professionals. As discussed in Note 2 to our consolidated financial statements contained elsewhere in this prospectus, we do not allocate such costs to direct costs of contract revenues. General and administrative expenses as a percentage of contract revenues increased to 54.4% in the fiscal three months ended March 31, 2006 from 53.4% in the prior year period.

*Income (loss) from operations.* As a result of the above factors, operating income was \$1.0 million for the fiscal three months ended March 31, 2006 as compared to \$0.9 million for the fiscal three months ended April 1, 2005. Operating income as a percentage of contract revenues remained at 5.7% for both periods.

*Other income (expense).* Other expense, net increased by \$50,000, or 78.1%, to \$114,000 in the fiscal three months ended March 31, 2006 from \$64,000 in the fiscal three months ended April 1, 2005. This was due primarily to an increase in interest expense of \$120,000 as a result of interest accrued for the litigation discussed in "Recent Developments." This increase was offset by recoveries of \$70,000 on other legal matters.

## *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 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 and \$0.6 million in contract revenues of the Engineering Services segment and Public Finance Services segment, respectively. 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 Engineering Services segment experienced strong growth in contract revenues from existing and new clients and as the result of opening new office locations. During the second half of fiscal year 2005, the Engineering Services segment opened new office locations in Fresno, Bakersfield and Marysville, California, and expanded its office in Tucson, Arizona. In addition, our geotechnical company opened its new office location in response to an increased demand for its services, which included an expanded laboratory, in the fourth quarter of fiscal year 2004. During fiscal year 2005, our geotechnical company increased its client base by over 30%, which resulted in increased contract revenues of \$0.7 million for fiscal year 2005.

*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. This was due primarily to increases of \$3.6 million and \$0.3 million in direct costs of contract revenues in the Engineering Services and Public Finance Services segments, respectively. There was a general increase in direct salaries and wages expense in both segments due to the volume of activity that generated the increase in contract revenues discussed above.

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 10.9% of contract revenues in fiscal year 2004 to 6.6% 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. Additionally, there were other increases of \$3.2 million and \$0.7 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 the opening of new office locations discussed above and the relocation of existing offices in Engineering Services, growth in overall employee headcount and the resulting increase in costs of insurance and employee related costs. Additional general and administrative costs including moving services, technology services and employee expense not directly billable to client contracts, were incurred to facilitate these new office openings and expansions.

The increase in employee related costs primarily relates to payroll taxes, employee benefits and bonuses resulting from the increase in headcount of employees who deliver our services. As discussed

in Note 2 to our consolidated financial statements contained elsewhere in this prospectus, we do not allocate such costs to direct costs of contract revenues. As a result of these occurrences and factors, general and administrative expenses as a percentage of contract revenues increased to 59.6% for fiscal year 2005 from 53.1% in the prior year.

*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. Operating income before stock-based compensation expense and the litigation accrual was equal to 7.0% of contract revenue for fiscal year 2005.

*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 \$9.6 million attributable to the Public Finance Services segment. This represented an increase in 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 and \$0.7 million in contract revenues of the Engineering Services segment and Public Finance Services segment, respectively. These increases were primarily the result of organic growth within our existing operations. In the Engineering Services segment, one office (San Bernardino, California) expanded its facility during fiscal year 2004. 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%.

*Direct costs of contract revenues.* Direct costs of contract revenues remained comparable 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 was due primarily to increased labor utilization within the Engineering Services segment, and the adding of additional staff within the Public Finance Services segment to execute new revenue producing contracts.

*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 \$2.3 million and \$0.3 million in general and administrative expenses of the Engineering Services segment and the Public Finance Services segment, respectively. 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. This increase was due primarily to the increasing costs of insurance and employee related costs. The increase in employee related costs primarily related to payroll taxes, employee benefits and bonuses resulting from the increase in headcount of employees who deliver our services. As discussed in Note 2 to our consolidated financial statements contained elsewhere in this prospectus, we do not allocate such costs to direct costs of contract revenues. In addition, a new Engineering Services office location in Bakersfield, California was opened in late fiscal year 2004 and did not begin generating revenue until fiscal year 2005.

*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. This increase is primarily attributable to increased labor utilization within the Engineering Services segment, and increased revenues within the Public Finance segment.

*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 used in operating activities were \$2.9 million for the fiscal three months ended March 31, 2006 compared to \$2.3 million used in operating activities for the same period in fiscal year 2005. The cash flows used in operating activities in the fiscal three months ended March 31, 2006 were comparatively higher than in the same period in 2005 due primarily to the payment of fiscal year 2005 annual performance bonuses, which were \$0.9 million more than the fiscal year 2004 annual performance bonuses. We pay performance bonuses to our employees in the first fiscal three months following the fiscal year to which the bonuses relate. 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 \$1.0 million increase in our net income in fiscal year 2004 over fiscal year 2003.

### ***Cash flows from investing activities***

Cash flows used in investing activities were \$0.6 million for the fiscal three months ended March 31, 2006 compared to \$0.3 million for the fiscal three months ended April 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 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 provided by financing activities were \$0.7 million for the fiscal three months ended March 31, 2006 compared to \$2.5 million for the fiscal three months ended April 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 provided by financing activities for the first fiscal three months of 2006 and 2005 primarily related to net additional borrowings on our revolving line of credit, term loans and capital leases. 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 the excess of outstanding checks over bank balance of \$0.5 million in fiscal year 2004 compared to an increase of \$0.3 million in fiscal year 2003 for a net change of \$0.8 million. These increases in cash used in financing activities, totaling \$1.9 million, 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. 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 \$1.0 million at March 31, 2006 and outstanding advances bear interest at prime plus 0.25% (8.0% at March 31, 2006). 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 March 31, 2006, the amount available under the line of credit was approximately \$7.0 million, and we were in compliance with all of our covenants.

The term loan had an outstanding balance of approximately \$0.6 million at March 31, 2006. This loan bears interest at prime plus 0.25% (8.0% at March 31, 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 March 31, 2006, we were in compliance with all of our covenants.

The notes payable to insurance companies had an outstanding balance of approximately \$0.5 million at March 31, 2006, bear interest at 4.93% and mature 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 <sup>(1)(2)</sup>	\$ 1,530	\$ 1,272	\$ 258	\$ —	\$ —
Operating leases	14,117	3,228	5,709	3,330	1,850
Capital leases	406	165	216	25	—
<b>Total contractual cash obligations</b>	<b>\$ 16,053</b>	<b>\$ 4,665</b>	<b>\$ 6,183</b>	<b>\$ 3,355</b>	<b>\$ 1,850</b>

(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.

(2) We intend to repay all long-term debt with the net proceeds of this offering. See "Use of Proceeds".

### 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 March 31, 2006, a hypothetical increase in interest rates of 10%, or 80 basis points, on our variable rate debt would have increased interest expense by approximately \$13,000. A hypothetical decrease in interest rates of 10%, or 80 basis points, would have decreased interest expense by approximately \$13,000.

**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 654 as of June 30, 2006 that includes licensed engineers and other professionals. Our core clients are public agencies in communities with populations ranging from 10,000 to 300,000 people. We believe communities of this size are underserved by large 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 2005, and it began generating revenue in the first quarter of 2006.

**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 Estimates	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 five states grew by over 4 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, and 71% of the state's 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, 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 38% 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 2006-2007 provides in excess of \$13.3 billion for transportation and infrastructure related spending, an increase of 9% over fiscal 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 2003-2004 (the most recent report published), total city operating expenditures exceeded \$40 billion, an increase of 5% over the prior period. In addition, \$8.2 billion was budgeted to be spent on capital improvements, an increase of 4% 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 \$14.3 billion over this period. In Tucson, Arizona, city voters recently passed a half-cent sales tax increase that is expected to fund \$2.1 billion for transportation projects.

### 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**

	<b>Total HSGP Allocation</b>	<b>State HSGP Allocation</b>	<b>Local Law Enforcement Terrorism Prevention</b>	<b>UASI Allocation</b>	<b>Metropolitan Medical Response System Allocation</b>	<b>Citizens Corps Allocation</b>
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 organic 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 average 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 March 31, 2006, we had approximately 4,000 open contracts.

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		
	2003	2004	2005
Engineering Services	83.5%	83.3%	84.6%
Public Finance Services	16.5%	16.6%	15.3%
Homeland Security Services <sup>(1)</sup>	N/A	N/A	N/A

(1) We did not start recognizing contract revenue in this segment until the first quarter of 2006.

## 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 specific 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 360 engineering reviews for the Department of Public Works and 350 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. In 2006, we will administer over 1,200 districts on behalf of more than 185 public agencies, involving an annual levy of almost six million parcels which will generate almost \$600 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 600 issuers in 34 states and the District of Columbia on more than 2,500 bond issues totaling over \$35 billion in municipal debt.

*Selected Projects.* Examples of specific 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 2005 with the formation of our subsidiary, American Homeland Solutions, or AHS, and began generating revenue in the first quarter of 2006. 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 specific 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 and one of our directors 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 3.1% 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 3.1% 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 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%	59%
Unit-based	29%	28%
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. Most of our agreements permit our clients to terminate the agreements at any time without cause, although they must pay our fees and expenses through the date of the termination.

### 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 business areas, geography and client sector. 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. Historically, clients have chosen among competing firms by weighing the quality, innovation and timeliness of the firm's service against their proposed fees. 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 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 are awarded through a competitive bid process.

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 June 30, 2006, we had approximately 502 full-time employees and 152 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 June 30, 2006
	2003	2004	2005	
Engineering Services	356	404	481	531
Public Finance Services	60	65	78	76
Homeland Security Services <sup>(1)</sup>	N/A	N/A	1	3
Holding Company Employees (Willdan Group, Inc.)	35	39	39	44
<b>Total</b>	<b>451</b>	<b>508</b>	<b>599</b>	<b>654</b>

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

At June 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 package, 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 selected existing clients pursuant to licensing agreements that allow varying levels of access to the software and its data. Some clients receive read-only access to some or all of the MuniMagic® system via the Internet, while other clients that seek greater functionality receive full read/write access to the system. Each licensing agreement has an initial term of one year, which automatically renews upon payment by the licensee of the applicable fees, unless either party has terminated the agreement. Licensing fees typically are included in the fee structure of the client service agreement.

## Properties

Our corporate headquarters are located in approximately 21,000 square feet of office space that we lease at 2401 East Katella Avenue, Suite 300, 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 2012. 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 believe 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 that had been previously paid by our insurance company for an unrelated claim that arose in fiscal year 2002. Because the claim arose in 2002, we will be able to recover that amount for purposes of our insurance coverage and deductible for that policy year. As a result, 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.

## 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. Prior to the completion of this offering, an additional director, who will satisfy the independence requirements of the SEC rules and regulations and the Nasdaq Global Market listing standards, will be appointed to our board of directors and one of our non-independent directors will resign.

#### *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	65	Senior Vice President, President and Chief Executive Officer of Willdan subsidiary, and Director
Linda L. Heil	67	Director
W. Tracy Lenocker <sup>(1)(2)(3)</sup>	60	Director
Anthony Gonsalves <sup>(1)</sup>	53	Director

#### *Significant Employees:*

Del Conrad	60	Vice President of Financial Reporting & Compliance
Frank G. Tripepi	58	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

(1) Member of the audit committee.

(2) Member of the compensation committee.

(3) Member of the nominating and corporate governance committee.

*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 2003. 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, Colorado, 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, and of our predecessor, Willdan. 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 been a member of our Board of Directors since 1994. Mr. Kopecky has served as the President and Chief Executive Officer of our wholly owned subsidiary, Willdan, since 2001. He also is a Senior Vice President of Willdan Group, Inc. 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.

*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.

*Anthony Gonsalves* has served as a member of our Board of Directors since 2005. Mr. Gonsalves joined Joe A. Gonsalves & Son, a legislative advocacy firm, in 1977 and is currently the president and sole shareholder. Joe A. Gonsalves & Son represents over 60 public and private clients before the California state legislature. Mr. Gonsalves has been honored by the California Contract Cities Association with its prestigious El Matador Grande award for his continuous work in protecting local government.

*Del Conrad* is our Vice President of Financial Reporting and Compliance. 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.S. 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. Gonsalves and the additional independent director to be elected prior to the completion of this offering. This additional independent director 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 shall be comprised of Mr. Lenocker, who will also be the chairman of the committee, and the additional independent director to be elected prior to the completion of this offering. We expect that this additional independent director will be a "non-employee director" 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). We expect that this additional independent director will also be an "outside director" 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 shall be comprised of Mr. Lenocker and the additional independent director to be elected prior to this offering. 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;
- establishing procedures for identifying and evaluating director candidates;
- 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 business conduct and ethics and a set of corporate governance policies and procedures; and
- overseeing the evaluation of the board of directors and management.

### **Director Compensation**

We pay cash compensation to our current directors who are not employees of the company. Messrs. Gonsalves and Lenocker and Mrs. Heil each receive \$5,000 per quarter for their service on our board of directors. 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".

Following the completion of this offering, we expect to compensate our non-employee directors in connection with their services on our board of 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.

### **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**

Upon completion of this offering, our board of directors will adopt 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 <sup>(3)</sup>
Dan W. Heil <sup>(1)</sup> President, Chief Executive Officer and Chairman of the Board	\$ 230,006	\$ 200,000	\$ —
Win Westfall <sup>(1)</sup> President, Chief Executive Officer and Chairman of the Board	\$ 117,550	\$ 50,000	\$ 7,989
Mallory McCamant <sup>(2)</sup> Senior Vice President, Chief Financial Officer	—	—	—
Richard Kopecky President and Chief Executive Officer, Willdan	\$ 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 with annual base compensation at \$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 August 1, 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 \$70,445, \$43,195 and \$68,326, respectively. We paid \$18,095 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. has been a director of our company since March 2005. During fiscal years 2003, 2004 and 2005, we paid to Joe A. Gonsalves & Son \$20,045, \$35,480 and \$41,978, respectively. Prior to the completion of this offering, we will terminate the agreement with Joe A. Gonsalves & Son.

Prior to 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 March 31, 2006, the outstanding balances of the term loan and revolving line of credit were \$0.6 million and \$1.0 million, respectively. We intend to obtain releases of the foregoing personal guarantees upon the completion of this offering.

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.

## PRINCIPAL AND SELLING STOCKHOLDERS

The following table sets forth the beneficial ownership information of our common stock at June 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. We have determined beneficial ownership in accordance with the rules of the SEC. Except as indicated by the footnotes below, 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 June 30, 2006, and \_\_\_\_\_ shares of common stock outstanding upon completion of this offering.

Beneficial ownership representing less than 1% is denoted with an asterisk (\*).

	Shares Beneficially Owned Prior to the Offering		Shares Offered	Shares Beneficially Owned After the Offering	
	Number	Percent		Number	Percent
<b><i>Executive Officers and Directors</i></b>					
Win Westfall	800	*	—	800	*
Mallory McCamant	—	—	—	—	—
Linda L. Heil <sup>(1)</sup>	1,820,120	38.6%	—	—	—
Richard Kopecky <sup>(2)</sup>	336,020	7.1%	—	336,020	—
W. Tracy Lenocker <sup>(3)</sup>	200,000	4.2%	—	200,000	—
Anthony D. Gonsalves <sup>(4)</sup>	60,000	1.3%	—	60,000	—
Executive officers and directors as a group (6 persons)	2,416,940	51.3%	—	—	—

### ***5% Stockholder***

John F. Knipe <sup>(5)</sup>	320,800	6.8%	—	320,800	—
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(1) Represents shares of common stock held in The 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 Anthony & Evelyn Gonsalves Family 1996 Revocable Trust.

(5) 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. The following description of our capital stock is intended as a summary only and is qualified in its entirety by reference to our amended and restated certificate of incorporation and amended and restated by-laws to be in effect at the closing of this offering, which are filed as exhibits to the registration statement, of which this prospectus forms a part, and to the applicable provisions of the Delaware General Corporation Law. 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 August 1, 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. 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 will 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 \_\_\_\_\_ shares of common stock, assuming the issuance of \_\_\_\_\_ shares of common stock offered hereby by us. Of these shares, \_\_\_\_\_ 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 \_\_\_\_\_ 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 \_\_\_\_\_ 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 \_\_\_\_\_ 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.

<b>Underwriter</b>	<b>Number of Shares</b>
Wedbush Morgan Securities Inc.	
<b>Total</b>	

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 \_\_\_\_\_ 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.

	<b>Per Share</b>	<b>Without Over-allotment Exercise</b>	<b>With Over- allotment Exercise</b>
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 \$ \_\_\_\_\_ and are payable by us.

Upon purchase by the underwriters of the \_\_\_\_\_ 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 \_\_\_\_\_ 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 \$ \_\_\_\_\_ per warrant. 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 (other than 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.

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 the common stock in the open market. These transactions may include over-allotment and stabilizing transactions, passive market making and purchases to cover syndicate short positions created in connection with 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. These activities may stabilize, maintain or otherwise affect the market price of the common stock, which may be higher than the price that might otherwise prevail in the open market.

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 \_\_\_\_\_ 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; [www.willdangroup.com](http://www.willdangroup.com).

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.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

	<u>Page</u>
Report of Independent Registered Public Accounting Firm	F-2
Consolidated Balance Sheets as of December 31, 2004, December 30, 2005 and March 31, 2006 (unaudited)	F-3
Consolidated Statements of Operations for the fiscal years 2003, 2004 and 2005 and for the fiscal three months ended April 1, 2005 (unaudited) and March 31, 2006 (unaudited)	F-4
Consolidated Statements of Stockholders' Equity for the fiscal years 2003, 2004 and 2005 and for the fiscal three months ended March 31, 2006 (unaudited)	F-5
Consolidated Statements of Cash Flows for the fiscal years 2003, 2004 and 2005 and for the fiscal three months ended April 1, 2005 (unaudited) and March 31, 2006 (unaudited)	F-6
Notes to Consolidated Financial Statements	F-7



**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	March 31, 2006 (Unaudited)
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	\$ 266,000	\$ 3,066,000	\$ 209,000
Accounts receivable, net of allowance for doubtful accounts of \$430,000, \$492,000 and \$546,000 (unaudited) at December 31, 2004, December 30, 2005 and March 31, 2006, respectively	9,493,000	11,680,000	12,251,000
Costs and estimated earnings in excess of billings on uncompleted contracts	7,184,000	7,229,000	8,166,000
Prepaid expenses	865,000	1,323,000	1,422,000
Other receivables	231,000	3,415,000	3,293,000
	<hr/>	<hr/>	<hr/>
Total current assets	18,039,000	26,713,000	25,341,000
Equipment and leasehold improvements, net	2,027,000	2,802,000	3,106,000
Goodwill	2,763,000	2,763,000	2,763,000
Other assets	394,000	519,000	625,000
	<hr/>	<hr/>	<hr/>
Total assets	\$ 23,223,000	\$ 32,797,000	\$ 31,835,000
<b>Liabilities and Stockholders' Equity</b>			
Current liabilities:			
Excess of outstanding checks over bank balance	\$ 196,000	\$ 372,000	\$ 418,000
Borrowings under line of credit	1,663,000	—	—
Accounts payable	1,134,000	1,044,000	1,340,000
Accrued liabilities	5,724,000	13,080,000	10,163,000
Billings in excess of costs and estimated earnings on uncompleted contracts	960,000	1,356,000	1,468,000
Payable to stockholders	10,000	5,000	2,000
Current portion of notes payable	946,000	1,230,000	973,000
Current portion of capital lease obligations	115,000	147,000	147,000
Deferred state income taxes	96,000	58,000	58,000
	<hr/>	<hr/>	<hr/>
Total current liabilities	10,844,000	17,292,000	14,569,000
Borrowings under line of credit	—	—	1,028,000
Notes payable, excluding amount due to stockholder, less current portion	367,000	253,000	128,000
Note payable to stockholder	250,000	—	—
Capital lease obligations, less current portion	192,000	223,000	188,000
Deferred lease obligations	93,000	369,000	358,000
	<hr/>	<hr/>	<hr/>
Total liabilities	11,746,000	18,137,000	16,271,000
Stockholders' equity:			
Redeemable common stock, no par value. Authorized 15,000,000 shares; issued and outstanding 3,760,000, 4,708,000 and 4,713,000 (unaudited) shares at December 31, 2004, December 30, 2005 and March 31, 2006, respectively	2,436,000	8,023,000	8,041,000
Receivable from stockholders	(16,000)	(38,000)	(38,000)
Retained earnings	9,057,000	6,675,000	7,561,000
	<hr/>	<hr/>	<hr/>
Total stockholders' equity	11,477,000	14,660,000	15,564,000
Commitments and contingencies			
Total liabilities and stockholders' equity	\$ 23,223,000	\$ 32,797,000	\$ 31,835,000

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 Three Months Ended	
	2003	2004	2005	April 1, 2005	March 31, 2006
				(Unaudited)	(Unaudited)
Contract revenues	\$ 54,485,000	\$ 58,263,000	\$ 67,263,000	\$ 16,077,000	\$ 17,821,000
Direct costs of contract revenues:					
Salaries and wages	14,522,000	15,623,000	20,918,000	4,779,000	5,885,000
Production expenses	1,327,000	1,211,000	1,815,000	379,000	330,000
Subconsultant services	7,360,000	6,375,000	4,459,000	1,408,000	893,000
Total direct costs of contract revenues	23,209,000	23,209,000	27,192,000	6,566,000	7,108,000
General and administrative expenses:					
Salaries and wages, payroll taxes and employee benefits	17,473,000	19,711,000	22,720,000	5,655,000	6,324,000
Facilities	3,466,000	3,267,000	3,481,000	841,000	890,000
Stock-based compensation	—	—	2,002,000	—	—
Depreciation and amortization	865,000	1,056,000	1,257,000	246,000	332,000
Litigation accrual	—	—	2,686,000	—	—
Other	6,202,000	6,923,000	7,935,000	1,849,000	2,154,000
Total general and administrative expenses	28,006,000	30,957,000	40,081,000	8,591,000	9,700,000
Income (loss) from operations	3,270,000	4,097,000	(10,000)	920,000	1,013,000
Other income (expense):					
Interest	(366,000)	(272,000)	(630,000)	(64,000)	(186,000)
Other, net	1,000	(6,000)	11,000	—	72,000
Total other income (expense)	(365,000)	(278,000)	(619,000)	(64,000)	(114,000)
Income (loss) before income taxes	2,905,000	3,819,000	(629,000)	856,000	899,000
Income tax provision	53,000	47,000	17,000	8,000	13,000
Net income (loss)	\$ 2,852,000	\$ 3,772,000	\$ (646,000)	\$ 848,000	\$ 886,000
Net income (loss) per share:					
Basic and diluted	\$ 0.79	\$ 1.03	\$ (0.16)	\$ 0.23	\$ 0.19
Weighted-average shares outstanding:					
Basic and diluted	3,633,000	3,653,000	3,994,000	3,759,000	4,711,000

See accompanying notes to consolidated financial statements.

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

**Consolidated Statements of Stockholders' Equity**

	Redeemable Common stock		Receivable from stockholders	Retained earnings	Total stockholders' equity
	Shares	Amount			
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
Net income (unaudited)	—	—	—	886,000	886,000
Balance at March 31, 2006 (unaudited)	4,713,000	\$ 8,041,000	\$ (38,000)	\$ 7,561,000	\$ 15,564,000

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 Three Months Ended	
	2003	2004	2005	April 1, 2005	March 31, 2006
				(Unaudited)	(Unaudited)
<b>Cash flows from operating activities:</b>					
Net income (loss)	\$ 2,852,000	\$ 3,772,000	\$ (646,000)	\$ 848,000	\$ 886,000
Adjustments to reconcile net income to net cash provided by operating activities:					
Depreciation and amortization, including amounts in direct costs of contract revenues	865,000	1,056,000	1,274,000	251,000	334,000
Loss on sale of equipment	19,000	18,000	24,000	1,000	7,000
Allowance for doubtful accounts	227,000	257,000	321,000	35,000	15,000
Stock-based compensation	—	—	2,002,000	—	—
Changes in operating assets and liabilities:					
Accounts receivable	(1,336,000)	(906,000)	(2,508,000)	(716,000)	(586,000)
Costs and estimated earnings in excess of billings on uncompleted contracts	(901,000)	(1,056,000)	(45,000)	(1,288,000)	(937,000)
Prepaid expenses	(30,000)	110,000	(458,000)	8,000	(99,000)
Other receivables	(88,000)	(95,000)	(3,184,000)	65,000	122,000
Other assets	(2,000)	(211,000)	(115,000)	(191,000)	(108,000)
Accounts payable	93,000	(43,000)	(90,000)	(1,000)	296,000
Accrued liabilities	605,000	1,139,000	7,356,000	(1,426,000)	(2,917,000)
Billings in excess of costs and estimated earnings on uncompleted contracts	364,000	(257,000)	396,000	93,000	112,000
Deferred state income taxes	—	69,000	(38,000)	—	—
Deferred lease obligations	(46,000)	26,000	276,000	42,000	(11,000)
Net cash provided by (used in) operating activities	2,622,000	3,879,000	4,565,000	(2,279,000)	(2,886,000)
<b>Cash flows from investing activities:</b>					
Purchase of equipment and leasehold improvements	(650,000)	(981,000)	(1,885,000)	(297,000)	(638,000)
Proceeds from sale of equipment	13,000	36,000	28,000	4,000	—
Other	—	—	(15,000)	—	—
Net cash used in investing activities	(637,000)	(945,000)	(1,872,000)	(293,000)	(638,000)
<b>Cash flows from financing activities:</b>					
Excess of outstanding checks over bank balance	287,000	(497,000)	176,000	577,000	46,000
Payments on notes payable	(1,463,000)	(1,393,000)	(1,685,000)	(294,000)	(382,000)
Proceeds from notes payable	1,488,000	602,000	1,855,000	—	—
Borrowings under line of credit	14,061,000	15,682,000	12,504,000	6,821,000	1,964,000
Repayments of line of credit	(15,673,000)	(16,228,000)	(14,167,000)	(4,570,000)	(936,000)
Principal payments on capital leases	(97,000)	(126,000)	(148,000)	(28,000)	(40,000)
Payments on liabilities to stockholders	(250,000)	(250,000)	(255,000)	—	(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)	—	—
Payments to acquire retired stock	(88,000)	(501,000)	(25,000)	(12,000)	—
Net cash provided by (used in) financing activities	(1,738,000)	(3,166,000)	107,000	2,494,000	667,000
Net increase (decrease) in cash and cash equivalents	247,000	(232,000)	2,800,000	(78,000)	(2,857,000)
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	\$ 188,000	\$ 209,000
<b>Supplemental disclosures of cash flow information:</b>					
Cash paid during the period for:					
Interest	\$ 371,000	\$ 266,000	\$ 239,000	\$ 64,000	\$ 30,000
Income taxes	15,000	35,000	79,000	35,000	15,000
<b>Supplemental disclosures of noncash investing and financing activities:</b>					
Equipment acquired under capital leases	\$ 102,000	\$ 223,000	\$ 211,000	\$ 27,000	\$ 5,000
Amounts receivable from issuance of common stock	18,000	16,000	38,000	—	—

See accompanying notes to consolidated financial statements.

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

**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. The remaining legal entities fall within the Company's three operating segments; however, due to quantitative threshold measurements in applying segment reporting, only two entities meet the definition of reportable segments, the engineering services segment and the public finance services 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*

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. Revenues on contracts without a fixed fee are recognized as the work is performed in accordance with specific terms of the contract. 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.

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 include that portion of technical and nontechnical salaries and wages that has been incurred in connection with revenue producing projects. Payroll taxes, bonuses and employee benefit costs related to this portion of salaries and wages are included in general and administrative expenses in the accompanying consolidated statements of operations. Direct costs of contract revenues also include production expenses and subconsultant services costs. Direct costs of contract revenues are expensed 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 leases are classified as operating leases and rent expense, which is included in facilities expense in the accompanying consolidated financial statements, is recognized on a straight-line basis over the term of the leases. 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.



### *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.

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 MuniFinancial 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.

### *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.

The accompanying consolidated financial statements as of March 31, 2006 and for the fiscal three months ended March 31, 2006 and April 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 March 31, 2006 totaled \$1,028,000 (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:

	<u>Capital</u>	<u>Operating</u>
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
	<u>\$ 406,000</u>	<u>\$ 14,117,000</u>
Amount representing interest (at rates ranging from 4.75% to 10.0%)	36,000	
	<u>370,000</u>	
Present value of net minimum lease payments under capital leases	147,000	
Less current portion	<u>\$ 223,000</u>	

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.

## 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)
	<u>\$ 53,000</u>	<u>\$ 47,000</u>	<u>\$ 17,000</u>

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
<b>Deferred tax assets:</b>		
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
	<u>22,000</u>	<u>66,000</u>
<b>Deferred tax liabilities:</b>		
Deferred revenue	(106,000)	(105,000)
Goodwill amortization	(12,000)	(15,000)
Other	—	(4,000)
	<u>(118,000)</u>	<u>(124,000)</u>
Net deferred tax assets (liabilities)	<u>\$ (96,000)</u>	<u>\$ (58,000)</u>

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 two reportable segments, engineering services and public finance 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 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.



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	Other Operating Segments	Unallocated Corporate	Intersegment	Consolidated Total
<b>Fiscal Year 2003</b>						
Contract revenue	\$ 45,497,000	\$ 8,987,000	\$ —	\$ 1,000	\$ —	\$ 54,485,000
Depreciation and amortization	536,000	220,000	—	109,000	—	865,000
Interest expense	32,000	(7,000)	—	341,000	—	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)	—	2,852,000
Segment assets	16,673,000	6,766,000	—	7,672,000	(9,651,000)	21,460,000
<b>Fiscal Year 2004</b>						
Contract revenue	48,610,000	9,647,000	—	6,000	—	58,263,000
Depreciation and amortization	660,000	247,000	—	149,000	—	1,056,000
Interest expense	7,000	3,000	—	262,000	—	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)	—	3,772,000
Segment assets	19,754,000	8,236,000	—	8,356,000	(13,123,000)	23,223,000
<b>Fiscal Year 2005</b>						
Contract revenue	56,899,000	10,264,000	90,000	10,000	—	67,263,000
Depreciation and amortization	789,000	252,000	5,000	211,000	—	1,257,000
Interest expense	358,000	3,000	12,000	257,000	—	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) <sup>(1)</sup>	—	(646,000)
Segment assets	29,757,000	9,013,000	97,000	13,385,000	(19,455,000)	32,797,000

(1) The Company included 100% of the stock-based compensation expense recorded in anticipation of the IPO in Unallocated Corporate.

## 10. CONTINGENCIES

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. Except as discussed below, Company management is unaware of any claims or lawsuits against the Company.

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.

## 11. SUBSEQUENT EVENTS

### *Stockholder Distribution*

In April 2006, we made a distribution to our stockholders of approximately \$2.3 million.

### *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 \$2.25 million in coverage. In June 2006, the proceeds from the \$250,000 policy were received by the Company. In July 2006, the Company received the proceeds from the \$2 million policy.

### *Litigation*

In the third 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 recover that amount for purposes of the Company's insurance coverage and deductible for that policy year. As a result, the Company expects 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.

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Shares



# WILLDAN GROUP, INC.

Common Stock

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PROSPECTUS

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**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.

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**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	\$	3,077
NASD filing fee		3,375
Nasdaq Global Market listing fee		5,000
Printing and engraving expenses		*
Legal fees and expenses		*
Accounting fees and expenses		*
Blue Sky fees and expenses (including legal fees)		10,000
Transfer agent and registrar fees and expenses		*
Miscellaneous		*
<i>Total</i>	\$	*

\* To be filed by amendment.

**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 employees of our various subsidiaries for an aggregate purchase price of \$18,277 (or \$3.73 per share).

From August 2005 thru October 2005 we issued an aggregate of 953,500 shares of our common stock to 59 employees of our various subsidiaries for an aggregate purchase price of \$3,556,555 (or \$3.73 per share).

With respect to the transactions in 2005 and 2006, the offer and sale of 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. 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 as of 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 thru August 2004 we issued an aggregate of 208,400 shares of our common stock to 33 management level employees of our various subsidiaries for an aggregate purchase price of \$611,133 (or \$2.93 per share). The number of shares and per share price have been adjusted to give effect to the stock dividend on January 1, 2005. The issuance of common stock was deemed to be exempt from registration under the Securities Act in reliance on Section 4(2) of the Securities Act as transactions by an issuer not involving any public offering.

From May 2003 thru August 2003, we issued an aggregate of 179,600 shares of our common stock to 33 management level employees of our various subsidiaries for an aggregate purchase price of \$393,773 (or \$2.19 per share). The number of shares and per share price have been adjusted to give effect to the stock dividend on January 1, 2005. The issuance of common stock was deemed to be exempt from registration under the Securities Act in reliance on Section 4(2) of the Securities Act as transactions by an issuer not involving any public offering.

#### **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, 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 August 9, 2006.

WILLDAN GROUP, INC.

By: \_\_\_\_\_ /s/ WIN WESTFALL

Win Westfall

**President, Chief Executive Officer and Director**

**SIGNATURES AND POWER OF ATTORNEY**

We, the undersigned directors and officers of Willdan Group, Inc. (the "Company"), hereby severally constitute and appoint Win Westfall and Mallory McCamant, and each of them singly, our true and lawful attorneys, with full power to them, and to each of them singly, to sign for us and in our names in the capacities indicated below, the registration statement on Form S-1 filed herewith, and any and all pre-effective and post-effective amendments to said registration statement, and any registration statement filed pursuant to Rule 462(b) under the Securities Act of 1933, as amended, in connection with the registration under the Securities Act of 1933, as amended, of equity securities of the Company, and to file or cause to be filed the same, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as each of them might or could do in person, and hereby ratifying and confirming all that said attorneys, and each of them, or their substitute or substitutes, shall do or cause to be done by virtue of this Power of Attorney.

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 August 9, 2006:

<u>Signature</u>	<u>Title(s)</u>
_____ /s/ WIN WESTFALL	_____ President, Chief Executive Officer and Director (Principal Executive Officer)
_____ Win Westfall	
_____ /s/ MALLORY MCCAMANT	_____ Chief Financial Officer (Principal Financial and Accounting Officer)
_____ Mallory McCamant	
_____ /s/ LINDA HEIL	_____ Director
_____ Linda Heil	
_____ /s/ W. TRACY LENOCKER	_____ Director
_____ W. Tracy Lenocker	
_____ /s/ RICHARD KOPECKY	_____ Director
_____ Richard Kopecky	
_____ /s/ ANTHONY GONSALVES	_____ Director
_____ Anthony Gonsalves	



## EXHIBIT INDEX

Number	Description
1.1*	Form of Underwriting Agreement
3.1	Amended and Restated Certificate of Incorporation of the Registrant
3.2	Amended and Restated By-laws of the Registrant
4.1*	Specimen Stock Certificate for shares of the Registrant's Common Stock
5.1*	Opinion of Snell & Wilmer L.L.P.
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
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.
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
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
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.
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
10.7	Willdan Associates Incentive Bonus Plan, effective May 1, 1996
10.8	MuniFinancial 2005 Bonus Plan
10.9	Form of Tax Agreement Relating to S Corporation Distributions by the Registrant and its shareholders
10.10	Willdan Group, Inc. 2006 Stock Incentive Plan
10.11	Form of Incentive Stock Option Agreement
10.12	Form of Non-Qualified Stock Option Agreement
10.13	Willdan Group, Inc. 2006 Employee Stock Purchase Plan
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
10.15	Form of Indemnification Agreement between the Registrant and its Directors and Officers
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

- 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
- 10.18 Employment Agreement (Re-stated) between the Registrant and Mallory McCamant dated August 1, 2006
- 10.19\* Form of Warrant Agreement to be entered into between the Registrant and Wedbush Morgan Inc.
- 21.1 List of Subsidiaries of Registrant
- 23.1\* Consent of Snell & Wilmer L.L.P. (included in Exhibit 5.1)
- 23.2 Consent of KPMG LLP
- 24.1 Power of Attorney (included in page II-5)

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\* To be filed by amendment.

## QuickLinks

[TABLE OF CONTENTS](#)

[PROSPECTUS SUMMARY](#)

[RISK FACTORS](#)

[FORWARD-LOOKING STATEMENTS](#)

[MARKET AND INDUSTRY DATA](#)

[USE OF PROCEEDS](#)

[DIVIDEND POLICY](#)

[CAPITALIZATION](#)

[DILUTION](#)

[SELECTED CONSOLIDATED FINANCIAL AND OTHER DATA](#)

[MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS](#)

[BUSINESS](#)

[Projected Changes in State Populations: 2000 to 2030](#)

[Federal Department of Homeland Security Grant Program—Fiscal Year 2006](#)

[MANAGEMENT](#)

[Summary Compensation Table](#)

[CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS](#)

[PRINCIPAL AND SELLING STOCKHOLDERS](#)

[DESCRIPTION OF CAPITAL STOCK](#)

[SHARES ELIGIBLE FOR FUTURE SALE](#)

[UNDERWRITING](#)

[LEGAL MATTERS](#)

[EXPERTS](#)

[WHERE YOU CAN FIND MORE INFORMATION](#)

[WILLDAN GROUP, INC. INDEX TO CONSOLIDATED FINANCIAL STATEMENTS](#)

[REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM](#)

[WILLDAN GROUP, INC. AND SUBSIDIARIES \(Successor to The Willdan Group of Companies and Subsidiaries\) Consolidated Balance Sheets](#)

[WILLDAN GROUP, INC. AND SUBSIDIARIES \(Successor to The Willdan Group of Companies and Subsidiaries\) Consolidated Statements of Operations](#)

[WILLDAN GROUP, INC. AND SUBSIDIARIES \(Successor to The Willdan Group of Companies and Subsidiaries\) Consolidated Statements of Stockholders'](#)

[Equity](#)

[WILLDAN GROUP, INC. AND SUBSIDIARIES \(Successor to The Willdan Group of Companies and Subsidiaries\) Consolidated Statements of Cash Flows](#)

[WILLDAN GROUP, INC. AND SUBSIDIARIES \(Successor to The Willdan Group of Companies and Subsidiaries\) Notes to the Consolidated Financial](#)

[Statements](#)

[PART II INFORMATION NOT REQUIRED IN PROSPECTUS](#)

[SIGNATURES](#)

[SIGNATURES AND POWER OF ATTORNEY](#)

[EXHIBIT INDEX](#)

**FIRST  
AMENDED AND RESTATED  
CERTIFICATE OF INCORPORATION  
OF  
WILLDAN GROUP, INC.**

The name of the corporation is Willdan Group, Inc.

The original Certificate of Incorporation was filed with the Secretary of State of the State of Delaware on February 13, 2006 (the "*Original Certificate*").

This First Amended and Restated Certificate of Incorporation has been duly adopted in accordance with Sections 242 and 245 of the General Corporation Law of the State of Delaware and amends, restates, and integrates the provisions of the Original Certificate and, upon filing with the Secretary of State in accordance with Sections 103 and 242, shall thenceforth supersede the Original Certificate and shall, as it may thereafter be amended in accordance with its terms and applicable law, be the First Amended and Restated Certificate of Incorporation of Willdan Group, Inc.

The text of the Original Certificate is hereby amended and restated to read in its entirety as follows:

**ARTICLE I**

The name of the corporation is Willdan Group, Inc. (the "*Corporation*").

**ARTICLE II**

Registered Office and Registered Agent

The address of the registered office of the Corporation in the State of Delaware is 2711 Centerville Road, Suite 400, City of Wilmington, County of New Castle, Delaware 19808. The name of the registered agent of the Corporation at such address is Corporation Service Company.

**ARTICLE III**

Corporate Purpose

The purpose of the Corporation is to engage in any lawful act or activity for which Corporations may be organized under the General Corporation Law of the State of Delaware (the "*General Corporation Law*").

**ARTICLE IV**

Capital Stock

Section 1. *Shares, Classes and Series Authorized*

The total number of shares of all classes of capital stock which the Corporation shall have authority to issue is Fifty Million (50,000,000) shares, of which Forty Million (40,000,000) shares shall be Common Stock and shall have a par value of \$0.01 per share (hereinafter called "Common Stock") and Ten Million (10,000,000) shares shall be Preferred Stock and shall have a par value of \$0.01 per share (hereinafter called "Preferred Stock").

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Section 2. *Description of Capital Stock*

The following is a description of each of the classes of capital stock which the Corporation has authority to issue with the designations, preferences, voting powers and participating, optional or other special rights and the qualifications, limitations or restrictions thereof:

(a) *Rights and Restrictions of Preferred Stock*

Authority is hereby expressly vested in the Board of Directors of the Corporation (the "Board"), subject to the provisions of this Article IV and to the limitations prescribed by law, without stockholder action, to authorize the issue from time to time of one or more series of Preferred Stock and with respect to each such series to fix by resolution or resolutions adopted by the affirmative vote of a majority of the whole Board providing for the issue of such series the voting powers, full or limited, if any, of the shares of such series and the designations, preferences and relative, participating, optional or other special rights and the qualifications, limitations or restrictions thereof. The authority of the Board with respect to each series shall include, but not be limited to, the determination or fixing of the following:

(i) The designation of such series.

(ii) The dividend rate of such series, the conditions and dates upon which such dividends shall be payable, the relation which such dividends shall bear to the dividends payable on any other class or classes or series of the Corporation's capital stock, and whether such dividends shall be cumulative or non-cumulative.

(iii) Whether the shares of such series shall be subject to redemption for cash, property or rights, including securities of the Corporation or of any other Corporation, by the Corporation at the option of either the Corporation or the holder or both or upon the happening of a specified event, and, if made subject to any such redemption, the times or events, prices and other terms and conditions of such redemption.

(iv) The terms and amount of any sinking fund provided for the purchase or redemption of the shares of such series.

(v) Whether or not the shares of such series shall be convertible into, or exchangeable for, at the option of either the holder or the Corporation or upon the happening of a specified event, shares of any other class or classes or of any other series of the same or any other class or classes of the Corporation's capital stock, and, if provision be made for conversion or exchange, the times or events, prices, rates, adjustments and other terms and conditions of such conversions or exchanges.

(vi) The restrictions, if any, on the issue or reissue of any additional Preferred Stock.

(vii) The rights of the holders of the shares of such series upon the voluntary or involuntary liquidation, dissolution or winding-up of the Corporation.

(viii) The provisions as to voting (which may be one or more votes per share or a fraction of a vote per share), optional and/or other special rights and preferences, if any.

For all purposes, this Certificate of Incorporation shall include each certificate of designations (if any) setting forth the terms of a series of Preferred Stock.

(b) *Rights and Restrictions of Common Stock*

The powers, preferences, rights, qualifications, limitations or restrictions thereof in respect to the Common Stock are as follows:

(i) The Common Stock is junior to the Preferred Stock and is subject to all the powers, rights, privileges, preferences and priorities of the Preferred Stock as set forth herein, or in any resolution or

resolutions adopted by the Board pursuant to authority expressly vested in it by the provisions of Section 2 of this Article IV.

(ii) The Common Stock shall have voting rights for the election of directors and for all other purposes, each holder of Common Stock being entitled to one vote for each share thereof held by such holder, except as otherwise required by law.

(iii) Subject to the rights of the holders of any series of Preferred Stock, holders of Common Stock shall be entitled to receive such dividends and distributions (whether payable in cash or otherwise) as may be declared on the shares of Common Stock by the Board from time to time out of assets or funds of the Corporation legally available therefor.

(iv) Subject to the rights of the holders of any series of Preferred Stock, in the event of any liquidation, dissolution or winding-up of the Corporation (whether voluntary or involuntary), the assets of the Corporation available for distribution to stockholders shall be distributed in equal amounts per share to the holders of Common Stock.

(c) *Increase or Decrease in Amount of Authorized Shares*

The number of authorized shares of any class or classes of capital stock of the Corporation may be increased or decreased by an amendment to this Certificate of Incorporation authorized by the affirmative vote of the holders of a majority of the shares of the Common Stock outstanding and entitled to vote thereon and, except as expressly provided in this Certificate of Incorporation or in any resolution or resolutions adopted by the Board pursuant to authority expressly vested in it by the provisions of Section 2 of this Article IV with respect to the Preferred Stock and except as otherwise provided by law, no vote by holders of capital stock of the Corporation other than the Common Stock shall be required to approve such action.

## ARTICLE V

### Limitation of Directors' Liability; Indemnification by Corporation; Insurance

#### Section 1. *Limitation of Directors' Liability*

(1) No director of the Corporation shall be personally liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, except, to the extent provided by applicable law, for liability (i) for breach of the director's duty of loyalty to the Corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) pursuant to Section 174 of the Delaware General Corporation Law or (iv) for any transaction from which the director derived an improper personal benefit. If the Delaware General Corporation Law is hereafter amended to authorize corporate action further limiting or eliminating the personal liability of directors, then the liability of each director of the Corporation shall be limited or eliminated to the full extent permitted by the Delaware General Corporation Law as so amended from time to time.

(a) Neither the amendment nor repeal of this Section 1, nor the adoption of any provision of this Certificate of Incorporation inconsistent with this Section 1, shall eliminate or reduce the effect of this Section 1, in respect of any matter occurring, or any cause of action, suit or claim that, but for this Section 1, would accrue or arise, prior to such amendment, repeal or adoption of an inconsistent provision.

#### Section 2. *Indemnification by Corporation*

To the fullest extent permitted by applicable law, the Corporation is authorized to provide indemnification of and advancement of expenses to directors, officers and agents of the Corporation, through Bylaw provisions, agreements with such agents or other persons, vote of stockholders or

disinterested directors or otherwise, in excess of the indemnification and advancement otherwise permitted by Section 145 of the General Corporation Law, both as to action in an official capacity and as to action in another capacity while holding such office. The rights to indemnify hereunder shall continue as to a person who has ceased to be a director, officer, employee, or agent and shall inure to the benefit of heirs, executors, and administrators of the person. Nothing contained in this Section 2 shall affect any right to indemnification to which persons other than such directors and officers may be entitled by contract or otherwise. Notwithstanding the foregoing, the person seeking indemnification shall have the burden to establish a right to indemnification.

### Section 3. *Insurance*

The 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, trustee, 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 such person's status as such, whether or not the Corporation would have the power to indemnify such person against such liability under the provisions of Section 145 of the General Corporation Law.

## ARTICLE VI

### Denial of Preemptive Rights

No holder of any class of capital stock of the Corporation, whether now or hereafter authorized, shall be entitled, as such, as a matter of right, to subscribe for or purchase any part of any new or additional issues of capital stock of the Corporation of any class whatsoever, or of securities convertible into or exchangeable for capital stock of the Corporation of any class whatsoever, whether now or hereafter authorized, or whether issued for cash, property or services.

## ARTICLE VII

### Amendment

The Corporation reserves the right to amend, alter, change or repeal any provisions contained in this Certificate of Incorporation in the manner now or hereafter prescribed by law, and all the provisions of this Certificate of Incorporation and all rights and powers conferred in this Certificate of Incorporation on stockholders, directors and officers are subject to this reserved power, *provided* that the affirmative vote of the holders of record of outstanding shares representing at least 75% of the voting power of all of the shares of capital stock of the Corporation then entitled to vote generally in the election of directors, voting together as a single class, shall be required to amend, alter, change, or repeal any provision of, or to adopt any provision or provisions inconsistent with, Section 2(A) of Article IV, Article V, this Article VII or Article IX of this Certificate of Incorporation unless a majority of the Board has previously authorized such amendment, alteration, repeal or adoption of any inconsistent provision or provisions.

**ARTICLE VIII**

Bylaws

The Board shall have the power to adopt, amend or repeal Bylaws of the Corporation, subject to any vote of stockholders required by law, this Certificate of Incorporation, the Bylaws of the Corporation, or any agreement with a national securities exchange or otherwise. The stockholders shall have the authority to adopt, amend or repeal the Bylaws of the Corporation by the affirmative vote of not less than 75% of the voting power of all outstanding shares of capital stock of the Corporation entitled to vote on such matter, voting together as a single class, subject to any additional vote of stockholders required by law, this Certificate of Incorporation, the Bylaws of the Corporation, or any agreement with a national securities exchange or otherwise.

IN WITNESS WHEREOF, said corporation has caused this certificate to be signed this 4th day of August, 2006.

By: /s/ ROY L. GILL

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Roy L. Gill  
Secretary



## QuickLinks

[Exhibit 3.1](#)

[FIRST AMENDED AND RESTATED CERTIFICATE OF INCORPORATION OF WILLDAN GROUP, INC.](#)

[ARTICLE I](#)

[ARTICLE II](#)

[ARTICLE III](#)

[ARTICLE IV](#)

[ARTICLE V](#)

[ARTICLE VI](#)

[ARTICLE VII](#)

[ARTICLE VIII](#)

**AMENDED AND RESTATED BYLAWS  
OF  
WILLDAN GROUP, INC.  
A DELAWARE CORPORATION**

I. REFERENCES TO CERTAIN TERMS AND CONSTRUCTION

1.01. *Certain References.* Any reference herein made to law will be deemed to refer to the law of the State of Delaware, including any applicable provision of Chapter 1 of Title 8 of the Delaware Statutes, or any successor statutes, as from time to time amended and in effect (sometimes referred to herein as the "Delaware General Corporation Law"). Any reference herein made to the corporation's Certificate will be deemed to refer to its Certificate of Incorporation and all amendments thereto as at any given time on file with the Delaware Secretary of State (any reference herein to that office being intended to include any successor to the incorporating and related functions being performed by that office at the date of the initial adoption of these Bylaws). Except as otherwise required by law, the term "stockholder" as used herein shall mean one who is a holder of record of shares of the corporation.

1.02. *Seniority.* The law and the Certificate (in that order of precedence) will in all respects be considered senior and superior to these Bylaws, with any inconsistency to be resolved in favor of the law and such Certificate (in that order of precedence), and with these Bylaws to be deemed automatically amended from time to time to eliminate any such inconsistency which may then exist.

1.03. *Computation of Time.* The time during which an act is required to be done, including the time for the giving of any required notice herein, shall be computed by excluding the first day or hour, as the case may be, and including the last day or hour.

II. OFFICES

2.01. *Principal Office.* The principal office or place of business of the corporation in the State of Delaware shall be the registered office of the corporation in the State of Delaware. The corporation may change its registered office from time to time in accordance with the relevant provisions of the Delaware General Corporation Law. The corporation may have such other offices, either within or without the State of Delaware, as the Board of Directors may designate or as the business of the corporation may require from time to time.

III. STOCKHOLDERS

3.01. *Annual Stockholder Meeting.* The annual meeting of the stockholders shall be held at such time and place, either within or without the State of Delaware, as shall be fixed by the Board of Directors or, in the absence of action by the Board, as set forth in the notice given or waiver signed with respect to such meeting pursuant to Section 3.03 below, for the purpose of electing directors and for the transaction of such other business as may properly come before the meeting. If any annual meeting is for any reason not held on the date determined as aforesaid, a deferred annual meeting may thereafter be called and held in lieu thereof, at which the same proceedings may be conducted. If the day fixed for the annual meeting shall be a legal holiday in the State of Delaware such meeting shall be held on the next succeeding business day.

3.02. *Special Stockholder Meetings.* Special meetings of stockholders may be called at any time by the Board of Directors or by the President, and shall be called by the President or Secretary at the

written request of stockholders owning at least twenty-five percent (25%) of the shares of the Corporation then outstanding and entitled to vote.

3.03. *Notice of Stockholders Meetings.*

(a) *Required Notice.* Except as otherwise allowed or required by law, written notice stating the place, day and hour of any annual or special stockholders meeting shall be given not less than ten (10) nor more than sixty (60) days before the date of the meeting by or at the direction of the person or persons calling the meeting, to each stockholder entitled to vote at such meeting and to any other stockholder entitled to receive notice of the meeting by law or the Certificate. Such notice may be given either personally or by sending a copy thereof through the mail, by telegraph, by private delivery service (including overnight courier), or by facsimile transmission, charges prepaid, to each stockholder at his/her address as it appears on the records of the corporation. If the notice is sent by mail, by telegraph or by private delivery service, it shall be deemed to have been given to the person entitled thereto when deposited in the United States mail or with a telegraph office or private delivery service, in each case with charges prepaid, for transmission to such person. If the notice is sent by facsimile transmission, it shall be deemed to have been given upon transmission, if transmission occurs before 12:00 noon at the place of receipt, and upon the day following transmission, if transmission occurs after 12:00 noon.

(b) *Adjourned Meeting.* If any stockholders' meeting is adjourned to a different date, time, or place, notice need not be given of the new date, time, and place, if the new date, time, and place are announced at the meeting at which the adjournment is taken. But if the adjournment is for more than thirty (30) days, or if after the adjournment a new record date is fixed for the adjourned meeting, then notice of the adjourned meeting shall be given to each stockholder of record entitled to such notice pursuant to Section 3.03(a) above.

(c) *Waiver of Notice.* Any stockholder may waive notice of a meeting (or any notice of any other action required to be given by the Delaware General Corporation Law, the corporation's Certificate, or these Bylaws), at any time before, during, or after the meeting or other action, by a writing signed by the stockholder entitled to the notice or a waiver by electronic transmission by the person entitled to notice. Each such waiver shall be delivered to the corporation for inclusion in the minutes or filing with the corporate records. Attendance of a stockholder at a meeting shall constitute a waiver of notice of the meeting, except when the stockholder attends a meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened.

(d) *Contents of Notice.* The notice of each special stockholders meeting shall include a description of the purpose or purposes for which the meeting is called. Except as required by law or the corporation's Certificate, the notice of an annual stockholders meeting need not include a description of the purpose or purposes for which the meeting is called.

(e) *Electronic Transmission.* Without limiting the foregoing provisions, any notice given to stockholders under this section shall be effective if given by a form of electronic transmission consented to by the stockholder to whom the notice is given. Any such consent shall be revocable by the stockholder by written notice to the corporation. Any such consent shall be deemed revoked if the corporation is unable to deliver by electronic transmission two consecutive notices and such inability becomes known to the Secretary of the corporation or other person responsible for the giving of notice; provided that the inadvertent failure to treat such inability as a revocation shall not invalidate any meeting or other action. Notice shall be deemed given: (i) if by facsimile, when directed to a number at which the stockholder has consented to receive notice; (ii) if by electronic mail, when directed to an electronic mail address at which the stockholder has consented to receive notice; (iii) if by a posting on an electronic network together with separate notice to the

stockholder of such specific posting, upon the later of (A) such posting and (B) the giving of such separate notice; and (iv) if by any other electronic transmission, when directed to the stockholder.

3.04. *Fixing of Record Date.* For the purpose of determining stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, or in order to make a determination of stockholders for any other proper purpose, the Board of Directors may fix a date as the record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted by the Board of Directors. In the case of determining stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, such record date shall not be more than sixty (60) days nor less than ten (10) days prior to the date of such meeting. In the case of determining stockholders entitled to receive payment of any dividend or other distribution or allotment of any rights or the stockholders entitled to exercise any rights in respect of any change, conversion or exchange of stock, or for the purpose of any other lawful action, the record date shall be not more than sixty (60) days prior to such action. If no record date is so fixed by the Board of Directors, the record date for the determination of stockholders shall be as provided in the Delaware General Corporation Law.

When a determination of stockholders entitled to notice of or to vote at any meeting of stockholders has been made as provided in this Section, such determination shall apply to any adjournment thereof, unless the Board of Directors fixes a new record date.

3.05. *Stockholder List.* The officer who has charge of the stock ledger of the corporation shall make, at least ten (10) days before every meeting of stockholders, a complete list of the stockholders entitled to vote at the meeting, arranged in alphabetical order, and showing the address and the number of shares registered in the name of each. The stockholder list shall be available for inspection by any stockholder, for any purpose germane to the meeting for a period of at least ten (10) days prior to the meeting: (i) on a reasonably accessible electronic network, provided that the information required to gain access to such list is provided with the notice of the meeting, or (ii) during ordinary business hours, at the principal place of business of the corporation. If the meeting is to be held at a place, then the list shall also be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any stockholder who is present. If the meeting is to be held solely by means of remote communication, then the list shall also be open to the examination of any stockholder during the whole time of the meeting on a reasonably accessible electronic network, and the information required to access such list shall be provided with the notice of the meeting. Except as otherwise provided by law, failure to comply with this section shall not affect the validity of any action taken at the meeting.

3.06. *Stockholder Quorum and Voting Requirements.* Unless otherwise provided in the Certificate or required by law,

- (a) a majority of the shares entitled to vote, present in person or represented by proxy, shall constitute a quorum at a meeting of stockholders;
- (b) in all matters other than the election of directors, the affirmative vote of the majority of shares present in person or represented by proxy at a meeting and entitled to vote on the subject matter shall be at the act of the stockholders;
- (c) directors shall be elected by a plurality of the votes of the shares present in person or represented by proxy at a meeting and entitled to vote on the election of directors; and
- (d) where a separate vote by a class or classes is required, a majority of the outstanding shares of such class or classes, present in person or represented by proxy, shall constitute a quorum entitled to take action with respect to that vote on that matter and the affirmative vote of the majority of shares of such class or classes present in person or represented by proxy at the meeting shall be the act of such class.

Except as provided below, voting will be by ballot on any question as to which a ballot vote is demanded prior to the time the voting begins by any person entitled to vote on such question; otherwise, a voice vote will suffice. No ballot or change of vote will be accepted after the polls have been declared closed following the ending of the announced time for voting.

3.07. *Proxies.* At all meetings of stockholders, a stockholder may vote in person or by proxy duly executed in writing by the stockholder or the stockholder's duly authorized attorney-in-fact. Such proxy shall comply with law and shall be filed with the Secretary of the corporation or other person authorized to tabulate votes before or at the time of the meeting. No proxy shall be valid after three (3) years from the date of its execution unless otherwise provided in the proxy. The burden of proving the validity of any undated, irrevocable, or otherwise contested proxy at a meeting of the stockholders will rest with the person seeking to exercise the same. If authorized by the Board of Directors, any requirement of a written ballot shall be satisfied by a ballot submitted by electronic transmission transmitted by a stockholder or by such stockholder's duly authorized attorney-in-fact, provided that any such electronic transmission must either set forth or be submitted with information from which it can be determined that the electronic transmission was authorized by the stockholder or the proxy holder.

3.08. *Voting of Shares.* Unless otherwise provided in the Certificate or the Delaware General Corporation Law, each outstanding share entitled to vote shall be entitled to one (1) vote upon each matter submitted to a vote at a meeting of stockholders.

3.09. *Election Inspectors.* The Board of Directors, in advance of any meeting of the stockholders, may, and shall if required by law, appoint an election inspector or inspectors to act at such meeting (and at any adjournment thereof). If an election inspector or inspectors are not so appointed, the chairman of the meeting may, and shall if required by law, make such appointment. If any person appointed as an inspector fails to appear or to act, a substitute may be appointed by the chairman of the meeting. If appointed, the election inspector or inspectors (acting through a majority of them if there be more than one) will determine the number of shares outstanding, the authenticity, validity, and effect of proxies, the credentials of persons purporting to be stockholders or persons named or referred to in proxies, and the number of shares represented at the meeting in person and by proxy; will receive and count votes, ballots, and consents and announce the results thereof; will hear and determine all challenges and questions pertaining to proxies and voting; and, in general, will perform such acts as may be required by law or proper to conduct elections and voting with complete fairness to all stockholders. No such election inspector need be a stockholder of the corporation.

3.10. *Organization and Conduct of Meetings.* Each meeting of the stockholders will be called to order and thereafter chaired by the Chairman of the Board of Directors if there is one, or, if not, or if the Chairman of the Board is absent or so requests, then by the President, or if both the Chairman of the Board and the President are unavailable, then by such other officer of the corporation or such stockholder as may be appointed by the Board of Directors. The corporation's Secretary or in his or her absence, an Assistant Secretary will act as secretary of each meeting of the stockholders. If neither the Secretary nor an Assistant Secretary is in attendance, the chairman of the meeting may appoint any person (whether a stockholder or not) to act as secretary for the meeting. After calling a meeting to order, the chairman thereof may require the registration of all stockholders intending to vote in person and the filing of all proxies with the election inspector or inspectors, if one or more have been appointed (or, if not, with the secretary of the meeting). After the announced time for such filing of proxies has ended, no further proxies or changes, substitutions, or revocations of proxies will be accepted. If directors are to be elected, a tabulation of the proxies so filed will, if any person entitled to vote in such election so requests, be announced at the meeting (or adjournment thereof) prior to the closing of the election polls. Absent a showing of bad faith on his or her part, the chairman of a meeting will, among other things, have absolute authority to fix the period of time allowed for the registration of stockholders and the filing of proxies, to determine the order of business to be

conducted at such meeting, and to establish reasonable rules for expediting the business of the meeting and preserving the orderly conduct thereof (including any informal, or question and answer portions thereof).

3.11. *Stockholder Approval or Ratification.* The Board of Directors may submit any contract or act for approval or ratification of the stockholders at a duly constituted meeting of the stockholders. Except as otherwise required by law, if any contract or act so submitted is approved or ratified by a majority of the votes cast thereon at such meeting, the same will be valid and as binding upon the corporation and all of its stockholders as it would be if it were the act of its stockholders.

3.12. *Action Without a Meeting.* No action shall be taken by the stockholders except at an annual or special meeting of stockholders called in accordance with these Bylaws, and no action shall be taken by the stockholders by written consent without a meeting.

3.13. *Informalities and Irregularities.* All informalities or irregularities in any call or notice of a meeting of the stockholders or in the areas of credentials, proxies, quorums, voting, and similar matters, will be deemed waived if no objection is made at the meeting.

#### IV. BOARD OF DIRECTORS

4.01. *General Powers.* The business and affairs of the corporation shall be managed by or under the direction of the Board of Directors.

4.02. *Number, Tenure, and Qualification of Directors.* Unless otherwise provided in the Certificate, the authorized number of directors shall be set by a resolution of the Board of Directors. The number of directors shall be fixed at five (5) until changed by the Board of Directors. The directors will regularly be elected at each annual meeting of the stockholders, but directors may be elected at any other meeting of the stockholders. Each director shall hold office until his/her successor shall have been elected and qualified or until his/her earlier resignation or removal. Unless required by the Certificate, directors do not need to be residents of the State of Delaware or stockholders of the corporation.

4.03. *Regular Meetings of the Board of Directors.* A regular annual meeting of the Board of Directors is to be held as soon as practicable after the adjournment of each annual meeting of the stockholders, either at the place of the stockholders meeting or at such other place as the directors elected at the stockholders meeting may have been informed of at or prior to the time of their election. Additional regular meetings may be held at regular intervals at such places and at such times as the Board of Directors may determine.

4.04. *Special Meetings of the Board of Directors.* Special meetings of the Board of Directors may be held whenever and wherever called for by the Chairman of the Board, the President, or the number of directors that would be required to constitute a quorum.

4.05. *Notice of, and Waiver of Notice for, Directors Meetings.* No notice need be given of regular meetings of the Board of Directors. Notice of the time and place (but not necessarily the purpose or all of the purposes) of any special meeting will be given to each director in person or by telephone, or via mail or facsimile transmission. Notice to any director of any such special meeting will be deemed given sufficiently in advance when (i), if given by mail, the same is deposited in the United States mail at least four (4) days before the meeting date, with postage thereon prepaid, (ii), if given by facsimile transmission, the same is transmitted at least 24 hours prior to the convening of the meeting, or (iii), if personally delivered (including by overnight courier) or given by telephone, the same is handed, or the substance thereof is communicated over the telephone to the director or to an adult member of his or her office staff or household, at least 24 hours prior to the convening of the meeting. Any director may waive notice of any meeting and any adjournment thereof at any time before, during, or after it is held, as provided by law. Except as provided in the next sentence below, the waiver must be in writing,

signed by the director entitled to the notice, or by electronic transmission from the person entitled to the notice, and filed with the minutes or corporate records. The attendance of a director at a meeting shall constitute a waiver of notice of such meeting, except when the person attends a meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened.

4.06. *Director Quorum.* A majority of the total number of directors then in office shall constitute a quorum for the transaction of business at any meeting of the Board of Directors, unless the Certificate requires a greater number.

4.07. *Directors, Manner of Acting.*

(a) The affirmative vote of a majority of the directors present at a meeting at which a quorum is present shall be the act of the Board of Directors unless the Certificate or these Bylaws require a greater percentage and except as otherwise required by law.

(b) Unless the Certificate provides otherwise, any or all directors may participate in a regular or special meeting by, or conduct the meeting through the use of, conference telephone or other communications equipment by means of which all persons participating in the meeting may hear each other, in which case any required notice of such meeting may generally describe the arrangements (rather than or in addition to the place) for the holding thereof. A director participating in a meeting by this means is deemed to be present in person at the meeting.

(c) A director who is present at a meeting of the Board of Directors or a committee of the Board of Directors when corporate action is taken is deemed to have assented to the action taken unless: (1) the director objects at the beginning of the meeting (or promptly upon his/her arrival) to holding it or transacting business at the meeting; or (2) his/her dissent or abstention from the action taken is entered in the minutes of the meeting; or (3) he/she delivers written notice of his/her dissent or abstention to the presiding officer of the meeting before its adjournment or to the corporation before 5:00 p.m. on the next business day after the meeting. The right of dissent or abstention is not available to a director who votes in favor of the action taken.

4.08. *Director Action Without a Meeting.* Unless the Certificate provides otherwise, any action required or permitted to be taken by the Board of Directors at a meeting may be taken without a meeting if the action is taken by unanimous consent of the Board of Directors as evidenced by one (1) or more written consents describing the action taken, signed by each director, or by electronic transmission in accordance with law, and filed with the minutes or proceedings of the Board of Directors.

4.09. *Removal of Directors by Stockholders.* Except as limited by the Certificate or by law, any director or the entire Board of Directors may be removed with or without cause, by the holders of a majority of the shares entitled to vote at an election of directors, unless the votes cast against removal of the director would be sufficient to elect the director is voted cumulatively (without regard to whether shares may otherwise be voted cumulatively) at an election at which the same total number of votes were cast, and either the number of directors elected at the most recent annual meeting of the shareholders, or if greater, the number of directors for whom removal is being sought, were then being elected.

4.10. *Board of Director Vacancies.* Unless the Certificate provides otherwise and except as otherwise provided by law, any vacancy or newly created directorship may be filled by a majority of the directors then in office, although less than a quorum, or by a sole remaining director.

4.11. *Director Compensation.* Unless otherwise provided in the Certificate, by resolution of the Board of Directors, each director may be paid his/her expenses, if any, of attendance at each meeting of the Board of Directors or any committee thereof, and may be paid a stated salary as director or a

fixed sum for attendance at each meeting of the Board of Directors or any committee thereof, or both. No such payment shall preclude any director from serving the corporation in any capacity and receiving compensation therefor.

4.12. *Director Committees.*

(a) *Creation of Committees.* Unless the Certificate provides otherwise, the Board of Directors may create one (1) or more committees and appoint members of the Board of Directors to serve on them. Each committee shall have one (1) or more members, who serve at the pleasure of the Board of Directors.

(b) *Selection of Members.* The creation of a committee and appointment of members to it shall be approved by the greater of (1) a majority of all the directors in office when the action is taken or (2) the number of directors required by the Certificate to take such action. The Board of Directors may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee. In the absence or disqualification of any member of a committee, the member or members thereof present at any meeting and not disqualified from voting, whether or not he/she or they constitute a quorum, may unanimously appoint another member of the Board of Directors to act at the meeting in the place of any such absent or disqualified member.

(c) *Required Procedures.* Sections 4.03 through 4.08 of this Article IV, which govern meetings, action without meetings, notice and waiver of notice, and quorum and voting requirements of the Board of Directors, apply to committees and their members.

(d) *Authority.* Unless limited by the Certificate and except to the extent limited by law, each committee may exercise those aspects of the authority of the Board of Directors which the Board of Directors confers upon such committee in the resolution creating the committee.

4.13. *Director Resignations.* Any director or committee member may resign from his or her office at any time by written notice or electronic transmission delivered to the corporation as required by law. Any such resignation will be effective upon its receipt unless some later time is therein fixed, and then from that time. The acceptance of a resignation will not be required to make it effective.

V. OFFICERS

5.01. *Number of Officers.* The officers of the corporation shall be a President, a Secretary and a Chief Financial Officer, each of whom shall be appointed by the Board of Directors. Such other officers and assistant officers as may be deemed necessary, including any Vice Presidents or a Chief Operating Officer, may be appointed by the Board of Directors. If specifically authorized by the Board of Directors, an officer may appoint one (1) or more other officers or assistant officers. The same individual may simultaneously hold more than one (1) office in the corporation.

5.02. *Appointment and Term of Office.* The officers of the corporation shall be appointed by the Board of Directors for a term as determined by the Board of Directors. The designation of a specified term grants to the officer no contract rights, and the Board of Directors can remove the officer at any time prior to the termination of such term. If no term is specified, an officer of the corporation shall hold office until he or she resigns, dies, or until he or she is removed in the manner provided by law or in Section 5.03 of this Article V. The regular election or appointment of officers will take place at each annual meeting of the Board of Directors, but elections of officers may be held at any other meeting of the Board.

5.03. *Resignation and Removal of Officers.* An officer may resign at any time by delivering written notice to the corporation. A resignation is effective when the notice is delivered unless the notice specifies a later effective date or event. Any officer may be removed by the Board of Directors



at any time, with or without cause. Such removal shall be without prejudice to the contract rights, if any, of the person so removed. Appointment of an officer shall not of itself create contract rights.

5.04. *Duties of Officers.* Officers of the corporation shall have authority to perform such duties as may be prescribed from time to time by law, in these Bylaws, or by the Board of Directors, the President, or the superior officer of any such officer. Each officer of the corporation (in the order designated herein or by the Board) will be vested with all of the powers and charged with all of the duties of his or her superior officer in the event of such superior officer's absence, death, or disability.

5.05. *Bonds and Other Requirements.* The Board of Directors may require any officer to give bond to the corporation (with sufficient surety and conditioned for the faithful performance of the duties of his or her office) and to comply with such other conditions as may from time to time be required of him or her by the Board of Directors.

5.06. *President.* Unless otherwise specified by resolution of the Board of Directors, the President shall be the Chief Executive Officer of the Corporation and shall, subject to the control of the Board of Directors, have general supervision, direction and control of the business and officers of the Corporation. He or she, when present, shall preside at all meetings of the stockholders and at all meetings of the Board of Directors in the absence of a Chairman of the Board. The President will be a proper officer to sign on behalf of the corporation any deed, bill of sale, assignment, option, mortgage, pledge, note, bond, evidence of indebtedness, application, consent (to service of process or otherwise), agreement, indenture, contract, or other instrument, except in each such case where the signing and execution thereof shall be expressly delegated by the Board of Directors or by these Bylaws to some other officer or agent of the corporation, or shall be required by law to be otherwise signed or executed. The President may represent the corporation at any meeting of the stockholders or members of any other corporation, association, partnership, joint venture, or other entity in which the corporation then holds shares of capital stock or has an interest, and may vote such shares of capital stock or other interest in person or by proxy appointed by him or her, provided that the Board of Directors may from time to time confer the foregoing authority upon any other person or persons.

5.07. *The Chief Operating Officer.* The Chief Operating Officer, if appointed, shall perform such senior duties in connection with the operations of the Corporation as the Board of Directors shall from time to time determine, and shall serve at the pleasure of the President. If appointed, in the absence of the President or in the event of his/her death or disability, the Chief Operating Officer shall perform all of the duties of the President, and when so acting shall have all of the powers of and be subject to all of the restrictions upon the President.

5.08. *The Executive Vice President, the Senior Vice President, and the Vice Presidents.* If appointed, in the absence of the President and the Chief Operating Officer or in the event of the death or disability of both, the Executive Vice President, the Senior Vice President or the Vice Presidents fixed as determined by the Board, shall perform all of the duties of the President, and when so acting shall have all of the powers of and be subject to all of the restrictions upon the President. The Executive Vice President, the Senior Vice President and the Vice Presidents shall have such other powers and perform such other duties as from time to time may be prescribed for them respectively by the Board of Directors, the President and by the Bylaws. The Executive Vice President, the Senior Vice President and the Vice Presidents shall serve at the pleasure of the President.

5.09. *The Secretary.* The Secretary shall: (a) keep the minutes of the proceedings of the stockholders and of the Board of Directors and any committee of the Board of Directors and all unanimous written consents of the stockholders, Board of Directors, and any committee of the Board of Directors in one (1) or more books provided for that purpose; (b) see that all notices are duly given in accordance with the provisions of these Bylaws or as required by law; (c) be custodian of the corporate records and of any seal of the corporation; (d) when requested or required, authenticate any records of the corporation; (e) keep a register of the address of each stockholder which shall be

furnished to the Secretary by such stockholder; and (f) in general perform all duties incident to the office of Secretary and such other duties as from time to time may be assigned to him/her by the President or by the Board of Directors. Except as may otherwise be specifically provided in a resolution of the Board of Directors, the Secretary will be a proper officer to take charge of the corporation's stock transfer books and to compile the voting record pursuant to Section 3.05 above, and to impress the corporation's seal, if any, on any instrument signed by the President, any Vice President, or any other duly authorized person, and to attest to the same. In the absence of the Secretary, a secretary *pro tempore* may be chosen by the directors or stockholders as appropriate to perform the duties of the Secretary.

5.10. *The Chief Financial Officer.* The Chief Financial Officer shall: (a) have charge and custody of and be responsible for all funds and securities of the corporation; (b) receive and give receipts for moneys due and payable to the corporation from any source whatsoever, and deposit all such moneys in the name of the corporation in such bank, trust companies, or other depositories as shall be selected by the Board of Directors or any proper officer; (c) keep full and accurate accounts of receipts and disbursements in books and records of the corporation; and (d) in general perform all of the duties incident to the office of Chief Financial Officer and such other duties as from time to time may be assigned to him/her by the President or by the Board of Directors. The Chief Financial Officer will render to the President, the directors, and the stockholders at proper times an account of all his or her transactions as Chief Financial Officer and of the financial condition of the corporation. The Chief Financial Officer shall be responsible for preparing and filing such financial reports, financial statements, and returns as may be required by law.

5.11. *Assistant Secretaries and Assistant Financial Officers.* The Assistant Secretaries and the Assistant Financial Officers, when authorized by the Board of Directors, may sign with the President or a Vice President certificates for shares of the corporation, the issuance of which shall have been authorized by a resolution of the Board of Directors. The Assistant Secretaries and Assistant Financial Officers, in general, shall perform such duties as shall be assigned to them by the Secretary or the Chief Financial Officer, respectively, or by the President or the Board of Directors.

5.12. *Chairman of the Board.* The Board of Directors may elect a Chairman to serve as a general executive officer of the corporation, and, if specifically designated as such by the Board of Directors, as the President of the corporation. If elected, the Chairman will preside at all meetings of the Board of Directors and be vested with such other powers and duties as the Board of Directors may from time to time delegate to him or her.

5.13. *Salaries.* The salaries of the executive officers of the corporation shall be fixed from time to time by the Board of Directors or the Compensation Committee as required by law or regulation. No officer will be prevented from receiving a salary by reason of the fact that he or she is also a director of the corporation.

5.14. *Additional Appointments.* In addition to the officers contemplated in this Article V, the Board of Directors may appoint other agents of the corporation with such authority to perform such duties as may be prescribed from time to time by the Board of Directors.

## VI. CERTIFICATES FOR SHARES AND THEIR TRANSFER

### 6.01. *Certificates for Shares.*

(a) *Content.* Certificates representing shares of the corporation shall, at a minimum, state on their face the name of the issuing corporation and that it is formed under the laws of the State of Delaware, the name of the person to whom issued, and the number and class of shares and the designation of the series, if any, the certificate represents. Such certificates shall be signed (either manually or by facsimile to the extent allowable by law) by any of the Chairman of the Board (if any), the President, or any Vice President and by the Secretary or any assistant secretary or the Chief Financial Officer or any Assistant Financial Officer of the corporation, and may be sealed with a corporate seal or a facsimile thereof. Each certificate for shares shall be consecutively numbered or otherwise identified and will exhibit such information as may be required by law. If a supply of unissued certificates bearing the facsimile signature of a person remains when that person ceases to hold the office of the corporation indicated on such certificates or ceases to be the transfer agent or registrar of the corporation, they may still be issued by the corporation and countersigned, registered, issued, and delivered by the corporation's transfer agent and/or registrar thereafter, as though such person had continued to hold the office indicated on such certificate.

(b) *Legend as to Class or Series.* If the corporation is authorized to issue different classes of shares or different series within a class, the powers, designations, preferences, and relative, participating, optional, or other special rights applicable to each class or series and the qualifications, limitations, or restrictions of such preference and/or rights shall be set forth in full or summarized on the front or back of each certificate as required by law. Alternatively, each certificate may state on its front or back that the corporation will furnish a stockholder this information on request and without charge.

(c) *Stockholder List.* The name and address of the person to whom shares are issued, with the number of shares and date of issue, shall be entered on the stock transfer books of the corporation.

(d) *Lost Certificates.* In the event of the loss, theft, or destruction of any certificate representing shares of the corporation or of any predecessor corporation, the corporation may issue (or, in the case of any such shares as to which a transfer agent and/or registrar have been appointed, may direct such transfer agent and/or registrar to countersign, register, and issue) a new certificate, and cause the same to be delivered to the registered owner of the shares represented thereby; provided that such owner shall have submitted such evidence showing the circumstances of the alleged loss, theft, or destruction, and his, her, or its ownership of the certificate, as the corporation considers satisfactory, together with any other facts that the corporation considers

pertinent; and further provided that, if so required by the corporation, the owner shall provide a bond or other indemnity in form and amount satisfactory to the corporation (and to its transfer agent and/or registrar, if applicable).

6.02. *Registration of the Transfer of Shares.* Registration of the transfer of shares of the corporation shall be made only on the stock transfer books of the corporation. In order to register a transfer, the record owner shall surrender the shares to the corporation for cancellation, properly endorsed by the appropriate person or persons with reasonable assurances that the endorsements are genuine and effective. Unless the corporation has established a procedure by which a beneficial owner of shares held by a nominee is to be recognized by the corporation as the owner, the corporation will be entitled to treat the registered owner of any share of the capital stock of the corporation as the absolute owner thereof and, accordingly, will not be bound to recognize any beneficial, equitable, or other claim to, or interest in, such share on the part of any other person, whether or not it has notice thereof, except as may expressly be provided by applicable law, including as may be contemplated by Title 6, Subtitle I, Article 8 of the Delaware code (or any comparable successor statutes), as in effect from time to time.

6.03. *Shares Without Certificates.* The Board of Directors may authorize the issuance of uncertificated shares by the corporation and may prescribe procedures for the issuance and registration of transfer thereof and with respect to such other matters as the Board of Directors shall deem necessary or appropriate.

## VII. DISTRIBUTIONS

7.01. *Distributions.* Subject to such restrictions or requirements as may be imposed by applicable law or the corporation's Certificate or as may otherwise be binding upon the corporation, the Board of Directors may from time to time declare, and the corporation may pay or make, dividends or other distributions to its stockholders.

## VIII. CORPORATE SEAL

8.01. *Corporate Seal.* The Board of Directors may provide for a corporate seal of the corporation that will have inscribed thereon any designation including the name of the corporation, Delaware as the state of incorporation, the year of incorporation, and the words "Corporate Seal."

## IX. INDEMNIFICATION AND INSURANCE

9.01. *Indemnification.* (a) The Corporation shall 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) by reason of the fact that 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), judgments, fines and amounts paid in settlement actually and reasonably incurred by the person in connection with such action, suit or proceeding if the person acted in good faith and in a manner the person 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 the person's conduct was unlawful. The termination of any action, suit or proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent, shall not, of itself, create a presumption that the person did not act in good faith and in a manner which the person 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 reasonable cause to believe that the person's conduct was unlawful.

(b) The Corporation shall 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 by or in the right of the Corporation to procure a judgment in its favor by reason of the fact that 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 the person acted in good faith and in a manner the person reasonably believed to be in or not opposed to the best interests of the Corporation and except that no indemnification shall be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable to the Corporation unless and only to the extent that the Court of Chancery of the State of Delaware or the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which the Court of Chancery or such other court shall deem proper.

(c) To the extent that a present or former director or officer of the Corporation has been successful on the merits or otherwise in defense of any action, suit or proceeding referred to in Sections 9.01(a) and (b) of these Bylaws, or in defense of any claim, issue or matter therein, such person shall be indemnified against expenses (including attorneys' fees) actually and reasonably incurred by such person in connection therewith.

(d) Any indemnification under Sections 9.01(a) and (b) of these Bylaws (unless ordered by a court) shall be made by the Corporation only as authorized in the specific case upon a determination that indemnification of the present or former director, officer, employee or agent is proper in the circumstances because the person has met the applicable standard of conduct set forth in Sections 9.01(a) and (b) of these Bylaws. Such determination shall be made, with respect to a person who is a director or officer at the time of such determination, (i) by a majority vote of the directors who are not parties to such action, suit or proceeding, even though less than a quorum, or (ii) by a committee of such directors designated by majority vote of such directors, even though less than a quorum, or (iii) if there are no such directors, or if such directors so direct, by independent legal counsel in a written opinion, or (iv) by the stockholders of the Corporation.

(e) Expenses (including attorneys' fees) incurred by an officer or director in defending any civil, criminal, administrative or investigative action, suit or proceeding may be paid by the Corporation in advance of the final disposition of such action, suit or proceeding upon receipt of an undertaking by or on behalf of such director or officer to repay such amount if it shall ultimately be determined that such person is not entitled to be indemnified by the Corporation pursuant to this Article IX. Such expenses (including attorneys' fees) incurred by former directors and officers or other employees and agents may be so paid upon such terms and conditions, if any, as the Corporation deems appropriate.

(f) The indemnification and advancement of expenses provided by, or granted pursuant to, the other Sections of this Article IX shall not be deemed exclusive of any other rights to which those seeking indemnification or advancement of expenses may be entitled under any law, bylaw, agreement, vote of stockholders or disinterested directors or otherwise, both as to action in such person's official capacity and as to action in another capacity while holding such office.

(g) For purposes of this Article IX, references to "the Corporation" shall include, in addition to the resulting corporation, any constituent corporation (including any constituent of a constituent) absorbed in a consolidation or merger which, if its separate existence had continued, would have had power and authority to indemnify its directors, officers, and employees or agents

so that any person who is or was a director, officer, employee or agent of such constituent corporation, or is or was serving at the request of such constituent corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, shall stand in the same position under the provisions of this Article IX with respect to the resulting or surviving corporation as such person would have with respect to such constituent corporation if its separate existence had continued.

(h) For purposes of this Article IX, references to "other enterprises" shall include employee benefit plans; references to "fines" shall include any excise taxes assessed on a person with respect to an employee benefit plan; and references to "serving at the request of the Corporation" shall include any service as a director, officer, employee or agent of the Corporation which imposes duties on, or involves service by, such director, officer, employee or agent with respect to an employee benefit plan, its participants, or beneficiaries; and a person who acted in good faith and in a manner such person reasonably believed to be in the interest of the participants and beneficiaries of an employee benefit plan shall be deemed to have acted in a manner "not opposed to the best interests of the Corporation" as referred to in this Article IX.

(i) The indemnification and advancement of expenses provided by, or granted pursuant to, this Article IX shall, unless otherwise provided when authorized or ratified, continue as to a person who has ceased to be a director, officer, employee or agent and shall inure to the benefit of the heirs, executors and administrators of such a person.

9.02 *Insurance for Indemnification.* The 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 such person's status as such, whether or not the Corporation would have the power to indemnify such person against such liability under the provisions of Section 145 of the General Corporation Law.

## X. AMENDMENTS

10.01. *Amendments.* If the Certificate so provides, the corporation's Board of Directors may amend or repeal the corporation's Bylaws unless the Certificate or the Delaware General Corporation Law reserve any particular exercise of this power exclusively to the stockholders in whole or part. The corporation's stockholders may amend or repeal the corporation's Bylaws even though the Bylaws may also be amended or repealed by its Board of Directors.

**CERTIFICATE OF SECRETARY  
OF  
WILLDAN GROUP, INC.**

I hereby certify that I am the duly elected and acting Secretary of said corporation and that the foregoing Bylaws, comprising 17 pages including this page, constitute the Amended and Restated Bylaws of said corporation as duly adopted by the Board of Directors thereof by action taken with a meeting.

Dated as of August 4, 2006

/s/ ROY L. GILL

\_\_\_\_\_  
Roy L. Gill, Secretary

QuickLinks

[CERTIFICATE OF SECRETARY OF WILLDAN GROUP, INC.](#)



[ORANGE COUNTY BUSINESS BANK LOGO]

<b>LOAN NUMBER</b> 010174420	<b>LOAN NAME</b> THE WILLDAN GROUP OF COMPANIES	<b>ACCT. NUMBER</b>	<b>AGREEMENT DATE</b> 05/24/05	<b>INITIALS</b> NG1
<b>NOTE AMOUNT</b> \$8,000,000.00	<b>INDEX (w/Margin)</b> Wall Street Journal Prime plus 0.250%	<b>RATE</b> 6.25%	<b>MATURITY DATE</b> 07/31/07	<b>LOAN PURPOSE</b> Commercial

Creditor Use Only

**COMMERCIAL LOAN AGREEMENT**

Revolving Draw Loan

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**DATE AND PARTIES.** The date of this Commercial Loan Agreement (Agreement) is June 24, 2005. The parties and their addresses are as follows:

**LENDER:**

**ORANGE COUNTY BUSINESS BANK.N.A.**  
4675 Mac Arthur Court Suite 100  
Newport Beach, California 92660

**BORROWER:**

**THE WILLDAN GROUP OF COMPANIES**  
a CALIFORNIA Corporation  
2401 EAST KATELLA AVENUE #300  
ANAHEIM, California 92806

**1. DEFINITIONS.** For the purposes of this Agreement, the following terms have the following meanings.

**A. Accounting Terms.** In this Agreement, any accounting terms that are not specifically defined will have their customary meanings under generally accepted accounting principles.

**B. Insiders.** Insiders include those defined as insiders by the United States Bankruptcy Code, as amended; or to the extent left undefined, include without limitation any officer, employee, stockholder or member, director, partner, or any immediate family member of any of the foregoing, or any person or entity which, directly or indirectly, controls, is controlled by or is under common control with me.

**C. Loan.** The Loan refers to this transaction generally, including obligations and duties arising from the terms of all documents prepared or submitted for this transaction.

**D. Loan Documents.** Loan Documents refer to all the documents executed as a part of or in connection with the Loan.

**E. Pronouns.** The pronouns "I", "me" and "my" refer to every Borrower signing this Agreement, individually or together. "You" and "your" refers to the Loan's lender.

**F. Property.** Property is any property, real, personal or intangible, that secures my performance of the obligations of this Loan.

**2. ADVANCES.** Advances under this Agreement are made according to the following terms and conditions.

**A. Multiple Advances—Revolving.** In accordance with the terms of this Agreement and other Loan Documents, you will provide me with a revolving draw note and the maximum outstanding principal balance will not exceed \$8,000,000.00 (Principal).

**B. Requests for Advances.** My requests are a warranty that I am in compliance with all the Loan Documents. When required by you for a particular method of advance, my requests for an advance must specify the requested amount and the date and be accompanied with any agreements, documents, and instruments that you require for the Loan. Any payment by you of any check, share draft or other charge may, at your option, constitute an advance on the Loan to me. All advances will be made in United States dollars. I will indemnify you and hold you harmless for your reliance on any request for advances that you reasonably believe to be genuine. To the extent permitted by law, I will indemnify you and hold you harmless when the person making any request represents that I authorized this person to request an advance even when this person is unauthorized or this person's signature is not genuine.

Dan W. Heil or Roy L. Gill or Kate Mai Nguyen or others as directed and authorized by The Willdan Group of Companies Board of Directors are authorized to act on my behalf may request advances by the following methods.

- (1) I make a request in person.
- (2) I make a request by phone.
- (3) I make a request by on line banking.
- (4) Loan sweep.

**C. Advance Limitations.** In addition to any other Loan conditions, requests for, and access to, advances are subject to the following limitations.

- (1) **Obligatory Advances.** You will make all Loan advances subject to this Agreement's terms and conditions.
- (2) **Advance Amount.** Subject to the terms and conditions contained in this Agreement, advances will be made in exactly the amount I request.
- (3) **Cut-Off Time.** Requests for an advance received before 04:00 PM will be made on any day that you are open for business, on the day for which the advance is requested.
- (4) **Disbursement of Advances.** On my fulfillment of this Agreement's terms and conditions, you will disburse the advance in any manner as you and I agree.
- (5) **Credit Limit.** I understand that you will not ordinarily grant a request for an advance that would cause the unpaid principal of my Loan to be greater than the Principal limit. You may, at your option, grant such a request without obligating yourselves to do so in the future.
- (6) **Records.** Your records will be conclusive evidence as to the amount of advances, the Loan's unpaid principal balances and the accrued interest.

**D. Conditions.** I will satisfy all of the following conditions before you either issue any promissory notes or make any advances under this Agreement.

- (1) **No Default.** There has not been a default under this Agreement or any other Loan Documents nor would a default result from making the Loan or any advance.

- (2) Information. You have received all documents, information, certifications and warranties as you may require, all properly executed, if appropriate, on forms acceptable to you. This includes, but is not limited to, the documents and other items listed in the Loan Checklist Report which is hereby incorporated by reference into this Agreement.
- (3) Inspections. You have made all inspections that you consider necessary and are satisfied with this inspection.
- (4) Conditions and Covenants. I will have performed and complied with all conditions required for an advance and all covenants in this Agreement and any other Loan Documents.
- (5) Warranties and Representations. The warranties and representations contained in this Agreement are true and correct at the time of making the requested advance.
- (6) Financial Statements. My most recent financial statements and other financial reports, delivered to you, are current, complete, true and accurate in all material respects and fairly represent my financial condition.
- (7) Bankruptcy Proceedings. No proceeding under the United States Bankruptcy Code has been commenced by or against me or any of my affiliates.

**Notwithstanding anything herein to the contrary line of credit advance provisions shall include but are not limited to**

Subject to the terms and conditions hereof, herein described credit facility will convert to a formula based revolving line of credit when line of credit usage exceeds six million dollars (\$6,000,000.00). All advances under the formula based line of credit provision shall be limited to eighty percent (80%) of Eligible Receivables and twenty-five percent (25%) of untitled work in process up to sixty (60) days old or eight million dollars, (\$8,000,000.00) whichever is lower.

Eligible Receivables: Eligible receivables are all of Borrower's accounts which contain selling terms and conditions acceptable to Lender, defined as those receivables aged less than one hundred twenty-one (121) days from invoice date and do not include foreign receivables, accounts in bankruptcy, contra accounts, accounts that comprise more than twenty percent (20%) of the total receivable balance and cross agings of twenty percent (20%).

Once a formula base credit line is in effect, Borrower shall deliver to Lender, as of the end of each month a Borrowing Base Certificate, calculation of Ineligible Accounts, detailed Accounts Receivable Aging and Accounts Payable Aging and Work In Process Report within twenty (20) days of each month end.

**Two million dollars (\$2,000,000.00) of the revolving line of credit can be converted to two term loans and is subject to the following provisions**

- A maximum one million dollars (\$1,000,000.00) for expenses incurred to start up a new division and or business unit of Borrower can be converted to a fully amortized term loan for a period of up to three (3) years.
- A maximum one million dollars (\$1,000,000.00) for the acquisition of other companies can be converted to a fully amortized term loan for a period of up to three years.
- Once the conversion of either or both term loans has been executed, the amount available for borrowing hereunder shall be permanently reduced by the total balance(s) of such amount.

**3. MATURITY DATE.** I agree to fully repay the Loan by July 31, 2007.

4. **WARRANTIES AND REPRESENTATIONS.** I make to you the following warranties and representations which will continue as long as this Loan is in effect, except when this Agreement provides otherwise.

**A. Power.** I am duly organized, and validly existing and in good standing in all jurisdictions in which I operate. I have the power and authority to enter into this transaction and to carry on my business or activity as it is now being conducted and, as applicable, am qualified to do so in each jurisdiction in which I operate.

**B. Authority.** The execution, delivery and performance of this Loan and the obligation evidenced by the Note are within my powers, have been duly authorized, have received all necessary governmental approval, will not violate any provision of law, or order of court or governmental agency, and will not violate any agreement to which I am a party or to which I am or any of my property is subject.

**C. Name and Place of Business.** Other than previously disclosed in writing to you I have not changed my name or principal place of business within the last 10 years and have not used any other trade or fictitious name. Without your prior written consent, I do not and will not use any other name and will preserve my existing name, trade names and franchises.

**D. Hazardous Substances.** Except as I previously disclosed in writing and you acknowledge in writing, no Hazardous Substance, underground tanks, private dumps or open wells are currently located at, on, in, under or about the Property.

**E. Use of Property.** After diligent inquiry, I do not know or have reason to know that any Hazardous Substance has been discharged, leached or disposed of, in violation of any Environmental Law, from the property onto, over or into any other property, or from any other property onto, over or into the property.

**F. Environmental Laws.** I have no knowledge or reason to believe that there is any pending or threatened investigation, claim, judgment or order, violation, lien, or other notice under any Environmental Law that concerns me or the property. The property and any activities on the property are in full compliance with all Environmental Law.

**G. Loan Purpose.** This Loan is for Commercial purposes.

**H. No Other Liens.** I own or lease all property that I need to conduct my business and activities. I have good and marketable title to all property that I own or lease. All of my Property is free and clear of all liens, security interests, encumbrances and other adverse claims and interests, except those to you or those you consent to in writing.

**I. Compliance With Laws.** I am not violating any laws, regulations, rules, orders, judgments or decrees applicable to me or my property, except for those which I am challenging in good faith through proper proceedings after providing adequate reserves to fully pay the claim and its challenge should I lose.

**J. Legal Dispute.** There are no pending or threatened lawsuits, arbitrations or other proceedings against me or my property that singly or together may materially and adversely affect my property, operations, financial condition, or business.

**K. Adverse Agreements.** I am not a party to, nor am I bound by, any agreement that is now or is likely to become materially adverse to my business, Property or operations.

**L. Other Claims.** There are no outstanding claims or rights that would conflict with the execution, delivery or performance by me of the terms and conditions of this Agreement or the other Loan Documents. No outstanding claims or rights exist that may result in a lien on the

Property, the Property's proceeds and the proceeds of proceeds, except liens that were disclosed to and agreed to by you in writing.

**M. Solvency.** I am able to pay my debts as they mature, my assets exceed my liabilities and I have sufficient capital for my current and planned business and other activities. I will not become insolvent by the execution or performance of this Loan.

5. **FINANCIAL STATEMENTS.** I will prepare and maintain my financial records using consistently applied generally accepted accounting principles then in effect. I will provide you with financial information in a form that you accept and under the following terms.

**A. Certification.** I represent and warrant that any financial statements that I provide you fairly represents my financial condition for the stated periods, is current, complete, true and accurate in all material respects, includes all of my direct or contingent liabilities and there has been no material adverse change in my financial condition, operations or business since the date the financial information was prepared.

**B. SEC Reports.** I will provide you with true and correct copies of all reports, notices or statements that I provide to the Securities and Exchange Commission, any securities exchange or my stockholders, owners, or the holders of any material indebtedness as soon as available or at least with days after issuance.

**C. Requested Information.** I will provide you with any other information about my operations, financial affairs and condition within twenty (20) days after your request.

6. **COVENANTS.** Until the Loan and all related debts, liabilities and obligations are paid and discharged. I will comply with the following terms, unless you waive compliance in writing.

**A. Participation.** I consent to you participating or syndicating the Loan and sharing any information that you decide is necessary about me and the Loan with the other participants or syndicators.

**B. Inspection.** Following your written request, I will immediately pay for all one-time and recurring out-of-pocket costs that are related to the inspection of my records, business or Property that secures the Loan. Upon reasonable notice, I will permit you or your agents to enter any of my premises and any location where my Property is located during regular business hours to do the following.

- (1) You may inspect, audit, check, review and obtain copies from my books, records, journals, orders, receipts, and any correspondence and other business related data.
- (2) You may discuss my affairs, finances and business with any one who provides you with evidence that they are a creditor of mine, the sufficiency of which will be subject to your sole discretion.
- (3) You may inspect my Property, audit for the use and disposition of the Property's proceeds and proceeds of proceeds; or do whatever you decide is necessary to preserve and protect the Property and your interest in the Property.

After prior notice to me, you may discuss my financial condition and business operations with my independent accountants, if any, or my chief financial officer or controller and I may be present during these discussions. As long as the Loan is outstanding, I will direct all of my accountants and auditors to permit you to examine my records in their possession and to make copies of these records. You will use your best efforts to maintain the confidentiality of the information you or your agents obtain, except you may provide your regulator, if any, with required information about my financial condition, operation and business or that of my parent, subsidiaries or affiliates.

**C. Business Requirements.** I will preserve and maintain my present existence and good standing in the jurisdiction where I am organized and all of my rights, privileges and franchises. I will do all that is needed or required to continue my business or activities as presently conducted, by obtaining licenses, permits and bonds everywhere I engage in business or activities or own, lease or locate my property. I will obtain your prior written consent before I cease my business or before I engage in any new line of business that is materially different from my present business.

**D. Compliance with Laws.** I will not violate any laws, regulations, rules, orders, judgments or decrees applicable to me or my Property, except for those which I challenge in good faith through proper proceedings after providing adequate reserves to fully pay the claim and its appeal should I lose. Laws include without limitation the Federal Fair Labor Standards Act requirements for producing goods, the federal Employee Retirement Income Security Act of 1974's requirements for the establishment, funding and management of qualified deferred compensation plans for employees, health and safety laws, environmental laws, tax laws, licensing and permit laws. On your request, I will provide you with written evidence that I have fully and timely paid my taxes, assessments and other governmental charges levied or imposed on me, my income or profits and my property. Taxes include without limitation sales taxes, use taxes, personal property taxes, documentary stamp taxes, recordation taxes, franchise taxes, income taxes, withholding taxes. FICA taxes and unemployment taxes. I will adequately provide for the payment of these taxes, assessments and other charges that have accrued but are not yet due and payable.

**E. New Organizations.** I will obtain your written consent and any necessary changes to the Loan Documents before I organize or participate in the organization of any entity, merge into or consolidate with any one, permit any one else to merge into me, acquire all or substantially all of the assets of any one else or otherwise materially change my legal structure, management, ownership or financial condition.

**F. Dealings with Insiders.** I will not purchase, acquire or lease any property or services from, or sell, provide or lease any property or services to, or permit any outstanding loans or credit extensions to, or otherwise deal with, any insiders except as required under contracts existing at the time I applied for the Loan and approved by you or as this Agreement otherwise permits. I will not change or breach these contracts existing at Loan application so as to cause an acceleration of or an increase in any payments due.

**G. Other Debts.** I will pay when due any and all other debts owed or guaranteed by me and will faithfully perform, or comply with all the conditions and obligations imposed on me concerning the debt or guaranty.

**H. Other Liabilities.** I will not incur, assume or permit any debt evidenced by notes, bonds or similar obligations, except: debt in existence on the date of this Agreement and fully disclosed to you; debt subordinated in payment to you on conditions and terms acceptable to you; accounts payable incurred in the ordinary course of my business and paid under customary trade terms or contested in good faith with reserves satisfactory to you. Unless otherwise agreed to in writing by Lender

\* Acquisitions of other companies are not permitted

**I. Notice to You.** I will promptly notify you of any material change in my financial condition, of the occurrence of a default under the terms of this Agreement or any other Loan Document, or a default by me and under any agreement between me and any third party which materially and adversely affects my property, operations, financial condition or business.

**J. Certification of No Default.** On your request, my chief financial officer or controller or my Independent accountant will provide you with a written certification that to the best of their knowledge no event of default exists under the terms of this Agreement or the other Loan

Documents, and that there exists no other action, condition or event which with the giving of notice or lapse of time or both would constitute a default. As requested, my chief financial officer or controller or my independent accountant will also provide you with computations demonstrating compliance with any financial covenants and ratios contained in this Agreement. If an action, condition or event of default does exist, the certificate must accurately and fully disclose the extent and nature of this action, condition or event and state what must be done to correct it.

**K. Use of Loan Proceeds.** I will not permit the loan proceeds to be used to purchase, carry, reduce, or retire any loan originally incurred to purchase or carry any margin stock or otherwise cause the Loan to violate Federal Reserve Board Regulations U or X, or Section 8 of the Securities and Exchange Act of 1934 and its regulations, as amended.

**L. Dispose of No Assets.** Without your prior written consent or as the Loan Documents permit, I will not sell, lease, assign, transfer, dispose of or otherwise distribute all or substantially all of my assets to any person other than in the ordinary course of business for the assets' depreciated book value or more.

**M. No Other Liens.** I will not create, permit or suffer any lien or encumbrance upon any of my properties for or by anyone, other than you, except for: nonconsensual liens imposed by law arising out of the ordinary course of business on obligations that are not overdue or which I am contesting in good faith after making appropriate reserves; valid purchase money security interests on personal property; or any other liens specifically agreed to by you in writing.

**N. Guaranties.** I will not guaranty or become liable in any way as surety, endorser (other than as endorser of negotiable instruments in the ordinary course of business) or accommodation endorser or otherwise for the debt or obligations of any other person or entity, except to you or as you otherwise specifically agree in writing.

**O. No Default under Other Agreements.** I will not allow to occur, or to continue unremedied, any act, event or condition which constitutes a default, or which, with the passage of time or giving of notice, or both, would constitute a default under any agreement, document, instrument or undertaking to which I am a party or by which I may be bound.

**P. Legal Disputes.** I will promptly notify you in writing of any threatened or pending lawsuit, arbitration or other proceeding against me or any of my property, not identified in my financial statements, or that singly or together with other proceedings may materially and adversely affect my property, operations, financial condition or business. I will use my best efforts to bring about a favorable and speedy result of any of these lawsuits, arbitrations or other proceedings.

**Q. Other Notices.** I will immediately provide you with any information that may materially and adversely affect my ability to perform this Agreement and of its anticipated effect.

**R. No Change in Capital.** I will not make any distribution or declare or pay any dividends (in cash or in stock) on, or purchase, acquire, redeem, or retire any of Borrower's capital stock, of any class, whether now or hereafter outstanding. If Borrower is a "Subchapter S Corporation" (as defined in the Internal Revenue Code of 1986, as amended), Borrower may pay cash dividends on its stock to its shareholders from time to time in amounts necessary to enable the shareholders to pay income taxes and make estimated income tax payments to satisfy their liabilities under federal and state law which arise solely from their status as shareholders of a Subchapter S Corporation because of their ownership of shares of Borrower's stock, or purchase or retire any of Borrower's outstanding shares or alter or amend Borrower's capital structure.

- Individual stock repurchase in excess of fifty thousand dollars (\$50,000.00) are not permitted unless otherwise agreed to in writing by Lender.

**S. Loan Obligations.** I will make full and timely payment of all principal and interest obligations, and comply with the other terms and agreements contained in this Agreement and in the other Loan Documents.

**T. Insurance.** I will obtain and maintain Insurance with insurers, in amounts and coverages that are acceptable to you and customary with industry practice. This may include without limitation insurance policies for public liability, fire, hazard and extended risk, workers compensation, and, at your request, business interruption and/or rent loss insurance. At your request, I will deliver to you certified copies of all of these insurance policies, binders or certificates. I will obtain and maintain a mortgages or lender loss payee endorsement for you when these endorsements are available. I will immediately notify you of cancellation or termination of insurance. I will require all insurance policies to provide you with at least 10 days prior written notice to you of cancellation or modification. I consent to you using or disclosing information relative to any contract of insurance required by the Loan for the purpose of replacing this insurance. I also authorize my insurer and you to exchange all relevant information related to any contract of insurance required by any document executed as part of this Loan.

**U. Property Maintenance.** I will keep all tangible and intangible property that I consider necessary or useful in my business in good working condition by making all needed repairs, replacements and improvements and by making all rental, lease or other payments due on this property.

**V. Property Loss.** I will immediately notify you, and the insurance company when appropriate, of any material casualty, loss or depreciation to the Property or to my other property that affects my business.

**W. Accounts Receivable Collection.** I will collect and otherwise enforce all of my unpaid Accounts Receivable at my cost and expense, until you end my authority to do so, which you may do at any time to protect your best interests. I will not sell, assign or otherwise dispose of any Accounts Receivable without your written consent. I will not commingle the Accounts Receivable proceeds with any of my other property.

**X. Reserves.** You may set aside and reserve Loan proceeds for Loan interest, fees and expenses, taxes, and insurance.

No interest will accrue on any reserve Loan proceeds. Disbursement of reserves is disbursement of the Loan's proceeds. At my request, you will disburse the reserves for the purpose they were set aside for, as long as I am not in default under this Agreement. You may directly pay these reserved items, reimburse me for payments I made, or reduce the reserves and increase the Loan proceeds available for disbursement.

**Y. Minimum Tangible Net Worth.** I will maintain a tangible net worth, determined under consistently applied generally accepted accounting principles, of \$9,000,000.00 or more by December 31, 2005 and measured quarterly thereafter. Tangible net worth is the amount that total assets exceed total liabilities. For determining tangible net worth, total assets will exclude all intangible assets, including without limitation goodwill, patents, trademarks, trade names, copyrights, and franchises, and will also exclude all Accounts Receivable, owned by my Insiders, that do not provide for a repayment schedule.

**Z. Additional Taxes.** I will pay all filing and recording costs and fees, including any recordation, documentary or transfer taxes or stamps, that are required to be paid with respect to this Loan and any Loan Documents.



**Borrower covenants and agrees with Lender that while this Agreement is in effect, Borrower shall submit to Lender in substance and form satisfactory to Lender: Additional Financial Reporting Covenants**

Borrower's annual CPA unqualified audited financial statements as available and in no event later than one hundred and fifty (150) days after each fiscal year end. 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 facility.

Borrower's monthly company prepared, financial statements (including balance sheet and income statement) as soon as available and in no event later than forty five (45) days after each month end.

Borrower's annual tax returns, including all K-1 schedules and schedule "C" (if applicable), no later than ten (10) days after filing or in the case of extensions (copies also to be provided), no later than six (6) months after first filing due date.

Borrower shall submit monthly accounts receivable agings, accounts payable agings and work in process reports within forty-five (45) days of each month end until such time that credit facility exceeds six million dollars (\$6,000,000.00) and follows the formula based reporting covenants.

Guarantor's annual, signed and dated personal financial statement as soon as available but in no event later then June 30<sup>th</sup> each year. Commencing June 30, 2006.

Guarantor's annual tax returns, including all K-7 schedules and schedule "C" (if applicable), no later than ten (10) days after filing or in the case of extensions (copies also to be provided), no later then six (6) months after first filing due date.

**Financial Reporting Ratios**

Current Ratio, Maintain a Current Ration in excess of 1.10 to 1.00. The term Current Ratio means Borrowers total Current Assets divided by Borrower's total Current Liabilities. This liquidity ratio will be evaluated at of each quarter end.

Debt Service Coverage Ratio. Maintain a ratio of Debt Service Coverage in excess of 1.50:1. The term "Debt Service Coverage" means Borrower's Net Profits plus Depreciation, Depletion and Amortization divided by Borrower's Current Portion of Long Term Indebtedness. This coverage ratio will be evaluated as of each year end.

At Borrower's option and Lender's concurrence, as long as the loan agreement is in effect, shareholder debt, if subordinated to Lender, will be considered as net worth for purposes of calculating tangible net worth.

**Additional Provisions**

Borrower agrees to maintain its principal depository relationship with Lender.

Dan Heil to subordinate UCC-1 Financing statement, filed as instrument No. 0401560468 with California Secretary of State.

7. **DEFAULT.** I will be in default if any of the following occur:

**A. Payments.** I fail to make a payment in full within ten (10) days of due date.

**B. Insolvency or Bankruptcy.** The death, dissolution or insolvency of, appointment of a receiver by or on behalf of, application of any debtor relief law, the assignment for the benefit of creditors by or on behalf of, the voluntary or involuntary termination of existence by, or the commencement

of any proceeding under any present or future federal or state insolvency, bankruptcy, reorganization, composition or debtor relief law by or against me or any co-signer, endorser, surety or guarantor of this Agreement or any other obligations I have with you.

**C. Business Termination.** I merge, dissolve, reorganize, end my business or existence, or a partner or majority owner dies or is declared legally incompetent.

**D. Failure to Perform.** I fail to perform any condition or to keep any promise or covenant of this Agreement within twenty (20) days of notice.

**E. Other Documents.** A default occurs under the terms of any other Loan Document.

**F. Other Agreements.** I am in default on any other debt or agreement I have with you.

**G. Misrepresentation.** I make any verbal or written statement or provide any financial information that is untrue, inaccurate, or conceals a material fact at the time it is made or provided.

**H. Judgement.** I fail to satisfy or appeal any judgment against me.

**I. Forfeiture.** The Property is used in a manner or for a purpose that threatens confiscation by a legal authority.

**J. Name Change.** I change my name or assume an additional name without notifying you before making such a change.

**K. Property Transfer.** I transfer all or a substantial part of my money or property.

**L. Property Value.** The value of the Property materially declines or is impaired.

**M. Material Change.** Without first notifying you, there is a material change in my business, including ownership, management, and financial conditions.

**N. Insecurity.** You reasonably believe that you are insecure.

**8. REMEDIES.** After I default, and after you give any legally required notice and opportunity to cure the default, you may at your option do any one or more of the following.

**A. Acceleration.** You may make all or any part of the amount owing by the terms of the Loan immediately due. If I am a debtor in a bankruptcy petition or in an application filed under section 5(a)(3) of the Securities Investor Protection Act, the Loan is automatically accelerated and immediately due and payable without notice or demand upon filing of the petition or application.

**B. Sources.** You may use any and all remedies you have under state or federal law or in any Loan Document.

**C. Insurance Benefits.** You may make a claim for any and all insurance benefits or refunds that may be available on my default.

**D. Payments Made On My Behalf.** Amounts advanced on my behalf will be immediately due and may be added to the balance owing under the terms of the Loan, and accrue interest at the highest post-maturity interest rate.

**E. Termination.** You may terminate my right to obtain advances and may refuse to make any further extensions of credit.

**F. Set-Off.** You may use the right of set-off. This means you may set-off any amount due and payable under the terms of the Loan against any right I have to receive money from you.

My right to receive money from you includes any deposit or share account balances I have with you; any money owed to me on an item presented to you or in your possession for collection or

exchange; and any repurchase agreement or other non-deposit obligation, "Any amount due and payable under the terms of the Loan" means the total amount to which you are entitled to demand payment under the terms of the Loan at the time you set-off.

Subject to any other written contract, if my right to receive money from you is also owned by someone who has not agreed to pay the Loan, your right of set-off will apply to my interest in the obligation and to any other amounts I could withdraw on my sole request or endorsement.

Your right of set-off does not apply to an account or other obligation where my rights arise only in a representative capacity. It also does not apply to any Individual Retirement Account or other tax-deferred retirement account. In addition, your right to set-off against any demand deposit accounts I have deposited with you may be limited by applicable California law. In certain circumstances, I may be entitled to a notice of set-off. State law may further limit your right of set-off.

You will not be liable for the dishonor of any check when the dishonor occurs because you set-off against any of my accounts. I agree to hold you harmless from any such claims arising as a result of your exercise of your right to set-off.

**G. Waiver.** Except as otherwise required by law, by choosing any one or more of these remedies you do not give up your right to use any other remedy. You do not waive a default if you choose not to use a remedy. By electing not to use any remedy, you do not waive your right to later consider the event a default and to use any remedies if the default continues or occurs again.

9. **COLLECTION EXPENSES AND ATTORNEYS' FEES.** On or after Default, to the extent permitted by law, I agree to pay all expenses of collection, enforcement or protection of your rights and remedies under this Agreement or any other Loan Document. Expenses include, but are not limited to, attorneys' fees, court costs and other legal expenses. These expenses are due and payable immediately. If not paid immediately, these expenses will bear interest from the date of payment until paid in full at the highest interest rate in effect as provided for in the terms of this Loan. All fees and expenses will be secured by the Property I have granted to you, if any. In addition, to the extent permitted by the United States Bankruptcy Code, I agree to pay the reasonable attorneys' fees incurred by you to protect your rights and interests in connection with any bankruptcy proceedings initiated by or against me.
10. **APPLICABLE LAW.** This Agreement is governed by the laws of California, the United States of America and to the extent required, by the laws of the jurisdiction where the Property is located. In the event of dispute, the exclusive forum, venue and place of jurisdiction will be in California, unless otherwise required by law.
11. **JOINT AND INDIVIDUAL LIABILITY AND SUCCESSORS.** My obligation to pay the Loan is independent of the obligation of any other person who has also agreed to pay it. You may sue me alone, or anyone else who is obligated on the Loan, or any number of us together, to collect the Loan. Extending the loan or new obligations under the Loan, will not affect my duty under the Loan and I will still be obligated to pay the Loan. You may assign all or part of your rights or duties under this Agreement or the Loan Documents without my consent. If you assign this Agreement, all of my covenants, agreements, representations and warrants contained in this Agreement or the Loan Documents will benefit your successors and assigns. I may not assign this Agreement or any of my rights under it without your prior written consent. The duties of the Loan will bind my successors and assigns.
12. **AMENDMENT, INTEGRATION AND SEVERABILITY.** This Agreement may not be amended or modified by oral agreement. No amendment or modification of this Agreement is effective unless made in writing and executed by you and me. This Agreement and the other Loan Documents are the complete and final expression of the understanding between you and me. If any provision of

this Agreement is unenforceable, then the unenforceable provision will be severed and the remaining provisions will still be enforceable.

13. **INTERPRETATION.** Whenever used, the singular includes the plural and the plural includes the singular. The section headings are for convenience only and are not to be used to interpret or define the terms of this Agreement.
14. **NOTICE, FINANCIAL REPORTS AND ADDITIONAL DOCUMENTS.** Unless otherwise required by law, any notice will be given by delivering it or mailing it by first class mail to the appropriate party's address listed in the DATE AND PARTIES section, or to any other address designated in writing. Notice to one Borrower will be deemed to be notice to all Borrowers. I will inform you in writing of any change in my name, address or other application information. I will provide you any financial statement of information you request. All financial statements and information I give you will be correct and complete. I agree to sign, deliver, and file any additional documents or certifications that you may consider necessary to perfect, continue, and preserve my obligations under this Loan and to confirm your lien status on any Property. Time is of the essence.
15. **WAIVER OF JURY TRIAL.** All of the parties to this agreement agree to waive our respective right to trial by jury of any cause of action, claim, counterclaim or cross-complaint in any action, proceeding, or hearing brought by either party on any matter arising out of or in any way related to this transaction, the parties' relationship or any claim of injury or damage, or the enforcement of any remedy under any law, statute, or regulation, in effect or as amended.
16. **SIGNATURES.** By signing, I agree to the terms contained in this Agreement. I also acknowledge receipt of a copy of this Agreement.

**BORROWER:**

THE WILLDAN GROUP OF COMPANIES

By: /s/ Dan W. Heil

\_\_\_\_\_  
DAN W. HEIL, CHAIRMAN OF THE BOARD

QuickLinks

[Exhibit 10.1](#)

[COMMERCIAL LOAN AGREEMENT Revolving Draw Loan](#)

[ORANGE COUNTY BUSINESS BANK LOGO]

<b>LOAN NUMBER</b> 010174420	<b>LOAN NAME</b> THE WILLDAN GROUP OF COMPANIES	<b>ACCT. NUMBER</b>	<b>NOTE DATE</b> 06/24/05	<b>INITIALS</b> NG1
<b>NOTE AMOUNT</b> \$8,000,000.00	<b>INDEX (w/Margin)</b> Wall Street Journal Prime plus 0.250%	<b>RATE</b> 6.25%	<b>MATURITY DATE</b> 07/31/07	<b>LOAN PURPOSE</b> Commercial

**Creditor Use Only**

**PROMISSORY NOTE**

(Commercial—Revolving Draw—Variable Rate)

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**DATE AND PARTIES.** The date of this Promissory Note [Note] is June 24, 2005. The parties and their addresses are:

**LENDER:**

**ORANGE COUNTY BUSINESS BANK, N.A.**

4675 Mac Arthur Court Suite 100  
Newport Beach, California 92660  
Telephone: (949) 221-0001

**BORROWER:**

**THE WILLDAN GROUP OF COMPANIES**

a CALIFORNIA Corporation  
2401 EAST KATELLA AVENUE #300  
ANAHEIM, California 92808

1. **DEFINITIONS.** As used in this Note, the terms have the following meanings:

**A. Pronouns.** The pronouns "I", "me" and "my" refer to each Borrower signing this Note, individually and together. "You" and "Your" refer to the Lender.

**B. Note.** Note refers to this document, and any extensions, renewals, modifications and substitutions of this Note.

**C. Loan.** Loan refers to this transaction generally, including obligations and duties arising from the terms of all documents prepared or submitted for this transaction such as applications, security agreements, disclosures or notes, and this Note.

**D. Loan Documents.** Loan Documents refer to all the documents executed as a part of or in connection with the Loan.

**E. Property.** Property is any property, real, personal or intangible, that secures my performance of the obligations of this Loan.

**F. Percent.** Rates and rate change limitations are expressed as annualized percentages.

2. **PROMISE TO PAY.** For value received, I promise to pay you or your order, at your address, or at such other location as you may designate, amounts advanced from time to time under the terms of this Note up to the maximum outstanding principal balance of \$8,000,000.00 (Principal), plus

interest from the date of disbursement, on the unpaid outstanding Principal balance until this Note is paid in full and Lender has no further obligations to make advances to you under this Loan.

I may borrow up to the Principal amount more than one time.

All advances made will be made subject to all other terms and conditions of this Loan.

#### **ADDITIONAL NOTE PROVISION**

Pursuant to the terms and conditions of the herein describe Note, Two million dollars (\$2,000,000.00) of the revolving line of credit can be converted to two term loans and is subject to the following provisions

- A maximum one million dollars (\$1,000,000.00) for expenses incurred to start up a new division and or business unit of Borrower can be converted to a multiple advance loan for up to two (2) years. At the end of the multiple advance period the total amount advanced up to one million dollars (\$1,000,000.00) will be converted to a fully amortized term loan for a period of up to three (3) years.
- A maximum one million dollars (\$1,000,000.00) for the acquisition of other companies can be converted to a fully amortized term loan for a period of up to three years.
- Once the conversion of either or both term loans has been executed, the amount available for borrowing hereunder shall be permanently reduced by the total balance(s) of such amount.

**3. INTEREST.** Interest will accrue on the unpaid Principal balance of this Note at the rate 6.25 percent (Interest Rate) until June 26, 2005, after which time it may change as described in the Variable Rate subsection.

**A. Interest After Default.** If you declare a default under the terms of this Loan, including for failure to pay in full at maturity, you may increase the Interest Rate payable on the outstanding Principal balance of this Note. In such event, interest will accrue on the outstanding Principal balance at the variable Interest Rate in effect from time to time, plus an additional 6.000 percent until paid in full.

**B. Maximum Interest Amount.** Any amount assessed or collected as interest under the terms of this Note or obligation will be limited to the Maximum Lawful Amount of interest allowed by state or federal law. Amounts collected in excess of the Maximum Lawful Amount will be applied first to the unpaid Principal balance. Any remainder will be refunded to me.

**C. Statutory Authority.** The amount assessed or collected on this Note is authorized by the California Banking Law ICal. Fin Code. Div, 1).

**D. Accrual.** During the scheduled term of this Loan interest accrues using an Actual/360 days counting method.

**E. Variable Rate.** The Interest Rate may change during the term of this transaction.

- (1) **Index.** Beginning with the first Change Date, the Interest Rate will be based on the following index: the base rate on corporate loans posted by at least 75% of the nation's 30 largest banks known as the Wall Street Journal Prime Rate.

The Current Index is the most recent index figure available on each Change Date. You do not guaranty by selecting this index, or the margin that the Interest Rate on this Note will be the same rate you charge on any other loans or class of loans you make to me or other borrowers. If this index is no longer available, you will substitute a similar index. You will give me notice of your choice.

- (2) **Change Date.** Each date on which the Interest Rate may change is called a Change Date. The Interest Rate may change June 25, 2005 and daily thereafter.
- (3) **Calculation Of Change.** On each Change Date, you will calculate the Interest Rate, which will be the Current Index plus 0.250 percent. The result of this calculation will be rounded to the nearest .001 percent. Subject to any limitations, this will be the Interest Rate until the next Change Date. The new Interest Rate will become effective on each Change Date. The Interest Rate and other charges on this Note will never exceed the highest rate or charge allowed by law for this Note.
- (4) **Effect Of Variable Rate.** A change in the Interest Rate will have the following effect on the payments: The amount of scheduled payments will change.

4. **ADDITIONAL CHARGES.** As additional consideration, I agree to pay, or have paid, these additional fees and charges.

**A. Nonrefundable Fees and Charges.** The following fees are earned when collected and will not be refunded if I prepay this Note before the scheduled maturity date.

**UCC Fees.** A(n) UCC Fees fee of \$50.00 payable from the loan proceeds.

**Loan Fee.** A(n) Loan Fee fee of \$5,000.00 payable from the loan proceeds.

**Document Preparation.** A(n) Document Preparation fee of \$250.00 payable from the loan proceeds.

5. **REMEDIAL CHARGES.** In addition to interest or other finance charges, I agree that I will pay these additional fees based on my method and pattern of payment. Additional remedial charges may be described elsewhere in this Note.

**A. Late Charge.** If a payment is more than 10 days late, I will be charged 5.000 percent of the Amount of Payment or \$5.00, whichever is greater I will pay this late charge promptly but only once for each late payment.

**B. Returned Check Charge.** I agree to pay a fee not to exceed \$25.00 for each check, negotiable order of withdrawal or draft I issue in connection with this Loan that is returned because it has been dishonored.

6. **GOVERNING AGREEMENT.** This Note is further governed by the Commercial Loan Agreement executed between you and me as a part of this Loan, as modified, amended or supplemented. The Commercial Loan Agreement states the terms and conditions of this Note, including the terms and conditions under which the maturity of this Note may be accelerated. When I sign this Note, I represent to you that I have reviewed and am in compliance with the terms contained in the Commercial Loan Agreement.

7. **PAYMENT.** I agree to pay all accrued interest on the balance outstanding from time to time in regular payments beginning July 31, 2005, then on the same day of each month thereafter. Any payment scheduled for a date falling beyond the last day of the month, will be due on the last day. A final payment of the entire unpaid outstanding balance of Principal and interest will be due July 31, 2007.

Payments will be rounded to the nearest \$.01. With the final payment I also agree to pay any additional fees or charges owing and the amount of any advances you have made to others on my behalf. Payments scheduled to be paid on the 29th, 30th or 31st day of a month that contains no such day will, instead, be made on the last day of such month.

Interest payments will be applied first to any charges I owe other than late charges, then to accrued, but unpaid interest, then to late charges. Principal payments will be applied first to the outstanding Principal balance, then to any late charges. If you and I agree to a different application of payments,



we will describe our agreement on this Note. The actual amount of my final payment will depend on my payment record.

- 8. **PREPAYMENT.** I may prepay this Loan in full or in part at any time. Any partial prepayment will not excuse any later scheduled payments until I pay in full.
- 9. **LOAN PURPOSE.** The purpose of this Loan is to pay short term operating expenses.
- 10. **SECURITY.** This Loan is secured by separate security instruments prepared together with this Note as follows:

Document Name	Parties to Document
Security Agreement—THE WILLDAN GROUP OF COMPANIES	THE WILLDAN GROUP OF COMPANIES

- 11. **DUE ON SALE OR ENCUMBRANCE.** You may, at your option, declare the entire balance of this Note to be immediately due and payable upon the creation of, or contract for the creation of, any lien, encumbrance, transfer or sale of all or any part of the Property. This right is subject to the restrictions imposed by federal law (12 C.F.R. 591), as applicable. However, if I am in default under this Agreement, I may not sell the inventory portion of the Property even in the ordinary course of business.
- 12. **WAIVERS AND CONSENT.** To the extent not prohibited by law, I waive protest, presentment for payment, demand, notice of acceleration, notice of intent to accelerate and notice of dishonor.

**A. Additional Waivers By Borrower.** In addition, I, and any party to this Note and Loan, to the extent permitted by law, consent to certain actions you may take, and generally waive defenses that may be available based on these actions or based on the status of a party to this Note.

- (1) You may renew or extend payments on this Note, regardless of the number of such renewals or extensions.
- (2) You may release any Borrower, endorser, guarantor, surety, accommodation maker or any other co-signer.
- (3) You may release, substitute or impair any Property securing this Note.
- (4) You, or any institution participating in this Note, may invoke your right of set-off.
- (5) You may enter into any sales, repurchases or participations of this Note to any person in any amounts and I waive notice of such sales, repurchases or participations.
- (6) I agree that any of us signing this Note as a Borrower is authorized to modify the terms of this Note or any instrument securing, guarantying or relating to this Note.
- (7) I agree that you may inform any party who guarantees this Loan of any Loan accommodations, renewals, extensions, modifications, substitutions or future advances.

**B. No Waiver By Lender.** Your course of dealing, or your forbearance from, or delay in, the exercise of any of your rights, remedies, privileges or right to insist upon my strict performance of any provisions contained in this Note, or any other Loan Document, shall not be construed as a waiver by you, unless any such waiver is in writing and is signed by you.

- 13. **SUSPENSION OF REMEDIES.** You may not use any Remedy if I fail to make a payment which becomes due during a disability claim period and for which disability insurance coverage is provided. However, this term will not prohibit the use of any remedy if a payment is for an amount advanced after I have given you notice of a disability claim, unless a different disability causes the nonpayment.

14. **COMMISSIONS.** I understand and agree that you (or your affiliate) will earn commissions or fees on any insurance products, and may earn such fees on other services that I buy through you or your affiliate.
15. **APPLICABLE LAW.** This Note is governed by the laws of California, the United States of America and to the extent required, by the laws of the jurisdiction where the Property is located. In the event of a dispute, the exclusive forum, venue and place of jurisdiction will be in California, unless otherwise required by law.
16. **JOINT AND INDIVIDUAL LIABILITY AND SUCCESSORS.** My obligation to pay the Loan is independent of the obligation of any other person who has also agreed to pay it. You may sue me alone, or anyone else who is obligated on the Loan, or any number of us together, to collect the Loan. Extending the Loan or new obligations under the Loan, will not affect my duty under the Loan and I will still be obligated to pay the Loan. This Note shall inure to the benefit of and be enforceable by you and your successors and assigns and shall be binding upon and enforceable against me and my personal representatives, successors, heirs and assigns.
17. **AMENDMENT, INTEGRATION AND SEVERABILITY.** This Note may not be amended or modified by oral agreement. No amendment or modification of this Note is effective unless made in writing and executed by you and me. This Note and the other Loan Documents are the complete and final expression of the agreement. If any provision of this Note is Unenforceable, then the unenforceable provision will be severed and the remaining provisions will still be enforceable.
18. **INTERPRETATION.** Whenever used, the singular includes the plural and the plural includes the singular. The section headings are for convenience only and are not to be used to interpret or define the terms of this Note.
19. **NOTICE, FINANCIAL REPORTS AND ADDITIONAL DOCUMENTS.** Unless otherwise required by law, any notice will be given by delivering it or mailing it by first class mail to the appropriate party's address listed in the DATE AND PARTIES section, or to any other address designated in writing. Notice to one Borrower will be deemed to be notice to all Borrowers. I will inform you in writing of any change in my name, address or other application information. I agree to sign, deliver, and file any additional documents or certifications that you may consider necessary to perfect, continue, and preserve my obligations under this Loan and to confirm your lien status on any Property. Time is of the essence.
20. **CREDIT INFORMATION.** I agree to supply you with whatever information you reasonably feel you need to decide whether to continue this Loan. You will make requests for this information without undue frequency, and will give me reasonable time in which to supply the information.
21. **ERRORS AND OMISSIONS.** I agree, if requested by you, to fully cooperate in the correction, if necessary, in the reasonable discretion of you of any and all loan closing documents so that all documents accurately describe the loan between you and me. I agree to assume all costs including by way of illustration and not limitation, actual expenses, legal fees and marketing losses for failing to reasonably comply with your request within thirty (30) days.
22. **WAVIER OF JURY TRIAL.** All of the parties to this agreement agree to waive our respective right to trial by jury of any cause of action, claim, counterclaim or cross-complaint in any action, proceeding, or hearing brought by either party on any matter arising out of or in any way related to this transaction, the parties' relationship or any claim of injury or damage, or the enforcement of any remedy under any law, statute, or regulation in effect or as amended.
23. **SIGNATURES.** By signing, I agree to the terms contained in this Note. I also acknowledge receipt of a copy of this Note.

**BORROWER:**

THE WILLDAN GROUP OF COMPANIES

By: /s/ Dan W. Heil

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DAN W. HEIL, CHAIRMAN OF THE BOARD

## QuickLinks

[Exhibit 10.2](#)

[PROMISSORY NOTE \(Commercial—Revolving Draw—Variable Rate\)](#)

[ORANGE COUNTY BUSINESS BANK LOGO]

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**SECURITY AGREEMENT**

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**DATE AND PARTIES.** The date of this Security Agreement [Agreement] is June 24, 2005. The parties and their addresses are:

**SECURED PARTY:**

**ORANGE COUNTY BUSINESS BANK, N.A.**  
467b Mac Arthur Court Suite 100  
Newport Beach, California 92660

**DEBTOR:**

**THE WILLDAN GROUP OF COMPANIES**  
a CALIFORNIA Corporation  
2401 EAST KATELLA AVENUE #300  
ANAHEIM, California 92806

The pronouns "you" and "your" refer to the Secured Party. The pronouns "I," "me" and "my" refer to each person or entity signing this Agreement as Debtor and agreeing to give the Property described in the Agreement as security for the Secured Debts.

**1. SECURED DEBTS.** This Agreement will secure the following Secured Debts:

**A. Specific Debts.** The following debts and all extensions, renewals, refinancings, modifications and replacements. A promissory note or other agreement, No. 01074420, dated June 24, 2005, from me to you, in the amount of \$8,000,000.00.

**B. All Debts.** All present and future debts from me to you, even if this Agreement is not specifically referenced, the future debts are also secured by other collateral, or if the future debt is unrelated to or of a different type than this debt. If more than one person signs this Agreement, each agrees that it will secure debts incurred either individually or with others who may not sign this Agreement. Nothing in this Agreement constitutes a commitment to make additional or future loans or advances. Any such commitment must be in writing.

This Agreement will not secure any debt for which you fail to give any required notice of the right of rescission. This Agreement will not secure any debt for which a non-possessory, non-purchase money security interest is created in "household goods" in connection with a "consumer loan," as those terms are defined by federal law governing unfair and deceptive credit practices.

**C. Sums Advanced.** All sums advanced and expenses incurred by you under the terms of this Agreement.

Loan Documents refer to all the documents executed in connection with the Secured Debts.

**2. SECURITY INTEREST.** To secure the payment and performance of the Secured Debts, I give you a security interest in all of the Property described in this Agreement that I own or have sufficient rights in which to transfer an interest, now or in the future, wherever the Property is or will be located, and all proceeds and products from the Property (including, but not limited to, all parts, accessories, repairs, replacements, improvements, and accessions to the Property). Property is all the collateral given as security for the Secured Debts and described in this Agreement, and includes all obligations that support the payment or performance of the Property. "Proceeds" includes anything acquired upon the sale, lease, license, exchange, or other disposition of the

Property; any rights and claims arising from Property; and any collections and distributions on account of the Property. This Agreement remains in effect until terminated in writing, even if the Secured Debts are paid and you are no longer obligated to advance funds to me under any loan or credit agreement.

3. **PROPERTY DESCRIPTION.** The Property is described as follows:

**A. Inventory.** All inventory which I hold for ultimate sale or lease, or which has been or will be supplied under contracts of service, or which are raw materials, work in process, or materials used or consumed in my business.

**B. Accounts and Other Rights to Payment.** All rights I have now or in the future to payments including, but not limited to, payment for property or services sold, leased, rented, licensed, or assigned, whether or not I have earned such payment by performance. This includes any rights and interests (including all liens and security interests) which I may have by law or agreement against any Account Debtor or obligor of mine.

**C. Instruments, Documents and Chattel Paper.** All instruments and rights I have now or in the future to payments including, but not limited to, rights to payment arising out of all present and future documents, instruments, tangible and electronic chattel paper, and loans and obligations receivable. This includes any rights and interests (including all liens and security interests) which I may have by law or agreement against any Account Debtor or obligor of mine.

**D. General Intangibles.** All general intangibles including, but not limited to, tax refunds, applications for patents, patents, copyrights, trademarks, trade secrets, good will, trade names, customer lists, permits and franchises, payment intangibles, computer programs and all supporting information provided in connection with a transaction relating to computer programs, and the right to use my name.

**E. Equipment.** All equipment including, but not limited to, all machinery, vehicles, furniture, fixtures, manufacturing equipment, farm machinery and equipment, shop equipment, office and recordkeeping equipment, and parts and tools. All equipment described in a list or schedule which I give to you will also be included in the Property, but such a list is not necessary for a valid security interest in my equipment.

4. **WARRANTIES AND REPRESENTATIONS.** I make to you the following warranties and representations which will continue as long as this Agreement is in effect:

**A. Power.** I am duly organized, and validly existing and in good standing in all jurisdictions in which I operate. I have the power and authority to enter into this transaction and to carry on my business or activity as it is now being conducted and, as applicable, am qualified to do so in each jurisdiction in which I operate.

**B. Authority.** The execution, delivery and performance of this Agreement and the obligation evidenced by this Agreement are within my powers, have been duly authorized, have received all necessary governmental approval, will not violate any provision of law, or order of court or governmental agency, and will not violate any agreement to which I am a party or to which I am or any of my property is subject.

**C. Name and Location.** My name indicated in the DATE AND PARTIES section is my exact legal name. I am an entity organized and registered under the laws of California. I will provide verification of registration and location upon your request. I will provide you with at least 30 days notice prior to any change in my name, address, or state of organization or registration.

**D. Business Name.** Other than previously disclosed in writing to you I have not changed my name or principal place of business within the last 10 years and have not used any other trade or

fictitious name. Without your prior written consent, I do not and will not use any other name and will preserve my existing name, trade names and franchises.

**E. Ownership of property.** I represent that I own all of the Property. Your claim to the Property is ahead of the claims of any other creditor, except as disclosed in writing to you prior to any advance on the Secured Debts. The collateral that is the subject of the chattal paper is perfected and preserved. I represent that I am the original owner of the Property and, if I am not, that I have provided you with a list of prior owners of the Property.

## 5. DUTIES TOWARD PROPERTY.

**A. Protection of Secured Party's Interest.** I will defend the Property against any other claim. I agree to do whatever you require to protect your security interest and to keep your claim in the Property ahead of the claims of other creditors. I will not do anything to harm your position.

I will keep books, records and accounts about the Property and my business in general. I will let you examine these and make copies at any reasonable time. I will prepare any report or accounting you request which deals with the Property.

**B. Use, Location, and Protection of the Property.** I will keep the Property in my possession and in good repair. I will use it only for commercial purposes. I will not change this specified use without your prior written consent. You have the right of reasonable access to inspect the Property and I will immediately inform you of any loss or damage to the property. I will not cause or permit waste to the Property.

I will keep the Property at my address listed in the DATE AND PARTIES section unless we agree I may keep it at another location. If the Property is to be used in other states, I will give you a list of those states. The location of the Property is given to aid in the identification of the Property. It does not in any way limit the scope of the security interest granted to you. I will notify you in writing and obtain your prior written consent to any change in location of any of the Property. I will not use the Property in violation of any law. I will notify you in writing prior to any change in my address, name or, if an organization, any change in my identity or structure.

Until the Secured Debts are fully paid and this Agreement is terminated, I will not grant a security interest in any of the Property without your prior written consent. I will pay all taxes and assessments levied or assessed against me or the Property and provide timely proof of payment of these taxes and assessments upon request.

**C. Selling, Leasing or Encumbering the Property.** I will not sell, offer to sell, lease, or otherwise transfer or encumber the Property without your prior written permission, except for inventory sold in the ordinary course of business at fair market value, or at a minimum price established between you and me. If I am in default under this Agreement, I may not sell the inventory portion of the Property even in the ordinary course of business. Any disposition of the Property contrary to this Agreement will violate your rights. Your permission to sell the Property may be reasonably withheld without regard to the creditworthiness of any buyer or transferee. I will not permit the Property to be the subject of any court order affecting my rights to the Property in any action by anyone other than you. If the Property includes chattel paper or instruments, either as original collateral or as proceeds of the property, I will note your security interest on the face of the chattel paper or instruments.

**D. Additional Duties Specific to Accounts.** Until you tell me otherwise, I will collect all Accounts in the ordinary course of business. I will not dispose of the Accounts by assignment without your prior written consent. I will keep the proceeds from all the Accounts and any goods which are returned to me or which I take back. I will deliver the Accounts to you at your request. I will give you any statements, reports, certificates, lists of Account Debtors (showing names, addresses and

amounts owing), invoices applicable to each Account, and other date in any way pertaining to the Accounts as you may request.

6. **INSURANCE.** I agree to keep the Property insured against the risks, reasonably associated with the Property. I will maintain this insurance in the amounts you require. This insurance will last until the Property is released from this Agreement. I may choose the insurance company, subject to your approval, which will not be unreasonably withheld. I acknowledge that you have not conditioned the making of this loan upon the selection of a particular agent to broker.

I will have the insurance company name you as loss payee on any insurance policy. I will give you and the insurance company immediate notice of any loss. You may apply the insurance proceeds toward what is owed on the Secured Debts. You may require added security as a condition of permitting any insurance proceeds to be used to repair or replace the Property.

If you acquire the Property in damaged condition, my right to any insurance policies and proceeds will pass to you to the extent of the Secured Debts.

I will immediately notify you of cancellation or termination of insurance. If I fail to keep the Property insured, you may obtain insurance to protect your interest in the Property. This insurance may include coverages not originally required of me, may be written by a company other than one I would choose, and may be written at a higher rate than I could obtain if I purchased the insurance.

7. **COLLECTION RIGHTS OF THE SECURED PARTY.** Account Debtor means the person who is obligated on an account, chattel paper, or general intangible. I authorize you to notify my Account Debtors of your security interest and to deal with the Account Debtors' obligations at your discretion. You may enforce the obligations of an Account Debtor, exercising any of my rights with respect to the Account Debtors' obligations to make payment or otherwise render performance to me, including the enforcement of any security interest that secures such obligations. You may apply proceeds received from the Account Debtors to the Secured Debts or you may release such proceeds to me.

I specifically and irrevocably authorize you to exercise any of the following powers at my expense without limitation, until the Secured Debts are paid in full:

- A. demand payment and enforce collection from any Account Debtor or Obligor by suit or otherwise.
- B. enforce any security interest, lien or encumbrance given to secure the payment or performance of any Account Debtor or any obligation constituting Property.
- C. file proofs of claim or similar documents in the event of bankruptcy, insolvency or death of any person obligated as an Account Debtor.
- D. compromise, release, extend, or exchange any indebtedness of an Account Debtor.
- E. take control of any proceeds of the Account Debtors' obligations and any returned or repossessed goods.
- F. endorse all payments by any Account Debtor which may come into your possession as payable to me.
- G. deal in all respects as the holder and owner of the Account Debtors' obligations.

8. **AUTHORITY TO PERFORM.** I authorize you to do anything you deem reasonably necessary to protect the Property, and perfect and continue your security interest in the Property. If I fail to perform any of my duties under this Agreement or any other Loan Document, you are authorized, without notice to me, to perform the duties or cause them to be performed.



These authorizations include, but are not limited to, permission to:

- A. pay and discharge taxes, liens, security interests or other encumbrances at any time levied or placed on the Property.
- B. pay any rents or other charges under any lease affecting the Property.
- C. order and pay for the repair, maintenance and preservation of the property.
- D. sign, when permitted by law, and file any financing statements on my behalf and pay for the filing and recording fees pertaining to the Property.
- E. place a note on any chattel paper indicating your interest in the Property.
- F. take any action you feel necessary to realize on the Property, including performing any part of a contract or endorsing it in my name.
- G. handle any suits or other proceedings involving the Property in my name.
- H. prepare, file, and sign my name to any necessary reports or accountings.
- I. make an entry on my books and records showing the existence of this Agreement.
- J. notify any Account Debtor of your interest in the Property and tell the Account Debtor to make payments to you or someone else you name.

If you perform for me, you will use reasonable care. Reasonable care will not include: any steps necessary to preserve rights against prior parties; the duty to send notices, perform services or take any other action in connection with the management of the Property; or the duty to protect, preserve or maintain any security interest given to others by me or other parties. Your authorization to perform for me will not create an obligation to perform and your failure to perform will not preclude you from exercising any other rights under the law or this Agreement.

If you come into actual or constructive possession of the Property, you will preserve and protect the Property. For purposes of this paragraph, you will be in actual possession of the Property only when you have physical, immediate and exclusive control over the Property and you have affirmatively accepted that control. You will be in constructive possession of the Property only when you have both the power and the intent to exercise control over the Property.

9. **DEFAULT.** I will be in default if any of the following occur:

- A. **Payments.** I fail to make a payment in full within ten (10) days of due date.
- B. **Insolvency or Bankruptcy.** The death, dissolution or insolvency of, appointment of a receiver by or on behalf of, application of any debtor relief law, the assignment for the benefit of creditors by or on behalf of, the voluntary or involuntary termination of existence by, or the commencement of any proceeding under any present or future federal or state insolvency, bankruptcy, reorganization, composition or debtor relief law by or against me, Obligor, or any co-signer, endorser, surety or guarantor of this Agreement or any other obligations Obligor has with you.
- C. **Business Termination.** I merge, dissolve, reorganize, end my business or existence, or a partner or majority owner dies or is declared legally incompetent.
- D. **Failure to Perform.** I fail to perform any condition or to keep any promise or covenant of this Agreement within twenty (20) days of notice.
- E. **Other Documents.** A default occurs under the terms of any other Loan Document.
- F. **Other Agreements.** I am in default on any other debt or agreement I have with you.

**G. Misrepresentation.** I make any verbal or written statement or provide any financial information that is untrue, inaccurate, or conceals a material fact at the time it is made or provided.

**H. Judgment.** I fail to satisfy or appeal any judgment against me.

**I. Forfeiture.** The Property is used in a manner or for a purpose that threatens confiscation by a legal authority.

**J. Name Change.** I change my name or assume an additional name without notifying you before making such a change.

**K. Property Transfer.** I transfer all or a substantial part of my money or property.

**L. Property Value.** The value of the Property materially declines or is impaired.

**M. Material Change.** Without first notifying you, there is a material change in my business, including ownership, management, and financial conditions.

**N. Insecurity.** You reasonably believe that you are insecure.

**10. REMEDIES.** After I default, and after you give any legally required notice and opportunity to cure the default, you may at your option do any one or more of the following.

**A. Acceleration.** You may make all or any part of the amount owing by the terms of the Secured Debts immediately due.

**B. Sources.** You may use any and all remedies you have under state or federal law or in any Loan Document.

**C. Insurance Benefits.** You may make a claim for any and all insurance benefits or refunds that may be available on my default.

**D. Payments Made On My Behalf.** Amounts advanced on my behalf will be immediately due and may be added to the Secured Debts.

**E. Assembly of Property.** You may require me to gather the Property and make it available to you in a reasonable fashion.

**F. Repossession.** You may repossess the Property so long as the repossession does not involve a breach of the peace. You may sell the Property as provided by law. You may apply what you receive from the sale of the Property to your expenses, your attorneys' fees and legal expenses (where not prohibited by law), and any debt I owe you. If what you receive from the sale of the Property does not satisfy the debt, I will be liable for the deficiency (where permitted by law). In some cases, you may keep the Property to satisfy the debt.

Where a notice is required, I agree that ten days prior written notice sent by first class mail to my address listed in this Agreement will be reasonable notice to me under the California Uniform Commercial Code. If the Property is perishable or threatens to decline speedily in value, you may, without notice to me, dispose of any or all of the Property in a commercially reasonable manner at my expense following any commercially reasonable preparation or processing.

If any items not otherwise subject to this Agreement are contained in the Property when you take possession, you may hold these items for me at my risk and you will not be liable for taking possession of them.

**G. Use and Operation.** You may enter upon my premises and take possession of all or any part of my property for the purpose of preserving the Property or its value, so long as you do not

breach the peace. You may use and operate my property for the length of time you feel is necessary to protect your interest, all without payment or compensation to me.

**H. Waiver.** By choosing any one or more of these remedies you do not give up your right to use any other remedy. You do not waive a default if you choose not to use a remedy. By electing not to use any remedy, you do not waive your right to later consider the event a default and to use any remedies if the default continues or occurs again.

11. **WAIVER OF CLAIMS.** I waive all claims for loss of damage caused by your acts or omissions where you acted reasonably and in good faith.
12. **PERFECTION OF SECURITY INTEREST AND COSTS.** I authorize you to file a financing statement covering the Property. I will comply with, facilitate, and otherwise assist you in connection with obtaining perfection or control over the Property for purposes of perfecting your security interest under the Uniform Commercial Code. I agree to pay all taxes, fees and costs you pay or incur in connection with preparing, filing or recording any financing statements or other security interest filings on the Property. I agree to pay all actual costs of terminating your security interest.
13. **APPLICABLE LAW.** This Agreement is governed by the laws of California, the United States of America and to the extent required, by the laws of the jurisdiction where the Property is located. In the event of a dispute, the exclusive forum, venue and place of jurisdiction will be in California, unless otherwise required by law.
14. **JOINT AND INDIVIDUAL LIABILITY AND SUCCESSORS.** Each Debtor's obligations under this Agreement are independent of the obligations of any other Debtor. You may sue each Debtor individually or together with any other Debtor. You may release any part of the Property and I will still be obligated under this Agreement for the remaining Property. The duties and benefits of this Agreement will bind and benefit the successors and assigns of you and me.
15. **AMENDMENT, INTEGRATION AND SEVERABILITY.** This Agreement may not be amended or modified by oral agreement. No amendment or modification of this Agreement is effective unless made in writing and executed by you and me. This Agreement and the other Loan Documents are the complete and final expression of the understanding between you and me. If any provision of this Agreement is unenforceable, then the unenforceable provision will be severed and the remaining provisions will still be enforceable.
16. **INTERPRETATION.** Whenever used, the singular includes the plural and the plural includes the singular. The section headings are for convenience only and are not to be used to interpret or define the terms of this Agreement.
17. **NOTICE, FINANCIAL REPORTS AND ADDITIONAL DOCUMENTS.** Unless otherwise required by law, any notice will be given by delivering it or mailing it by first class mail to the appropriate party's address listed in the DATE AND PARTIES section, or to any other address designated in writing. Notice to one Debtor will be deemed to be notice to all Debtors. I will inform you in writing of any change in my name, address or other application information. I will provide you any financial statement or information you request. All financial statements and information I give you will be correct and complete. I agree to sign, deliver, and file any additional documents or certifications that you may consider necessary to perfect, continue, and preserve my obligations under this Agreement and to confirm your lien status on any Property. Time is of the essence.
18. **WAIVER OF JURY TRIAL.** All of the parties to this agreement agree to waive our respective right to trial by jury of any cause of action, claim, counterclaim or cross-complaint in any action, proceeding, or hearing brought by either party on any matter arising out of or in any way related

to this transaction, the parties' relationship or any claim of injury or damage, or the enforcement of any remedy under any law, statute, or regulation, in effect or as amended.

**SIGNATURES.** By signing, I agree to the terms contained in this Agreement. I also acknowledge receipt of a copy of this Agreement.

**DEBTOR:**

THE WILLDAN GROUP OF COMPANIES

By: /s/ Dan W. Heil

DAN W. HEIL, CHAIRMAN OF THE BOARD

QuickLinks

[Exhibit 10.3](#)

[SECURITY AGREEMENT](#)

[ORANGE COUNTY BUSINESS BANK LOGO]

<b>LOAN NUMBER</b> 010274428	<b>LOAN NAME</b> THE WILLDAN GROUP OF COMPANIES	<b>ACCT. NUMBER</b>	<b>AGREEMENT DATE</b> 06/24/05	<b>INITIALS</b> NG 1
<b>NOTE AMOUNT</b> \$900,000,000	<b>INDEX(W/Margin)</b> Wall Street Journal Prime plus 0.250%	<b>RATE</b> 6.250%	<b>MATURITY DATE</b> 07/01/07	<b>LOAN PURPOSE</b> Commercial
Creditor Use Only				

**COMMERCIAL LOAN AGREEMENT**  
**Single Advance Loan**

**DATE AND PARTIES.** The date of this Commercial Loan Agreement (Agreement) is June 24, 2005. The parties and their addresses are as follows:

**LENDER:**

**ORANGE COUNTY BUSINESS BANK, N.A.**  
4875 Mac Arthur Court Suite 100  
Newport Beach, California 92660

**BORROWER:**

**THE WILLDAN GROUP OF COMPANIES**  
a CALIFORNIA Corporation  
2401 EAST KATELLA AVENUE #300  
ANAHEIM, California 92806

**1. DEFINITIONS.** For the purposes of this Agreement, the following terms have the following meanings.

- A. Accounting Terms.** In this Agreement, any accounting terms that are not specifically defined will have their customary meanings under generally accepted accounting principles.
- B. Insiders.** Insiders include those defined as insiders by the United States Bankruptcy Code, as amended; or to the extent left undefined, include without limitation any officer, employee, stockholder or member, director, partner, or any immediate family member of any of the foregoing, or any person or entity which, directly or indirectly, controls, is controlled by or is under common control with me.
- C. Loan.** The Loan refers to this transaction generally, including obligations and duties arising from the terms of all documents prepared or submitted for this transaction.
- D. Loan Documents.** Loan Documents refer to all the documents executed as a part of or in connection with the Loan.
- E. Pronouns.** The pronouns "I", "me" and "my" refer to every Borrower signing this Agreement, individually or together. "You" and "your" refer to the Loan's lender.
- F. Property.** Property is any property, real, personal or intangible, that secures my performance of the obligations of this Loan.

**2. SINGLE ADVANCE.** In accordance with the terms of this Agreement and other Loan Documents, you will provide me with a term note in the amount of \$900,000,00 (Principal). I will receive the funds from this Loan in one advance. No additional advances are contemplated, except

those made to protect and preserve your interests as provided in this Agreement or other Loan Documents.

3. **MATURITY DATE.** I agree to fully repay the Loan by July 1, 2007.
4. **WARRANTIES AND REPRESENTATIONS.** I make to you the following warranties and representations which will continue as long as this Loan is in effect, except when this Agreement provides otherwise.
  - A. **Power.** I am duly organized, and validly existing and in good standing in all jurisdictions in which I operate. I have the power and authority to enter into this transaction and to carry on my business or activity as it is now being conducted and, as applicable, am qualified to do so in each jurisdiction in which I operate.
  - B. **Authority.** The execution, delivery and performance of this Loan and the obligation evidenced by the Note are within my powers, have been duly authorized, have received all necessary governmental approval, will not violate any provision of law, or order of court or governmental agency, and will not violate any agreement to which I am a party or to which I am or any of my property is subject.
  - C. **Name and Place of Business.** Other than previously disclosed in writing to you I have not changed my name or principal place of business within the last 10 years and have not used any other trade or fictitious name. Without your prior written consent, I do not and will not use any other name and will preserve my existing name, trade names and franchises.
  - D. **Hazardous Substances.** Except as I previously disclosed in writing and you acknowledge in writing, no Hazardous Substances, underground tanks, private dumps or open wells are currently located at, on, in, under or about the Property.
  - E. **Use of Property.** After diligent inquiry, I do not know or have reason to know that any Hazardous Substance has been discharged, leached or disposed of, in violation of any Environmental Law, from the property onto, over or into any other property, or from any other property onto, over or into the property.
  - F. **Environmental Laws.** I have no knowledge or reason to believe that there is any pending or threatened investigation, claim, judgment or order, violation, lien, or other notice under any Environmental Law that concerns me or the property. The property and any activities on the property are in full compliance with all Environmental Law.
  - G. **Loan Purpose.** This Loan is for Commercial purposes.
  - H. **No Other Liens.** I own or lease all property that I need to conduct my business and activities. I have good and marketable title to all property that I own or lease. All of my Property is free and clear of all liens, security interests, encumbrances and other adverse claims and interests, except those to you or those you consent to in writing.
  - I. **Compliance With Laws.** I am not violating any laws, regulations, rules, orders, judgments or decrees applicable to me or my property, except for those which I am challenging in good faith through proper proceedings after providing adequate reserves to fully pay the claim and its challenge should I lose.
  - J. **Legal Dispute.** There are no pending or threatened lawsuits, arbitrations or other proceedings against me or my property that singly or together may materially and adversely affect my property, operations, financial condition, or business.
  - K. **Adverse Agreements.** I am not a party to, nor am I bound by, any agreement that is now or is likely to become materially adverse to my business, Property or operations.

- L. Other Claims.** There are no outstanding claims or rights that would conflict with the execution, delivery or performance by me of the terms and conditions of this Agreement or the other Loan Documents. No outstanding claims or rights exist that may result in a lien on the Property, the Property's proceeds and the proceeds of proceeds, except liens that were disclosed to and agreed to by you in writing.
- M. Solvency.** I am able to pay my debts as they mature, my assets exceed my liabilities and I have sufficient capital for my current and planned business and other activities. I will not become insolvent by the execution or performance of this Loan.
- 5. FINANCIAL STATEMENTS.** I will prepare and maintain my financial records using consistently applied generally accepted accounting principles then in effect. I will provide you with financial information in a form that you accept and under the following terms.
- A. Certification.** I represent and warrant that any financial statements that I provide you fairly represents my financial condition for the stated periods, is current, complete, true and accurate in all material respects, includes all of my direct or contingent liabilities and there has been no material adverse change in my financial condition, operations or business since the date the financial information was prepared.
- B. SEC Reports.** I will provide you with true and correct copies of all reports, notices of statements that I provide to the Securities and Exchange Commission, any securities exchange or my stockholders, owners, or the holders of any material indebtedness as soon as available or at least within days after issuance.
- C. Requested Information.** I will provide you with any other information about my operations, financial affairs and condition within twenty (20) days after your request.
- 6. CONVENTS.** Until the Loan and all related debts, liabilities and obligations are paid and discharged, I will comply with the following terms, unless you waive compliance in writing.
- A. Participation.** I consent to you participating or syndicating the Loan and sharing any information that you decide is necessary about me and the Loan with the other participants or syndicators.
- B. Inspection.** Following your written request, I will immediately pay for all one-time and recurring out-of-pocket costs that are related to the inspection of my records, business or Property that secures the Loan. Upon reasonable notice, I will permit you or your agents to enter any of my premises and any location where my property is located during regular business hours to do the following.
- (1) You may inspect, audit, check, review and obtain copies from my books, records, journals, orders, receipts, and any correspondence and other business related data.
  - (2) You may discuss my affairs, finances and business with any one who provides you with evidence that they are a creditor of mine, the sufficiency of which will be subject to your sole discretion.
  - (3) You may inspect my Property, audit for the use and disposition of the Property's proceeds and proceeds of proceeds; or do whatever you decide is necessary to preserve and protect the Property and your Interest in the Property.

After prior notice to me, you may discuss my financial condition and business operations with my independent accountants, if any, or my chief financial officer or controller and I may be present during these discussions. As long as the Loan is outstanding, I will direct all of my accountants and auditors to permit you to examine my records in their possession and to make copies to these records. You will use your best efforts to maintain the confidentiality of the information you or



your agents obtain, except you may provide your regulator, if any, with required information about my financial condition, operation and business or that of my parent, subsidiaries or affiliates.

- C. Business Requirements.** I will preserve and maintain my present existence and good standing in the jurisdiction where I am organized and all of my rights, privileges and franchises. I will do all that is needed or required to continue my business or activities as presently conducted, by obtaining licenses, permits and bonds everywhere I engage in business or activities or own, lease or locate my property. I will obtain your prior written consent before I cease my business or before I engage in any new line of business that is materially different from my present business.
- D. Compliance with Laws.** I will not violate any laws, regulations, rules, orders, judgments or decrees applicable to me or my Property, except for those which I challenge in good faith through proper proceedings after providing adequate reserves to fully pay the claim and its appeal should I lose. Laws include without limitation the Federal Fair Labor Standards Act requirements for producing goods, the federal Employee Retirement Income Security Act of 1974's requirements for the establishment, funding and management of qualified deferred compensation plans for employees, health and safety laws, environmental laws, tax laws, licensing and permit laws. On your request, I will provide you with written evidence that I have fully and timely paid my taxes, assessments and other governmental charges levied or imposed on me, my income or profits and my property. Taxes include without limitation sales taxes, use taxes, personal property taxes, documentary stamp taxes recordation taxes, franchise taxes, income taxes, withholding taxes, FICA taxes and unemployment taxes. I will adequately provide for the payment of these taxes, assessments and other charges that have occurred but are not yet due and payable.
- E. New Organization.** I will obtain your written consent and any necessary changes to the Loan Documents before I organize or participate in the organization of any entity, merge into or consolidate with any one, permit any one else to merge into me, acquire all or substantially all of the assets of any one else or otherwise materially change my legal structure, management, ownership or financial condition.
- F. Dealing with Insiders.** I will not purchase, acquire or lease any property or services from, or sell, provide or lease any property or services to, or permit any outstanding loans or credit extensions to, or otherwise deal with any insiders except as required under contracts existing at the time I applied for the Loan and approved by you or as this Agreement otherwise permits. I will not change or breach these contracts existing at Loan application so as to cause an acceleration of or in increase an any payment due.
- G. Other Debts.** I will pay when due any and all other debts owned or guaranteed by me and will faithfully perform, or comply with all the conditions and obligations imposed on me concerning the debt or guaranty.
- H. Other Liabilities.** I will not incur, assume or permit any debt evidenced by notes, bonds or similar obligations, except: debt in existence on the date of this Agreement and fully disclosed to you; debt subordinated in payment to you on conditions and terms acceptable to you; accounts payable incurred in the ordinary course of my business and paid under customary trade terms or contested in good faith with reserves satisfactory to you.

Unless otherwise agreed to in writing by Lender

\* Acquisitions of other companies are not permitted

- I. Notice to You.** I will promptly notify you of any material change in my financial condition, of the occurrence of a default under the terms of this Agreement or any other Loan Document,

or a default by me under any agreement between me and any third party which materially and adversely affects my property, operations, financial condition or business.

- J. Certification of No Default.** On your request, my chief financial officer or controller or my independent accountant will provide you with a written certification that to the best of their knowledge no event of default exists under the terms of this Agreement or the other Loan Documents, and that there exists no other action, condition or event which with the giving of notice or lapse of time or both would constitute a default. As requested, my chief financial officer or controller or my independent accountant will also provide you with computations demonstrating compliance with any financial covenants and ratios contained in this Agreement. If an action, condition or event of default does exist, the certificate must accurately and fully disclose the extent and nature of this action, condition or event and state what must be done to correct it.
- K. Use of Loan Proceeds.** I will not permit the loan proceeds to be used to purchase, carry, reduce, or retire any loan originally incurred to purchase or carry any margin stock or otherwise cause the Loan to violate Federal Reserve Board Regulations U or X, or Section 8 of the Securities and Exchange Act of 1934 and its regulations, as amended.
- L. Dispose of No Assets.** Without your prior written consent or as the Loan Documents permit, I will not sell, lease, assign, transfer, dispose of or otherwise distribute all or substantially all of my assets to any person other than in the ordinary course of business for the assets depreciated book value or more.
- M. No Other Liens.** I will not create, permit or suffer any lien or encumbrance upon any of my properties for or by anyone, other than you, except for: nonconsensual liens imposed by law arising out of the ordinary course of business on obligations that are not overdue or which I am contesting in good faith after making appropriate reserves; valid purchase money security interests on personal property; or any other liens specifically agreed to by you in writing.
- N. Guaranties.** I will not guaranty or become liable in any way as surety, endorser (other than as endorser of negotiable instruments in the ordinary course of business) or accommodation endorser or otherwise for the debt or obligations of any other person or entity, except to you or as you otherwise specifically agree in writing.
- O. No Default under Other Agreements.** I will not allow to occur, or to continue unremedied, any act, event or condition which constitutes a default, or which with the passage of time or giving of notice, or both, would constitute a default under any agreement, document, instrument or undertaking to which I am a party or by which I may be bound.
- P. Legal Disputes.** I will promptly notify you in writing of any threatened or pending lawsuit, arbitration or other proceeding against me or any of my property, not identified in my financial statements, or that singly or together with other proceedings may materially and adversely affect my property, operations, financial condition or business. I will use my best efforts to bring about a favorable and speedy result of any of these lawsuits, arbitrations or other proceedings.
- Q. Other Notices.** I will immediately provide you with any information that may materially and adversely affect my ability to perform this Agreement and of its anticipated effect.
- R. No Change in Capital.** I will not make any distribution or declare or pay any dividends (in cash or in stock) on, or purchase, acquire, redeem, or retire any of Borrower's capital stock, of any class, whether now or hereafter outstanding. If Borrower is a "Subchapter S Corporation" (as defined in the Internal Revenue Code of 1986, as amended), Borrower may pay cash dividends on its stock to its shareholders from time to time in amounts necessary to

enable the shareholders to pay income taxes and make estimated income tax payments to satisfy their liabilities under federal and state law which arise solely from their status as shareholders of a Subchapter S Corporation because of their ownership of shares of Borrower's stock, or purchase or retire any of Borrower's outstanding shares or alter or amend Borrower's capital structure.

\* Individual stock repurchases in excess of fifty thousand dollars (\$50,000.00) are not permitted unless otherwise agreed to in writing by Lender.

- S. Loan Obligations.** I will make full and timely payment of all principal and interest obligations, and comply with the other terms and agreements contained in this Agreement and in the other Loan Documents.
- T. Insurance.** I will obtain and maintain insurance with insurers, in amounts and coverages that are acceptable to you and customary with industry practice. This may include without limitation insurance policies for public liability, fire, hazard and extended risk, workers compensation, and, at your request, business interruption and/or rent loss insurance. At your request, I will deliver to you certified copies of all of these insurance policies, binders or certificates. I will obtain and maintain a mortgage or lender loss payee endorsement for you when these endorsements are available. I will immediately notify you of cancellation or termination of insurance. I will require all insurance policies to provide you with at least 10 days prior written notice of cancellation or modification. I consent to you using or disclosing information relative to any contract of insurance required by the Loan for the purpose of replacing this insurance. I also authorize my insurer and you to exchange all relevant information related to any contract of insurance required by any document executed as part of this Loan.
- U. Property Maintenance.** I will keep all tangible and intangible property that I consider necessary or useful in my business in good working condition by making all needed repairs, replacements and improvements and by making all rental, lease or other payments due on this property.
- V. Property Lose.** I will immediately notify you and the insurance company when appropriate, of any material casualty, loss or depreciation to the Property or to my other property that affects my business.
- W. Accounts Receivable Collection.** I will collect and otherwise enforce all of my unpaid Accounts Receivable at my cost and expense, until you end my authority to do so, which you may do at any time to protect your best interests. I will not sell, assign or otherwise dispose of any Accounts Receivable without your written consent. I will not commingle the Accounts Receivable proceeds with any of my other property.
- X. Reserves.** You may set aside and reserve Loan proceeds for Loan interest, fees and expenses, taxes, and insurance.

No interest will accrue on any reserve Loan proceeds. Disbursement of reserves is disbursement of the Loan's proceeds. At my request, you will disburse the reserves for the purpose they were set aside for, as long as I am not in default under this Agreement. You may directly pay these reserved items, reimburse me for payments I made or reduce the reserves and increase the Loan proceeds available for disbursement.

- Y. Minimum Tangible Net Worth.** I will maintain a tangible net worth, determined under consistently applied generally accepted accounting principles, of \$9,000,000.00 or more by December 31, 2005 and measured quarterly thereafter. Tangible net worth is the amount that total assets exceed total liabilities. For determining tangible net worth, total assets will exclude

all intangible assets, including without limitations goodwill, patents, trademarks, trade names, copyrights, and franchises, and will exclude all Accounts Receivable, owed by my Insiders, that do not provide for a repayment schedule.

- Z. Additional Taxes.** I will pay all filing and recording costs and fees, including any recordation, documentary or transfer taxes or stamps, that are required to be paid with respect to this Loan and any Loan Documents.

Borrower covenants and agrees with Lender that while this Agreement is in effect, Borrower shall submit to Lender in substance and form satisfactory to Lender:

#### Additional Financial Reporting Covenants

Borrower's annual CPA unqualified audited financial statements as available and in no event later than one hundred and fifty (150) days after each fiscal year end. 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 facility,

Borrower's monthly company prepared, financial statements (including balance sheet and income statement) as soon as available and in no event later than forty five (45) days after each month and,

Borrower's annual tax returns, including all K-1 schedules and schedule "C" (if applicable), no later than ten (10) days after filing or in the case of extensions (copies also to be provided), no later than six (6) months after first filing due date.

Guarantor's annual, signed and dated personal financial statement as soon as available but in no event later than June 30th each year, Commencing June 30, 2006.

Guarantor's annual tax returns, including all K-1 schedules and schedule "C" (if applicable), no later than ten (10) days after filing or in the case of extensions (copies also to be provided), no later than six (6) months after first filing due date.

#### Financial Reporting Ratios

**Current Ratio.** Maintain a Current Ratio in excess of 1.10 to 1.00. The term Current Ratio means Borrower's total Current Assets divided by Borrower's total Current Liabilities. This liquidity ratio will be evaluated at of each quarter end.

**Debt Service Coverage Ratio.** Maintain a ratio of Debt Service Coverage in excess of 1.50:1. The term "Debt Service Coverage" means Borrower's Net Profits plus Depreciation, Depletion and Amortization divided by Borrower's Current Portion of Long Term Indebtedness. This coverage ratio will be evaluated as of each year end.

At Borrower's option and Lender's concurrence, as long as the loan agreement is in effect, shareholder debt, if subordinated to Lender, will be considered as net worth for purposes of calculating tangible net worth.

#### Additional Provisions

Borrower agrees to maintain its principal depository relationship with Lender.

Dan Heil to subordinate UCC-1 Financing statement, filed as Instrument No. 0401560466 with California Secretary of State.

- 7. DEFAULT.** I will be in default if any of the following occur:

- A. Payments.** I fail to make a payment in full within ten (10) days of due date.

- B. Insolvency or Bankruptcy.** The death, dissolution or insolvency of, appointment of a receiver by or on behalf of, application of any debtor relief law, the assignment for the benefit of creditors by or on behalf of, the voluntary or involuntary termination of existence by, or the commencement of any proceeding under any present or future federal or state insolvency, bankruptcy, reorganization, composition or debtor relief law by or against me or any co-signer, endorser, surety or guarantor of this Agreement or any other obligations I have with you.
  - C. Business Termination.** I merge, dissolve, reorganize, end my business or existence, or a partner or majority owner dies or is declared legally incompetent.
  - D. Failure to Perform.** I fail to perform any condition or to keep any promise or covenant of this Agreement within twenty (20) days of notice.
  - E. Other Documents.** A default occurs under the terms of any other Loan Document.
  - F. Other Agreements.** I am in default on any other debt or agreement I have with you.
  - G. Misrepresentation.** I make any verbal or written statement or provide any financial information that is untrue, inaccurate, or conceals a material fact at the time it is made or provided.
  - H. Judgment.** I fail to satisfy or appeal any judgment against me.
  - I. Forfeiture.** The Property is used in a manner or for a purpose that threatens confiscation by a legal authority.
  - J. Name Change.** I change my name or assume an additional name without notifying you before making such a change.
  - K. Property Transfer.** I transfer all or a substantial part of my money or property.
  - L. Property Value.** The value of the Property materially declines or is impaired.
  - M. Material Change.** Without first notifying you, there is a material change in my business, including ownership, management, and financial conditions.
  - N. Insecurity.** You reasonably believe that you are insecure.
- 8. REMEDIES.** After I default, and after you give any legally required notice and opportunity to cure the default, you may at your option do any one or more of the following.
- A. Acceleration.** You make all or any part of the amount owing by terms of the Loan immediately due. If I am a debtor in a bankruptcy practice or in an application filed under section 5(a)(3) of the Securities Investor Protection Act, the Loan is automatically accelerated and immediately due and payable without notice or demand upon filing of the petition or application.
  - B. Sources.** You may use any and all remedies you have under state or federal law or in any Loan Document.
  - C. Insurance Benefits.** You may make a claim for any and all insurance benefits or refunds that may be available on my default.
  - D. Payments Made On My Behalf.** Amounts advanced on my behalf will be immediately due and may be added to the balance owing under the terms of the Loan, and accrue interest at the highest post-maturity Interest rate.
  - E. Set-Off.** You may use the right of set-off. This means you may set-off any amount due and payable under the terms of the Loan against any right I have to receive money from you.

My right to receive money from you includes any deposit or share account balance I have with you; any money owed to me on an item presented to you or in your possession for collection or exchange; and any repurchase agreement or other non-deposit obligation. "Any amount due and payable under the terms of the Loan" means the total amount to which you are entitled to demand payment under the terms of the Loan at the time you set-off.

Subject to any other written contract, if my right to receive money from you is also owned by someone who has not agreed to pay the Loan, your right of set-off will apply to my interest in the obligation and to any other amount I could withdraw on my sole request or endorsement.

Your right of set-off does not apply to an account or other obligation where my rights arise only in a representative capacity. It also does not apply to any Individual Retirement Account or other tax-deferred retirement account. In addition, your right to set-off against any demand deposit accounts I have deposited with you may be limited by applicable California law. In certain circumstances, I may be entitled to a notice of set-off. State law may further limit your right of set-off.

You will not be liable for the dishonor of any check when the dishonor occurs because you set-off against any of my accounts. I agree to hold you harmless from any such claims arising as a result of your exercise of your right of set-off.

**F. Waiver.** Except as otherwise required by law, by choosing any one or more of these remedies you do not give up your right to use any other remedy. You do not waive a default if you choose not to use a remedy. By electing not to use any remedy, you do not waive your right to later consider the event a default and to use any remedies if the default continues or occurs again.

- 9. COLLECTION EXPENSES AND ATTORNEYS' FEES.** On or after Default, to the extent permitted by law, I agree to pay all expenses of collection, enforcement or protection of your rights and remedies under this Agreement or any other Loan Document. Expenses include, but are not limited to attorneys' fees, court costs and other legal expenses. These expenses are due and payable immediately. If not paid immediately, these expenses will bear interest from the date of payment until paid in full at the highest interest rate in effect as provided for in the terms of this Loan. All fees and expenses will be secured by the Property I have granted to you, if any. In addition, to the extent permitted by the United States Bankruptcy Code, I agree to pay the reasonable attorneys' fees incurred by you to protect your rights and interests in connection with any bankruptcy proceedings initiated by or against me.
- 10. APPLICABLE LAW.** This Agreement is governed by the laws of California, the United States of America and to the extent required, by the laws of the jurisdiction where the Property is located. In the event of a dispute, the exclusive forum, venue and place of jurisdiction will be in California, unless otherwise required by law.
- 11. JOINT AND INDIVIDUAL LIABILITY AND SUCCESSORS.** My obligation to pay the Loan is independent of the obligation of any other person who has also agreed to pay it. You may sue me alone, or anyone else who is obligated on the Loan, or any number of us together, to collect the Loan. Extending the Loan of now obligations under the Loan, will not affect my duty under the Loan and I will still be obligated to pay the Loan. You may assign all or part of your rights or duties under this Agreement of the Loan Documents without my consent. If you assign this Agreement, all of my covenants, agreements, representations and warranties contained in this Agreement or the Loan Documents will benefit your successors and assigns. I may not assign this Agreement of any of my rights under it without your prior written consent. The duties of the Loan will bind my successors and assigns.

12. **AMENDMENT, INTEGRATION AND SEVERABILITY.** This Agreement may not be amended or modified by oral agreement. No amendment or modification of this Agreement is effective unless made in writing and executed by you and me. This Agreement and the other Loan Documents are the complete and final expression of the understanding between you and me. If any provision of this Agreement is unenforceable, then the unenforceable provision will be severed and the remaining provisions will still be enforceable.
13. **INTERPRETATION.** Whenever used, the singular includes the plural and the plural includes the singular. The section headings are for convenience only and are not to be used to interpret or define the terms of this Agreement.
14. **NOTICE, FINANCIAL REPORTS AND ADDITIONAL DOCUMENTS.** Unless otherwise required by law, any notice will be given by delivering it or mailing it by first class mail to the appropriate party's address listed in the DATE AND PARTIES section, or to any other address designated in writing. Notice to one Borrower will be deemed to be notice to all Borrowers. I will inform you in writing of any change in my name, address or other application information. I will provide you any financial statement or information you request. All financial statements and information I give you will be correct and complete. I agree to sign, deliver, and file any additional documents or certifications that you may consider necessary to perfect, continue, and preserve my obligations under this Loan and to confirm your lien status on any Property. Time is of the essence.
15. **WAIVER OF JURY TRIAL.** All of the parties to this agreement agree to waive our respective right to trial by jury of any cause of action, claim, counterclaim or cross-complaint in any action, proceeding, or hearing brought by either party on any matter arising out of or in any way related to this transaction, the parties' relationship or any claim of injury or damage or the enforcement of any remedy under any law, statute, or regulation, in effect or as amended.
16. **SIGNATURE.** By signing, I agree to the terms contained in this Agreement. I also acknowledge receipt of a copy of this Agreement.

**BORROWER:**

THE WILLDAN GROUP OF COMPANIES

By: /s/ Dan W. Heil

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DAN W. HEIL, CHAIRMAN OF THE BOARD

## QuickLinks

[Exhibit 10.4](#)

[COMMERCIAL LOAN AGREEMENT Single Advance Loan](#)



[ORANGE COUNTY BUSINESS BANK LOGO]

<b>LOAN NUMBER</b> 010274428	<b>LOAN NAME</b> THE WILLDAN GROUP OF COMPANIES	<b>ACCT. NUMBER</b>	<b>NOTE DATE</b> 06/24/06	<b>INITIALS</b> NG1
<b>NOTE AMOUNT</b> \$900,000.00	<b>INDEX (w/Margin)</b> Wall Street Journal Prime plus 0.250%	<b>RATE</b> 6.250%	<b>MATURITY DATE</b> 07/01/07	<b>LOAN PURPOSE</b> Commercial
<b>Creditor Use Only</b>				

**PROMISSORY NOTE**

[Commercial—Single Advance—Variable Rate]

**DATE AND PARTIES.** The date of this Promissory Note (Note) is June 24, 2005. The parties and their addresses are:

**LENDER:**

**ORANGE COUNTY BUSINESS BANK, N.A.**

4675 Mac Arthur Court Suite 100  
Newport Beach, California 92660  
Telephone: (949) 221-0001

**BORROWER:**

**THE WILLDAN GROUP OF COMPANIES**

a CALIFORNIA Corporation  
2401 EAST KATELLA AVENUE #300  
ANAHEIM, California 92806

1. **DEFINITIONS.** As used in this Note, the terms have the following meanings:

- A. **Pronouns.** The pronouns "I," "me," and "my" refer to each Borrower signing this Note, individually and together. "You" and "Your" refer to the Lender.
- B. **Note.** Note refers to this document, and any extensions, renewals, modifications and substitutions of this Note.
- C. **Loan.** Loan refers to this transaction generally, including obligations and duties arising from the terms of all documents prepared or submitted for this transaction such as applications, security agreements, disclosures or notes, and this Note.
- D. **Loan Documents.** Loan Documents refer to all the documents executed as a part of or in connection with the Loan.
- E. **Property.** Property is any property, real, personal or intangible, that secures my performance of the obligation of this Loan.
- F. **Percent.** Rates and rate change limitations are expressed as annualized percentages.

2. **PROMISE TO PAY.** For value received, I promise to pay you or your order, at your address, or at such other location as you may designate, the principal sum of \$900,000.00 (Principal) plus interest from June 24, 2005 on the unpaid Principal balance until this Note matures or this obligation is accelerated.

3. **INTEREST.** Interest will accrue on the unpaid Principal balance of this Note at the rate of 6.250 percent (Interest Rate) until June 25, 2005, after which time it may change as described in the Variable Rate subsection.

- A. **Interest After Default.** If you declare a default under the terms of this Loan, including for failure to pay in full at maturity, you may increase the Interest Rate otherwise payable as described in this section. In such event, interest will accrue on the unpaid Principal balance of this Note at a rate equal to the rate in affect prior to default, plus 6.000 percent, until paid in full.
- B. **Maximum Interest Amount.** Any amount assessed or collected as interest under the terms of this Note or obligation will be limited to the Maximum Lawful Amount of Interest allowed by state or federal law. Amounts collected in excess of the Maximum Lawful Amount will be applied first to the unpaid Principal balance. Any remainder will be refunded to me.
- C. **Statutory Authority.** The amount assessed or collected on this Note is authorized by the California Banking Law (Cal. fin. Code, Div. 1).
- D. **Accrual.** During the scheduled term of this Loan interest accrues using an Actual/360 days counting method.
- E. **Variable Rate.** The Interest Rate may change during the term of this transaction.

(1) **Index.** Beginning with the first Change Date, the Interest Rate will be based on the following index: the base rate on corporate loans posted by at least 75% of the nations 30 largest banks known as the Wall Street Journal Prime Rate.

The Current Index is the most recent index figure available on each Change Date. You do not guaranty by selecting this Index, or the margin, that the Interest Rate on this Note will be the same rate you charge on any other loans or class of loans you make to me or other borrowers. If this Index is no longer available, you will substitute a similar index. You will give me notice of your choice.

(2) **Change Date.** Each date on which the Interest Rate may change is called a Change Date. The Interest Rate may change June 25, 2005 and daily thereafter.

(3) **Calculation Of Change.** On each Change Date, you will calculate the Interest Rate, which will be the Current Index plus 0.250 percent. The result of this calculation will be rounded to the nearest .001 percent. Subject to any limitations, this will be the Interest Rate until the next Change Date. The new Interest Rate will become effective on each Change Date. The Interest Rate and other charges on this Note will never exceed the highest rate or charge allowed by law for this Note.

(4) **Effect Of Variable Rate.** A change in the Interest Rate will have the following effect on the payments: The amount of scheduled payments will change.

4. **ADDITIONAL CHARGES.** As additional consideration, I agree to pay, or have paid, these additional fees and charges.

- A. **Nonrefundable Fees and Charges.** The following fees are earned when collected and will not be refunded If I prepay this Note before the scheduled maturity date.

**Document Preparation.** A(n) Document Preparation fee of \$250.00 payable from separate funds on or before today's date.

5. **REMEDIAL CHARGES.** In addition to interest or other finance charges, I agree that I will pay these additional fees based on my method and pattern of payment. Additional remedial charges may be described elsewhere in this Note.

**A. Late Charge.** If a payment is more than 10 days late, I will be charged 5.000 percent of the Amount of Payment or \$5.00, whichever is greater. I will pay this late charge promptly but only once for each late payment.

**B. Returned Check Charge.** I agree to pay a fee not to exceed \$25.00 for each check, negotiable order of withdrawal or draft I issue in connection with this Loan that is returned because it has been dishonored.

**6. GOVERNING AGREEMENT.** This Note is further governed by the Commercial Loan Agreement executed between you and me as a part of this Loan, as modified, amended or supplemented. The Commercial Loan Agreement states the terms and conditions of this Note, including the terms and conditions under which the maturity of this Note may be accelerated. When I sign this Note, I represent to you that I have reviewed and am in compliance with the terms contained in the Commercial Loan Agreement.

**7. PAYMENT.** I agree to pay this Note in 24 payments. A payment of \$40,078.80 will be due August 1, 2005 and on the 1st day of each month thereafter. This scheduled payment amount may change to reflect changes in the Interest Rate as described in the Variable Rate subsection of this Note. A final payment of the entire unpaid balance of Principal and interest will be due July 1, 2007.

Payments will be rounded to the nearest \$.01. With the final payment I also agree to pay any additional fees or charges owing and the amount of any advances you have made to others on my behalf. Payments scheduled to be paid on the 29th, 30th or 31st day of a month that contains no such day will, instead, be made on the last day of such month.

If the amount of a scheduled payment does not equal or exceed interest accrued during the payment period the unpaid portion will be added to, and will be payable with, the next scheduled payment.

Each payment I make on this Note will be applied first to interest that is due then to principal that is due, and finally to any charges that I owe other than principal and interest. If you and I agree to a different application of payments, we will describe our agreement on this Note. The actual amount of my final payment will depend on my payment record.

**8. PREPAYMENT.** I may prepay this Loan in full or in part at any time. Any partial prepayment will not excuse any later scheduled payments until I pay in full.

**9. LOAN PURPOSE.** The purpose of this Loan is to refinance term debt at current bank.

**10. SECURITY.** This Loan is secured by separate security instruments prepared together with this Note as follows:

**Document Name**

**Parties to Document**

Security Agreement — THE WILLDAN GROUP OF COMPANIES

THE WILLDAN GROUP OF COMPANIES

**11. DUE ON SALE OR ENCUMBRANCE.** You may, at your option, declare the entire balance of this Note to be immediately due and payable upon the creation of, or contract for the creation of, any lien, encumbrance, transfer or sale of all or any part of the Property. This right is subject to the restrictions imposed by federal law (12 C.F.R. 581), as applicable. However, if I am in default under this Agreement, I may not sell the inventory portion of the Property even in the ordinary course of business.

**12. WAIVERS AND CONSENT.** To the extent not prohibited by law, I waive protest, presentment for payment, demand, notice of acceleration, notice of intent to accelerate and notice of dishonor.

- A. Additional Waivers By Borrower.** In addition, I, and any party to this Note and Loan, to the extent permitted by law, consent to certain actions you may take, and generally waive defenses that may be available based on these actions or based on the status of a party to this Note.
- (1) You may renew or extend payments on this Note, regardless of the number of such renewals or extensions.
  - (2) You may release any Borrower, endorser, guarantor, surety, accommodation maker or any other co-signer.
  - (3) You may release, substitute or impair any Property securing this Note.
  - (4) You, or any institution participating in this Note, may invoke your right of set-off.
  - (5) You may enter into any sales, repurchases or participations of this Note to any person in any amounts and I waive notice of such sales, repurchases or participations.
  - (6) I agree that any of us signing this Note as a Borrower is authorized to modify the terms of this Note or any instrument securing, guarantying or relating to this Note.
  - (7) I agree that you may inform any party who guarantees this Loan of any Loan accommodations, renewals, extensions, modifications, substitutions or future advances.
- B. No Waiver By Lender.** Your course of dealing, or your forbearance from, or delay in, the exercise of any of your rights, remedies, privileges or right to insist upon my strict performance of any provisions contained in this Note, or any other Loan Document, shall not be construed as a waiver by you, unless any such waiver is in writing and is signed by you.

- 13. SUSPENSION OF REMEDIES.** You may not use any Remedy if I fail to make a payment which becomes due during a disability claim period and for which disability insurance coverage is provided. However, this term will not prohibit the use of any remedy if a payment is for an amount advanced after I have given you notice of a disability claim, unless a different disability causes the nonpayment.
- 14. COMMISSIONS.** I understand and agree that you (or your affiliate) will earn commissions or fees on any insurance products, and may earn such fees on other services that I buy through you or your affiliate.
- 15. APPLICABLE LAW.** This Note is governed by the laws of California, the United States of America and to the extent required, by the laws of the jurisdiction where the Property is located. In the event of a dispute, the exclusive forum, venue and place of jurisdiction will be in California, unless otherwise required by law.
- 16. JOINT AND INDIVIDUAL LIABILITY AND SUCCESSORS.** My obligation to pay the Loan is independent of the obligation of any other person who has also agreed to pay it. You may sue me alone, or anyone else who is obligated on the Loan, or any number of us together, to collect the Loan. Extending the Loan or new obligations under the Loan, will not affect my duty under the Loan and I will still be obligated to pay the Loan. This Note shall inure to the benefit of and be enforceable by you and your successors and assigns and shall be binding upon and enforceable against me and my personal representatives, successors, heirs and assigns.
- 17. AMENDMENT, INTEGRATION AND SEVERABILITY.** This Note may not be amended or modified by oral agreement. No amendment or modification of this Note is effective unless made in writing and executed by you and me. This Note and the other Loan Documents are the complete and final expression of the agreement. If any provision of this Note is unenforceable, then the unenforceable provision will be severed and the remaining provisions will still be enforceable.

18. **INTERPRETATION.** Whenever used, the singular includes the plural and the plural includes the singular. The section headings are for convenience only and are not to be used to interpret or define the terms of this Note.
19. **NOTICE, FINANCIAL REPORTS AND ADDITIONAL DOCUMENTS.** Unless otherwise required by law, any notice will be given by delivering it or mailing it by first class mail to the appropriate party's address listed in the DATE AND PARTIES section, or to any other address designated in writing. Notice to one Borrower will be deemed to be notice to all Borrowers. I will inform you in writing of any change in my name, address or other application information. I agree to sign, deliver, and file any additional documents or certifications that you may consider necessary to perfect, continue, and preserve my obligations under this Loan and to confirm your lien status on any Property. Time is of the essence.
20. **CREDIT INFORMATION.** I agree to supply you with whatever information you reasonably request. You will make requests for this information without undue frequency, and will give me reasonable time in which to supply the information.
21. **ERRORS AND OMISSIONS.** I agree, if requested by you, to fully cooperate in the correction, if necessary, in the reasonable discretion of you of any and all loan closing documents so that all documents accurately describe the loan between you and me, I agree to assume all costs including by way of illustration and not limitation, actual expenses, legal fees and marketing losses for failing to reasonably comply with your requests within thirty (30) days.
22. **WAIVER OF JURY TRIAL.** All of the parties to this agreement agree to waive our respective right to trial by jury of any cause of action, claim, counterclaim or cross-complaint in any action, proceeding, or hearing brought by either party on any matter arising out of or in any way related to this transaction, the parties' relationship or any claim of injury or damage, or the enforcement of any remedy under any law, statute, or regulation in effect or as amended.
23. **SIGNATURES.** By signing, I agree to the terms contained in this Note. I also acknowledge receipt of a copy of this Note.

**BORROWER:**

THE WILLDAN GROUP OF COMPANIES

By: /s/ Dan W. Heil

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DAN W. HEIL, CHAIRMAN OF THE BOARD

## QuickLinks

[Exhibit 10.5](#)

[PROMISSORY NOTE \[Commercial—Single Advance—Variable Rate\]](#)

[ORANGE COUNTY BUSINESS BANK LOGO]

## SECURITY AGREEMENT

**DATE AND PARTIES.** The date of this Security Agreement (Agreement) is June 24, 2005. The parties and their addresses are:

**SECURED PARTY:**

**ORANGE COUNTY BUSINESS BANK N.A.**  
4675 Mac Arthur Court Suite 100  
Newport Beach, California 92660

**DEBTOR:**

**THE WILLDAN GROUP OF COMPANIES**  
a CALIFORNIA Corporation  
2401 EAST KATELLA AVENUE #300  
ANAHEIM, California 92806

The pronouns "you" and "your" refer to the Secured Party. The pronouns "I," "me" and "my" refer to each person or entity signing this Agreement as Debtor and agreeing to give the Property described in this Agreement as security for the Secured Debts.

**1. SECURED DEBTS.** This Agreement will secure the following Secured Debts:

- A. Specific Debts.** The following debts and all extensions, renewals, refinancings, modifications and replacements. A promissory note or other agreement, No. 010274428, dated June 24, 2005, from me to you, in the amount of \$900,000.00.
- B. All Debts.** All present and future debts from me to you, even if this Agreement is not specifically referenced, the future debts are also secured by other collateral, or if the future debt is unrelated to or of a different type than this debt. If more than one person signs this Agreement, each agrees that it will secure debts incurred either individually or with others who may not sign this Agreement. Nothing in this Agreement constitutes a commitment to make additional or future loans or advances. Any such commitment must be in writing.

This Agreement will not secure any debt for which you fail to give any required notice of the right of rescission. This Agreement will not secure any debt for which a non-possessory, non-purchase money security interest is created in "household goods" in connection with a "consumer loan," as those terms are defined by federal law governing unfair and deceptive credit practices.

**C. Sums Advanced.** All sums advanced and expenses incurred by you under the terms of this Agreement.

Loan Documents refer to all the documents executed in connection with the Secured Debts.

**2. SECURITY INTEREST.** To secure the payment and performance of the Secured Debts, I give you a security interest in all of the Property described in this Agreement that I own or have sufficient rights in which to transfer an interest, now or in the future, wherever the Property is or will be located, and all proceeds and products from the Property (including, but not limited to, all parts, accessories, repairs, replacements, improvements, and accessions to the Property). Property is all the collateral given as security for the Secured Debts and described in this Agreement, and includes all obligations that support the payment or performance of the Property. "Proceeds" includes anything acquired upon the sale, lease, license, exchange, or other disposition of the Property; any rights and claims arising from the Property; and any collections and distributions on account of the Property.

This Agreement remains in effect until terminated in writing, even if the Secured Debts are paid and you are no longer obligated to advance funds to me under any loan or credit agreement.

3. **PROPERTY DESCRIPTION.** The Property is described as follows:

- A. **Inventory.** All inventory which I hold for ultimate sale or lease, or which has been or will be supplied under contracts of service, or which are raw materials, work in process, or materials used or consumed in my business.
- B. **Accounts and Other Rights to Payment.** All rights I have now or in the future to payments including, but not limited to, payment for property or services sold, leased, rented, licensed, or assigned, whether or not I have earned such payment by performance. This includes any rights and interests (including all liens and security interests) which I may have by law or agreement against any Account Debtor or obligor of mine.
- C. **Instruments, Documents and Chattel Paper.** All instruments and rights I have now or in the future to payments including, but not limited to, rights to payment arising out of all present and future documents, instruments, tangible and electronic chattel paper, and loans and obligations receivable. This includes any rights and interests (including all liens and security interests) which I may have by law or agreement against any Account Debtor or obligor of mine.
- D. **General Intangibles.** All general intangibles including, but not limited to, tax refunds, applications for patents, patents, copyrights, trademarks, trade secrets, good will, trade names, customer lists, permits and franchises, payment intangibles, computer programs and all supporting information provided in connection with a transaction relating to computer programs and the right to use my name.
- E. **Equipment.** All equipment including, but not limited to, all machinery, vehicles, furniture, fixtures, manufacturing equipment, farm machinery and equipment, shop equipment, office and recordkeeping equipment, and parts and tools. All equipment described in a list or schedule which I give to you will also be included in the Property, but such a list is not necessary for a valid security interest in my equipment.

4. **WARRANTIES AND REPRESENTATIONS.** I make to you the following warranties and representations which will continue as long as this Agreement is in effect:

- A. **Power.** I am duly organized, and validly existing and in good standing in all jurisdictions in which I operate. I have the power and authority to enter into this transaction and to carry on my business or activity as it is now being conducted and, as applicable, am qualified to do so in each jurisdiction in which I operate.
- B. **Authority.** The execution, delivery and performance of this Agreement and the obligation evidenced by this Agreement are within my powers, have been duly authorized, have received all necessary governmental approval, will not violate any provision of law, or order of court or governmental agency, and will not violate any agreement to which I am a party or to which I am or any of my property is subject.
- C. **Name and Location.** My name indicated in the DATE AND PARTIES section is my exact legal name. I am an entity organized and registered under the laws of California, I will provide verification of registration and location upon your request. I will provide you with at least 30 days notice prior to any change in my name, address, or state of organization of registration.
- D. **Business Name.** Other than previously disclosed in writing to you I have not changed my name or principal place of business within the last 10 years and have not used any other trade



or fictitious name. Without your prior written consent, I do not and will not use any other name and will preserve my existing name, trade names and franchises.

- E. **Ownership of Property.** I represent that I own all of the Property. Your claim to the Property is ahead of the claims of any other creditor, except as disclosed in writing to you prior to any advance on the Secured Debts. The collateral that is the subject of the chattel paper is perfected and preserved. I represent that I am the original owner of the Property and, if I am not, that I have provided you with a list of prior owners of the Property.

## 5. DUTIES TOWARD PROPERTY.

- A. **Protection of Secured Party's Interest.** I will defend the Property against any other claim. I agree to do whatever you require to protect your security interest and to keep your claim in the Property ahead of the claims of other creditors. I will not do anything to harm your position.

I will keep books, records and accounts about the Property and my business in general. I will let you examine these and make copies at any reasonable time. I will prepare any report or accounting you request which deals with the Property.

- B. **Use, Location, and Protection of the Property.** I will keep the Property in my possession and in good repair. I will use it only for commercial purposes. I will not change this specified use without your prior written consent. You have the right of reasonable access to inspect the Property and I will immediately inform you of any loss or damage to the Property. I will not cause for permit waste to the Property.

I will keep the Property at my address listed in the DATE AND PARTIES section unless we agree I may keep it at another location. If the Property is to be used in other states, I will give you a list of those states. The location of the Property is given to aid in the identification of the Property. It does not in any way limit the scope of the security interest granted to you. I will notify you in writing and obtain your prior written consent to any change in location of any of the Property. I will not use the Property in violation of any law. I will notify you in writing prior to any change in my address, name or, if an organization, any change in my identity or structure.

Until the Secured Debts are fully paid and this Agreement is terminated. I will not grant a security interest in any of the Property without your prior written consent. I will pay all taxes and assessments levied or assessed against me or the Property and provide timely proof of payment of these taxes and assessments upon request.

- C. **Selling, Leasing or Encumbering the Property.** I will not sell, offer to sell, lease, or otherwise transfer or encumber the Property without your prior written permission, except for inventory sold in the ordinary course of business at fair market value, or at a minimum price established between you and me. If I am in default under this Agreement, I may not sell the inventory portion of the Property even in the ordinary course of business. Any disposition of the Property contrary to this Agreement will violate your rights. Your permission to sell the Property may be reasonably withheld without regard to the creditworthiness of any buyer or transferee. I will not permit the Property to be the subject of any court order affecting my rights to the Property in any action by anyone other than you. If the Property includes chattel paper of instruments, either as original collateral or as proceeds of the Property. I will note your security interest on the face of the chattel paper or instruments.
- D. **Additional Duties Specific to Accounts.** Until you tell me otherwise, I will collect all Accounts in the ordinary course of business. I will not dispose of the Accounts by assignment without your prior written consent. I will keep the proceeds from all the Accounts and any goods which are returned to me or which I take back. I will deliver the Accounts to you at

your request. I will give you any statements, reports, certificates, lists of Account Debtors (showing names, addresses and amounts owing), invoices applicable to each Account, and other data in any way pertaining to the Accounts as you may request.

6. **INSURANCE.** I agree to keep the Property insured against the risks reasonably associated with the Property. I will maintain this insurance in the amounts you require. This insurance will last until the Property is released from this Agreement. I may choose the insurance company, subject to your approval, which will not be unreasonably withheld. I acknowledge that you have not conditioned the making of this loan upon the selection of a particular agent or broker.

I will have the insurance company name you as loss payee on any insurance policy. I will give you and the insurance company immediate notice of any loss. You may apply the insurance proceeds toward what is owed on the Secured Debts. You may require added security as a condition of permitting any insurance proceeds to be used to repair or replace the Property.

If you acquire the Property in damaged condition, my right to any insurance policies and proceeds will pass to you to the extent of the Secured Debts.

I will immediately notify you of cancellation or termination of insurance. If I fail to keep the Property insured, you may obtain insurance to protect your interest in the Property. This insurance may include coverages not originally required of me, may be written by a company other than one I would choose, and may be written at a higher rate than I could obtain if I purchased the insurance.

7. **COLLECTION RIGHTS OF THE SECURED PARTY.** Account Debtor means the person who is obligated on an account, chattel paper, or general intangible. I authorize you to notify my Account Debtors of your security interest and to deal with the Account Debtors' obligations at your discretion. You may enforce the obligations of an Account Debtor, exercising any of my rights with respect to the Account Debtors' obligations to make payment or otherwise render performance to me, including the enforcement of any security interest that secures such obligations. You may apply proceeds received from the Account Debtors to the Secured Debts or you may release such proceeds to me.

I specifically and irrevocably authorize you to exercise any of the following powers at my expense, without limitation, until the Secured Debts are paid in full:

- A. demand payment and enforce collection from any Account Debtor or Obligor by suit or otherwise.
- B. enforce any security interest, lien or encumbrance given to secure the payment or performance of any Account Debtor or any obligation constituting Property.
- C. file proofs of claim or similar documents in the event of bankruptcy, insolvency or death of any person obligated as an Account Debtor.
- D. compromise, release, extend, or exchange any indebtedness of an Account Debtor.
- E. take control of any proceeds of the Account Debtors' obligations and any returned or repossessed goods.
- F. endorse all payments by any Account Debtor which may come into your possession as payable to me.
- G. deal in all respects as the holder and owner of the Account Debtors' obligations.

8. **AUTHORITY TO PERFORM.** I authorize you to do anything you deem reasonably necessary to protect the Property, and perfect and continue your security interest in the Property. If I fail to perform any of my duties under this Agreement or any other Loan Document, you are authorized, without notice to me, to perform the duties or cause them to be performed.

These authorizations include, but are not limited to, permission to:

- A. pay and discharge taxes, liens, security interests or other encumbrances at any time levied or placed on the Property.
- B. pay any rents or other charges under any lease affecting the Property.
- C. order and pay for the repair, maintenance and preservation of the Property.
- D. sign, when permitted by law, and file any financing statements on my behalf and pay for filing and recording fees pertaining to the Property.
- E. place a note on any chattel paper indicating your interest in the Property.
- F. take any action you feel necessary to realize on the Property, including performing any part of a contract or endorsing it in my name.
- G. handle any suits or other proceedings involving the Property in my name.
- H. prepare, file, and sign my name to any necessary reports or accountings.
- I. make an entry on my books and records showing the existence of this Agreement.
- J. notify any Account Debtor of your interest in the Property and tell the Account Debtor to make payments to you or someone else you name.

If you perform for me, you will use reasonable care. Reasonable care will not include: any steps necessary to preserve rights against prior parties; the duty to send notices, perform services or take any other action in connection with the management of the Property; or the duty to protect, preserve or maintain any security interest given to others by me or other parties. Your authorization to perform for me will not create an obligation to perform and your failure to perform will not preclude you from exercising any other rights under the law or this Agreement.

If you come into actual or constructive possession of the Property, you will preserve and protect the Property. For purposes of this paragraph, you will be in actual possession of the property only when you have physical, immediate and exclusive control over the Property and you have affirmatively accepted that control. You will be in constructive possession of the Property only when you have both the power and the intent to exercise control over the Property.

9. **DEFAULT.** I will be in default if any of the following occur:

- A. **Payments.** I fail to make a payment in full within ten (10) days of due date.
- B. **Insolvency or Bankruptcy.** The death, dissolution or insolvency of appointment of a receiver by or on behalf of, application of any debtor relief law, the assignment for the benefit of creditors by or on behalf of, the voluntary or involuntary termination of existence by, or the commencement of any proceeding under any present or future federal or state insolvency, bankruptcy, reorganization, composition or debtor relief law by or against me, Obligor, or any co-signer, endorser, surety or guarantor of this Agreement or any other obligations Obligor has with you.
- C. **Business Termination.** I merge, dissolve, reorganize, end my business or existence, or a partner or majority owner dies or is declared legally incompetent.
- D. **Failure to Perform.** I fail to perform any condition or to keep any promise or covenant of this Agreement within twenty (20) days of notice.
- E. **Other Documents.** A default occurs under the terms of any other Loan Document.
- F. **Other Agreements.** I am in default on any other debt or agreement I have with you.

- G. Misrepresentation.** I make any verbal or written statement or provide any financial information that is untrue, inaccurate, or conceals a material fact at the time it is made or provided.
- H. Judgment.** I fail to satisfy or appeal any judgment against me.
- I. Forfeiture.** The Property is used in a manner or for a purpose that threatens confiscation by a legal authority.
- J. Name Change.** I change my name or assume an additional name without notifying you before making such a change.
- K. Property Transfer.** I transfer all or a substantial part of my money or property.
- L. Property Value.** The value of the Property materially declines or is impaired.
- M. Material Change.** Without first notifying you, there is a material change in my business, including ownership, management, and financial conditions.
- N. Insecurity.** You reasonably believe that you are insecure.

**10. REMEDIES.** After I default, and after you give any legally required notice and opportunity to cure the default, you may at your option do any one or more of the following.

- A. Acceleration.** You may make all or any part of the amount owing by the terms of the Secured Debts immediately due.
- B. Sources.** You may use any and all remedies you have under state or federal law or in any Loan Document.
- C. Insurance Benefits.** You may make a claim for any and all insurance benefits or refunds that may be available on my default.
- D. Payments Made On My Behalf.** Amounts advanced on my behalf will be immediately due and may be added to the Secured Debts.
- E. Assembly of Property.** You may require me to gather the Property and make it available to you in a reasonable fashion.
- F. Repossession.** You may repossess the Property so long as the repossession does not involve a breach of the peace. You may sell the Property as provided by law. You may apply what you receive from the sale of the Property to your expenses, your attorney's fees and legal expenses (where not prohibited by law), and any debt I owe you. If what you receive from the sale of the Property does not satisfy the debt, I will be liable for the deficiency (where permitted by law). In some cases, you may keep the Property to satisfy the debt.

Where a notice is required, I agree that ten days prior written notice sent by first class mail to my address listed in this Agreement will be reasonable notice to me under the California Uniform Commercial Code. If the Property is perishable or threatens to decline speedily in value, you may, without notice to me, dispose of any or all of the Property in a commercially reasonable manner at my expense following any commercially reasonable preparation or processing.

If any items not otherwise subject to this Agreement are contained in the Property when you take possession, you may hold these items for me at my risk and you will not be liable for taking possession of them.

- G. Use and Operation.** You may enter upon my premises and take possession of all or any part of my property for the purpose of preserving the Property or its value, so long as you do not

breach the peace. You may use and operate my property for the length of time you feel is necessary to protect your interest, all without payment or compensation to me.

**H. Waiver.** By choosing any one or more of these remedies you do not give up your right to use any other remedy. You do not waive a default if you choose not to use a remedy, By electing not to use any remedy, you do not waive your right to later consider the event a default and to use any remedies if the default continues or occurs again.

- 11. WAIVER OF CLAIMS.** I waive all claims for loss or damage caused by your acts or omissions where you acted reasonably and in good faith.
- 12. PERFECTION OF SECURITY INTEREST AND COSTS.** I authorize you to file a financing statement covering the Property. I will comply with, facilitate, and otherwise assist you in connection with obtaining perfection or control over the Property for purposes of perfecting your security interest under the Uniform Commercial Code. I agree to pay all taxes, fees and costs you pay or incur in connection with preparing, filing or recording any financing statements or other security interest filings on the Property. I agree to pay all actual costs of terminating your security interest.
- 13. APPLICABLE LAW.** This Agreement is governed by the laws of California, the United States of America and to the extent required, by the laws of the jurisdiction where the Property is located. In the event of a dispute, the exclusive forum, venue and place of jurisdiction will be in California, unless otherwise required by law.
- 14. JOINT AND INDIVIDUAL LIABILITY AND SUCCESSORS.** Each Debtor's obligations under this Agreement are independent of the obligations of any other Debtor. You may sue each Debtor individually or together with any other Debtor. You may release any part of the Property and I will still be obligated under this Agreement for the remaining Property. The duties and benefits of this Agreement will bind and benefit the successors and assigns of you and me.
- 15. AMENDMENT INTEGRATION AND SEVERABILITY.** This Agreement may not be amended or modified by oral agreement. No amendment or modification of this Agreement is effective unless made in writing and executed by you and me. This Agreement and the other Loan Documents are the complete and final expression of the understanding between you and me. If any provision of this Agreement is unenforceable, then the unenforceable provision will be severed and the remaining provisions will still be enforceable.
- 16. INTERPRETATION.** Whenever used, the singular includes the plural and the plural includes the singular. The section headings are for convenience only and are not to be used to interpret or define the terms of this Agreement.
- 17. NOTICE, FINANCIAL REPORTS AND ADDITIONAL DOCUMENTS.** Unless otherwise required by law, any notice will be given by delivering it or mailing it by first class mail to the appropriate party's address listed in the DATE AND PARTIES section, or to any other address designated in writing. Notice to one Debtor will be deemed to be notice to all Debtors. I will inform you in writing of any change in my name, address or other application information. I will provide you any financial statement or information you request. All financial statements and information I give you will be correct and complete. I agree to sign, deliver, and file any additional documents or certifications that you may consider necessary to perfect, continue, and preserve my obligations under this Agreement and to confirm your lien status on any Property. Time is of the essence.
- 18. WAIVER OF JURY TRIAL.** All of the parties to this agreement agree to waive our respective right to trial by jury of any cause of action, claim, counterclaim or cross-complaint in any action, proceeding, or hearing brought by either party on any matter arising out of or in any way related

to this transaction, the parties' relationship or any claim of injury or damage, or the enforcement of any remedy under any law, statute, or regulation, in effect or as amended.

**SIGNATURES.** By signing, I agree to the terms contained in this Agreement. I also acknowledge receipt of a copy of this Agreement.

**DEBTOR:**

THE WILLDAN GROUP OF COMPANIES

By: /s/ Dan W. Heil

\_\_\_\_\_  
DAN W. HEIL, CHAIRMAN OF THE BOARD

QuickLinks

[Exhibit 10.6](#)

[SECURITY AGREEMENT](#)

**WILLDAN ASSOCIATES — HUMAN RESOURCES POLICY**

Policy No. 130

Effective Date: 05/01/96

Page 1 of 3

**INCENTIVE BONUS PLAN**

1. *PURPOSE*

To establish guidelines within which the Company will reward certain employees for their individual contributions to the overall financial success of the Company.

2. *SCOPE*

This policy applies to all eligible employees in the classifications of Regional Manager, Division Manager and others as determined by the President.

3. *POLICY*

The Company will pay an incentive bonus to each eligible employee who meets the goals established by the Company, as long as the Company meets certain financial goals.

4.0 *PROVISIONS & CONDITIONS*

4.1 *ELIGIBILITY*

- 4.1.1 To be eligible, an employee must be either a Division Manager, Regional Manager or any classification determined to be eligible by the President.
- 4.1.2 An employee must have been employed for the last six months of the calendar year for which an incentive bonus is to be paid.
- 4.1.3 An employee must also be employed with the Company at the time an incentive bonus is paid.

4.2 *DETERMINATION OF COMPANY GOALS*

- 4.2.1 Prior to the beginning of the calendar year, the Company will set certain minimum annual company goals such as pre-tax profit and revenue growth.
- 4.2.2 Regional offices will also establish minimum revenue growth and pre-tax profit goals which must be approved by the President. These goals must be at least equal to the overall Company goals. Together the revenue and profit goals will be a 100% goal, however they can be weighted differently.
- 4.2.3 Finance and Administration Units will also establish minimum goals for their departments that are similar in design/concept to the Company goals. These must be approved by the President.
- 4.2.4 Division Managers and key individuals in responsible positions will also establish minimum revenue growth and pre-tax profit goals or other performance goals, which must be consistent with their goals, as well as approved by the President. These goals must be at least equal to the overall Regional Office/Unit goals. Together the revenue and profit goals will be a 100% goal, however they can be weighted differently.



4.2.5 The Company will also establish any priority company commitments prior to the start of the calendar year. These commitments are as follows:

- (1) To fund a contribution to the 401(k) Profit Sharing Plan at least equal to 10% of taxable profit.
- (2) To fund a return on equity, in the form of dividends, at least equal to 10% of beginning of year stockholder's equity.
- (3) To fund a significant reduction of outside debt each year.

#### 4.3 DETERMINATION OF INCENTIVE BONUS

4.3.1 *OVERALL COMPANY.* In order for any bonus to be paid, the Company, as a whole, must meet the minimum goals that have been established.

4.3.2 *REGIONAL MANAGER.* The Regional Office must have met both revenue and profit goals AND the Company must have met both revenue and profit goals, in order for a Regional Manager to receive a bonus. However, if the Regional Manager does *not* meet both of his/her goals but the dollar profit contribution equals or exceeds the dollar amount of the original profit goal, a partial bonus *may* be paid.

4.3.2 *DIVISION MANAGER.* The Division must have met both revenue and profit goals AND the Company must have met both revenue and profit goals, in order for a Division Manager to receive a bonus. However, if the Division Manager does *not* meet both of his/her goals but the dollar profit contribution equals or exceeds the dollar amount of the original profit goal, a partial bonus *may* be paid.

#### 4.4 COMPOSITION OF INCENTIVE BONUS

4.4.1 The incentive bonus for Regional Managers is 10% (minimum) to 25% (maximum) of annual salary.

4.4.1 The incentive bonus for Division Managers is 5% (minimum) to 15% (maximum) of annual salary.

#### 4.5 CALCULATION OF INCENTIVE BONUS

4.5.1 *Regional Managers.* One-third of the total potential bonus is based on the Company's overall performance to goal, and two-thirds of the total potential bonus is based on the Regional Office performance to goal.

4.5.2 *Division Managers.* One-third of the total potential bonus is based on the Regional Offices' performance to goal, and two-thirds of the total potential bonus is based on the Division's performance to goal. Division Managers who do *not* meet both of their goals are not eligible for the one-third bonus otherwise available because the Company and Regional office met their goals.

4.5.3 *Finance and Administration Units.* One-third of the total potential bonus is based on the Company's overall performance to goal, and two-thirds of the total potential bonus is based on the Unit's performance to goal.

QuickLinks

[Exhibit 10.7](#)

[INCENTIVE BONUS PLAN](#)

[MUNIFINANCIAL LOGO]

**2005 Incentive Bonus Plan**

**1. Eligibility**

- a. The President and Division Managers are eligible for the Plan.
- b. An employee must have been employed at MuniFinancial for the last six (6) months of the calendar year for which an incentive bonus is to be paid. The bonus will be pro-rated by the portion of the year the person was employed.
- c. An employee must be employed with MuniFinancial at the time the bonus is paid.

**2. Procedure**

- a. On or around the beginning of the calendar year, MuniFinancial will establish both a revenue and a pre-tax pre-bonus (PTPB) profit goal for the company. These goals must be approved or ratified by the Board of Directors.
- b. Revenue-producing Divisions will also establish revenue and PTPB profit goals that must be approved by the President.
- c. All revenue and profit goals will be measured in dollars.
- d. Administrative Division Managers will establish measurable goals for activities that support the success of the company. These goals must be approved by the President.
- e. Incentive bonuses will be paid after audited results are available for the year, usually in March or April of the subsequent year.

**3. Primary Condition**

- a. For any Incentive Bonuses to be paid, *the company* must meet *both* its revenue and PTPB profit goals.

**4. Secondary Conditions**

- a. For any Division Manager to receive an Incentive Bonus, the Primary Condition stated in Item 3 must first be met.
  - b. To receive an Incentive Bonus, a Division must meet BOTH its revenue and PTPB profit goals.
  - c. The results of all revenue-producing Divisions and the overall company will be subject to adjustment for outstanding accounts receivable aged over 90 days.
    - The President and the Division Manager will negotiate the quality of the receivable to determine if the associated revenue can remain in the current year or be recognized when collected.
    - Should aged accounts receivable be removed from the year's results, this deduction will apply to the division affected and the entire company.
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**5. Bonus Calculation — President**

- a. The President will be eligible for an Incentive Bonus only if the company achieves **both** its revenue and PTPB profit goals. If both goals are not met, then no Incentive Bonus will be rewarded.

President

25% of Base Salary

**6. Bonus Calculations — Division Manager**

- a. The Division Manager will be eligible for an Incentive Bonus only if the company achieves **both** its revenue and PTPB profit goals and the assigned division meets both its goals. If both goals are not met, then no Incentive Bonus will be rewarded.

Division Manager and Others in 1(a)

15% of Base Salary

## QuickLinks

[Exhibit 10.8](#)

[\[MUNIFINANCIAL LOGO\]  
2005 Incentive Bonus Plan](#)

**FORM OF  
TAX AGREEMENT  
RELATING TO S CORPORATION DISTRIBUTIONS**

This Tax Agreement Relating to S Corporation Distributions (the "*Agreement*") is made effective as of \_\_\_\_\_, 2006, by and among Willdan Group, Inc., a Delaware corporation, successor to The Willdan Group of Companies, a California corporation (the "*Company*"), and all of the stockholders identified on the signature pages of this Agreement (collectively, the "*Stockholders*").

A. At all times since its formation in or about 1964 the Company elected to be taxed as an S Corporation under the Internal Revenue Code, as amended (the "*Code*"). At all times since about January 1, 2002, the Company has elected to be taxed as an S corporation under the laws of the State of California.

B. Willdan, a California corporation, American Homeland Solutions, a California corporation, MuniFinacial, a California corporation, Arroyo Geotechnical, a California corporation, and Public Agency Resources, a California corporation (collectively, the "*Subsidiaries*") are all subsidiaries of the Company. At all times since the acquisition or formation of each of the Subsidiaries of the Company, each subsidiary has elected to be taxed as a Qualified Subchapter S Subsidiary under the Code.

C. The Company's S corporation election and the Qualified Subchapter S Subsidiary election of each of the Subsidiaries will terminate upon the consummation of Willdan's proposed initial public offering of common stock due to various reasons, including an increase in the number of Stockholders at the time of the public offering beyond that permitted by the Code.

D. Pursuant to the election of the Company to be taxed as an S Corporation and the elections of the Subsidiaries to be taxed as Qualified Subchapter S Subsidiaries, the Stockholders, as well as holders of Company stock who have sold shares in prior years who are not signatories to this Agreement (collectively "Prior Stockholders"), have been paying federal and certain state and local income taxes as a result of the "pass-through" to them of the Company's and the Subsidiaries' taxable income, and the Stockholders will continue paying or accruing such tax liability for such time period as the Company remains an S Corporation and the Subsidiaries remain Qualified Subchapter S Subsidiaries. Stockholders and Prior Stockholders may be collectively referred to as the "Indemnified Stockholders."

E. The Company's and the Stockholders' intentions are to distribute a portion of the earnings of the Company to the Stockholders approximately equal to the Stockholders' unpaid federal, state and local income taxes arising from the pass-through to them of taxable income on the basis of the highest Federal and State tax bracket.

F. There is a concern that following the termination of the Company's S tax status that there will be no continuing basis for the Company to pass-through to the Stockholders a portion of its earnings in order to allow for the payment of income taxes, whether by reason of underpayments in past years or by reason of under-distribution for the final tax year (or partial years) of the Company's S status in the absence of an agreement to accommodate such additional distributions to Stockholders.

NOW THEREFORE, for good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties agree as follows:

1. The Company hereby agrees, that to the extent (a) an assumed federal, state and local income tax liability computed using the highest combined federal, state and local income tax rates applicable to any Indemnified Stockholder with respect to such Indemnified Stockholder's share of the applicable items of income (which shall be determined using the same estimated percentage tax rate for each Indemnified Stockholder, irrespective of actual tax rates) as subsequently established in connection with the filing of the Company's tax return for any tax year prior to 2006, exceeds the amount of such Indemnified Stockholder's previous distributions, if any, made with respect to any such tax year, or (b) an assumed federal, state and local income tax liability computed using the highest combined

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federal, state and local income tax rates applicable to any Indemnified Stockholder with respect to such Indemnified Stockholder's share of the applicable items of income (which shall be determined using the same estimated percentage tax rate for each Indemnified Stockholder, irrespective of actual tax rates) as subsequently established in connection with the filing of the Company's tax return for the Company's anticipated short S Corporation tax year ended in 2006 upon the termination of the Company's S election, exceeds the amount of such Indemnified Stockholder's previous distributions, if any, made with respect to taxable income for the period from January 1, 2006 through the closing of the initial public offering of the Company's capital stock; then the Company will make a distribution equal to such difference to each Indemnified Stockholder; provided, however, that (x) no distributions made hereunder will exceed the Company's (and the Subsidiaries') combined "accumulated adjustments account" as defined in Code Section 1368(e)(1), and (y) each Stockholder will be entitled to equal distributions per share of capital stock owned by them, irrespective of their actual tax rates. Such payment shall be made whether or not such Indemnified Stockholder of the Company is a signatory of this Agreement. Any payment required pursuant to this Section 1 shall be made promptly by the Company, in cash, during a "post-termination transaction period" of the Company, as defined in Code Section 1377(b).

2. The Company hereby agrees to indemnify, defend and hold harmless each Indemnified Stockholder on an after-tax basis against additional federal, state or local income taxes, interest or penalties resulting from adjustments made (as a result of a final determination made by a competent tax authority) to the taxable income reported by the Company as S Corporation for taxable periods or portions thereof on or prior to the termination of the Company's S Corporation status. Such indemnification will also include any losses, costs or expenses (including reasonable attorneys' fees) arising out of a claim for such tax liability.

3. Each Stockholder will promptly notify the Company of any audit for any period for which any Stockholder believes that such Stockholder may be entitled to indemnity hereunder. The Company, at its option, will have the obligation to defend such audit, at its own expense, for such periods, utilizing advisors of the Company's choice, to the extent said audit involves issues arising from a matter subject to indemnification hereunder. Each of the Stockholders will cooperate fully with the Company in the defense of such audits and each Stockholder will have the right, but not the obligation, to participate in the same at such Stockholder's own expense. Failure by any Indemnified Stockholder to allow the Company to defend such audit in a timely manner, with respect to issues subject to indemnity hereunder, will terminate the Company's obligation hereunder to indemnify such Indemnified Stockholder, to the extent any such failure or delay prejudices the Company's ability to defend any such claim. Nothing hereunder will be construed to require the Company to defend or indemnify any Indemnified Stockholder with respect to issues raised by any governmental authority that are not related to the indemnification hereunder.

4. If a Stockholder reports an item on the Stockholder's income tax return in a manner inconsistent with the tax return of the Company, the Stockholder shall notify the Company of such treatment before filing the Stockholder's income tax return. If a Stockholder fails to report such inconsistent reporting, the Stockholder shall be liable to the Company for any expenses, including professionals' fees, tax, interest, penalties, or litigation costs, that may arise as a consequence of such inconsistent reporting, such as an audit by a taxing jurisdiction.

5. In the event all or part of any section or provision of this Agreement is for any reason held to be illegal or invalid, or is at any time inoperable by reason of any law, such illegality, invalidity, or inoperability will not affect the remainder hereof or any other section or provision of this Agreement.

6. This Agreement will inure to the benefit of and be binding upon the parties hereto and their respective heirs, successors and assigns.

7. This Agreement is made under the laws of the State of California and will be governed by and construed in accordance with the laws of such state.

8. This Agreement may be amended or modified only by a written instrument executed by the party or parties to be bound by such change or modification. This Agreement contains the entire agreement of the parties hereto with respect to the subject matter hereof.

9. This Agreement may be executed in one or more counterparts, each of which will be deemed an original, but all of which together will constitute one and the same agreement.

IN WITNESS WHEREOF, the Company, the Subsidiaries and each Stockholder have executed this agreement effective as of the date first above written.

**WILLDAN GROUP, INC.**

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Its: \_\_\_\_\_

**STOCKHOLDERS: [INSERT NAMES BELOW]**

\_\_\_\_\_  
Name: \_\_\_\_\_

\_\_\_\_\_  
Name: \_\_\_\_\_

\_\_\_\_\_  
Name: \_\_\_\_\_

\_\_\_\_\_  
Name: \_\_\_\_\_



QuickLinks

[Exhibit 10.9](#)

[FORM OF TAX AGREEMENT RELATING TO S CORPORATION DISTRIBUTIONS](#)

**WILLDAN GROUP, INC.  
2006 STOCK INCENTIVE PLAN**

**EFFECTIVE DATE:** , 2006  
**APPROVED BY STOCKHOLDERS:** , 2006  
**TERMINATION DATE:** , 2016

**ARTICLE 1  
PURPOSE**

1.1 **GENERAL.** The purpose of Willdan Group, Inc. 2006 Stock Incentive Plan (the "Plan") is to promote the success and enhance the value of Willdan Group, Inc. ("WGI" or the "Company") by linking the personal interests of the members of the Board, employees, officers, executives, consultants and advisors to those of Company stockholders and by providing such individuals with an incentive for outstanding performance to generate superior returns to Company stockholders. The Plan is further intended to provide flexibility to the Company in its ability to motivate, attract, and retain the services of Board members, employees, officers, executives, consultants and advisors upon whose judgment, interest, and special effort the successful conduct of the Company's operation is largely dependent.

**ARTICLE 2  
EFFECTIVE AND EXPIRATION DATE**

2.1 **EFFECTIVE DATE.** The Plan is effective as of the date approved by the Board (the "Effective Date"). Any Awards granted under the Plan before the Company's stockholders approve the Plan are effective when made (unless the Committee specifies otherwise at the time of grant), but no Award may be exercised or settled and no restrictions relating to any Award may lapse before the Company's stockholders approve the Plan. If the Company's stockholders do not approve the Plan within 12 months after the Effective Date, any Award previously made is automatically canceled without any further act.

2.2 **EXPIRATION DATE.** The Plan will expire on, and no Award may be granted under the Plan after, the tenth anniversary of the Effective Date. Any Awards that are outstanding on the tenth anniversary of the Effective Date shall remain in force according to the terms of the Plan and the Award Agreement.

**ARTICLE 3  
DEFINITIONS AND CONSTRUCTION**

3.1 **DEFINITIONS.** The following words and phrases shall have the following meanings:

- (a) "*Award*" means any Option granted to a Participant under the Plan.
  - (b) "*Award Agreement*" means any written agreement, contract, or other instrument or document evidencing an Award.
  - (c) "*Board*" means the Board of Directors of the Company.
  - (d) "*Cause*" means and will exist in the following circumstances: (i) you are convicted of a felony, (ii) you engage in any fraudulent or other dishonest act to the detriment of the Company, (iii) you fail to report for work on a regular basis, except for periods of authorized absence or bona fide illness, (iv) you misappropriate trade secrets, customer lists, or other proprietary information belonging to the Company for your own benefit or for the benefit of a competitor, (v) you engage in any willful misconduct designed to harm the Company or its stockholders, or (vi) you are negligent in performing your assigned duties.
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(e) "*Change of Control*" means and includes each of the following (subject to (4) below):

(1) A sale, transfer, or other disposition by Willdan through a single transaction or a series of transactions of securities of Willdan representing 50% or more of the combined voting power of Willdan's then outstanding securities to any "Unrelated Person" or "Unrelated Persons" acting in concert with one another. For purposes of this definition and the Plan, the term "Person" shall mean and include any individual, partnership, joint venture, association, trust, corporation, or other entity (including a "group" as referred to in Section 13(d)(3) of the Securities Exchange Act of 1934 (the "Act")). For purposes of this definition, the term "Unrelated Person" shall mean and include any Person other than the Company, or an employee benefit plan of the Company; or

(2) A sale, transfer, or other disposition through a single transaction or a series of related transactions of all or substantially all of the assets of Willdan to an Unrelated Person or Unrelated Persons acting in concert with one another; or

(3) Any consolidation or merger of Willdan with or into an Unrelated Person, unless immediately after the consolidation or merger the holders of the common stock of Willdan immediately prior to the consolidation or merger are the beneficial owners of securities of the surviving corporation representing at least 50% of the combined voting power of the surviving corporation's then outstanding securities.

(f) "*Code*" means the Internal Revenue Code of 1986, as amended.

(g) "*Committee*" means the committee of the Board described in Article 4.

(h) "*Disability*" means, for purposes of this Plan, that the Participant qualifies to receive long term disability payments under the Company's long term disability insurance program, as it may be amended from time to time.

(i) "*Exchange Act*" means the Securities Exchange Act of 1934, as amended.

(j) "*Fair Market Value*" means, as of any given date, the fair market value of Stock on a particular date determined by such methods or procedures as may be established from time to time by the Committee. Unless otherwise determined by the Committee, the Fair Market Value of Stock as of any date shall be the closing price for the Stock as reported on the national securities exchange on which the Stock is then listed for that date or, if no such prices are reported for that date, the average of the high and low trading prices on the next preceding date for which such prices were reported.

(k) "*Incentive Stock Option*" means an Option that is intended to meet the requirements of Section 422 of the Code or any successor provision thereto.

(l) "*Non-Employee Director*" means a member of the Board who qualifies as a "Non-Employee Director" as defined in Rule 16b-3(b)(3) of the Exchange Act, or any successor definition adopted by the Board.

(m) "*Non-Qualified Stock Option*" means an Option that is not intended to be an Incentive Stock Option.

(n) "*Option*" means a right granted to a Participant pursuant to Article 7 of the Plan to purchase Stock at a specified price during specified time periods. An Option may be either an Incentive Stock Option or a Non-Qualified Stock Option.

(o) "*Participant*" means a person who, as a member of the Board, employee, officer, or executive of, or consultant or advisor providing services to, the Company or a Subsidiary, as determined by the Committee, has been granted an Award pursuant to the Plan.

(p) "*Plan*" means Willdan Group, Inc. 2006 Stock Incentive Plan, as amended.

(q) "*Stock*" means the common stock of the Company and such other securities of the Company that may be substituted for Stock pursuant to Article 9.

(r) "*Subsidiary*" means any corporation or other entity of which a majority of the outstanding voting stock or voting power is beneficially owned directly or indirectly by the Company, as permitted by the Board.

#### **ARTICLE 4 ADMINISTRATION**

4.1 **COMMITTEE.** The Plan shall be administered by the Board of Directors, or by a compensation committee appointed by the Board of Directors. If the Board appoints a compensation committee (the "Committee"), it shall consist of at least two individuals, each of whom qualifies as a Non-Employee Director. If the Board does not appoint a Committee, references in this Plan to the Committee shall refer to the Board.

4.2 **ACTION BY THE COMMITTEE.** A majority of the Committee shall constitute a quorum. The acts of a majority of the members present at any meeting at which a quorum is present, and acts approved in writing by a majority of the Committee in lieu of a meeting, shall be deemed the acts of the Committee. Each member of the Committee is entitled to, in good faith, rely or act upon any report or other information furnished to that member by any officer or other employee of the Company or any Subsidiary, the Company's independent certified public accountants, or any executive compensation consultant or other professional retained by the Company to assist in the administration of the Plan.

4.3 **AUTHORITY OF COMMITTEE.** Subject to any specific designation in the Plan, the Committee has the exclusive power, authority and discretion to:

- (a) Designate Participants to receive Awards;
- (b) Determine the type or types of Awards to be granted to each Participant;
- (c) Determine the number of Awards to be granted and the number of shares of Stock to which an Award will relate;
- (d) Determine the terms and conditions of any Award granted pursuant to the Plan, including, but not limited to, the exercise price, grant price, or purchase price, any restrictions or limitations on the Award, any schedule for lapse of forfeiture restrictions or restrictions on the exercisability of an Award, and accelerations or waivers thereof, based in each case on such considerations as the Committee in its sole discretion determines;
- (e) Determine whether, to what extent, and pursuant to what circumstances an Award may be settled in, or the exercise price of an Award may be paid in, cash, Stock, other Awards, or other property, or an Award may be canceled, forfeited, or surrendered;
- (f) Prescribe the form of each Award Agreement, which need not be identical for each Participant;
- (g) Decide all other matters that must be determined in connection with an Award;
- (h) Establish, adopt, or revise any rules and regulations as it may deem necessary or advisable to administer the Plan;
- (i) Interpret the terms of, and any matter arising pursuant to, the Plan or any Award Agreement; and

(j) Make all other decisions and determinations that may be required pursuant to the Plan or as the Committee deems necessary or advisable to administer the Plan.

4.4 **DECISIONS BINDING.** The Committee's interpretation of the Plan, any Awards granted pursuant to the Plan, any Award Agreement and all decisions and determinations by the Committee with respect to the Plan are final, binding, and conclusive on all parties.

## **ARTICLE 5 SHARES SUBJECT TO THE PLAN**

5.1 **NUMBER OF SHARES.** Subject to adjustment provided in Article 9, the aggregate number of shares of Stock reserved and available for grant pursuant to the Plan shall be 300,000.

5.2 **LAPSED OR ASSUMED AWARDS.** To the extent that an Award terminates, expires, or lapses for any reason, any shares of Stock subject to the Award will again be available for the grant of an Award pursuant to the Plan. Additionally, to the maximum extent permitted by applicable law or any exchange rule, (i) any shares of stock tendered or withheld to satisfy the exercise price or tax withholding obligation pursuant to any Award shall again be available for the grant of an Award pursuant to the Plan, and (ii) shares of Stock issued in assumption of, or in substitution for, any outstanding awards of any entity acquired in any form of combination by the Company or any Subsidiary shall not be counted against shares of Stock available for grant pursuant to this Plan.

5.3 **STOCK DISTRIBUTED.** Any Stock distributed pursuant to an Award may consist, in whole or in part, of authorized and unissued Stock, treasury Stock or Stock purchased on the open market.

5.4 **LIMITATION ON NUMBER OF SHARES SUBJECT TO AWARDS.** Notwithstanding any provision in the Plan to the contrary, and subject to the adjustment in Article 9, the maximum number of shares of Stock with respect to one or more Awards that may be granted to any one Participant during a calendar year shall be 100,000.

## **ARTICLE 6 ELIGIBILITY AND PARTICIPATION**

### **6.1 ELIGIBILITY.**

(a) **General.** Persons eligible to participate in this Plan include all members of the Board, employees, officers, and executives of, and consultants and advisors providing services to, the Company or a Subsidiary, as determined by the Committee.

(b) **Foreign Participants.** In order to assure the viability of Awards granted to Participants employed in foreign countries, the Committee may provide for such special terms as it may consider necessary or appropriate to accommodate differences in local law, tax policy, or custom. Moreover, the Committee may approve such supplements to, or amendments, restatements, or alternative versions of, the Plan as it may consider necessary or appropriate for such purposes without thereby affecting the terms of the Plan as in effect for any other purpose; provided, however, that no such supplements, amendments, restatements, or alternative versions shall increase the share limitations contained in Section 5.1 of the Plan.

6.2 **ACTUAL PARTICIPATION.** Subject to the provisions of the Plan, the Committee may, from time to time, select from among all eligible individuals, those to whom Awards shall be granted and shall determine the nature and amount of each Award. No individual shall have any right to be granted an Award pursuant to this Plan.

**ARTICLE 7  
STOCK OPTIONS**

7.1 **GENERAL.** The Committee is authorized to grant Options to Participants on the following terms and conditions:

- (a) **Exercise Price.** The exercise price per share of Stock pursuant to an Option shall be determined by the Committee and set forth in the Award Agreement; provided that the exercise price for any Option shall not be less than the Fair Market Value as of the date of grant.
- (b) **Time And Conditions Of Exercise.** The Committee shall determine the time or times at which an Option may be exercised in whole or in part provided that the term of any Option granted under the Plan shall not exceed ten years. The Committee shall also determine the performance or other conditions, if any, that must be satisfied before all or part of an Option may be exercised. Unless otherwise provided in an Award Agreement, an Option will lapse immediately if a Participant's employment is terminated for Cause.
- (c) **Payment.** The Committee shall determine the methods by which the exercise price of an Option may be paid, the form of payment, including, without limitation, cash, promissory note, shares of Stock held for longer than six months (through actual tender or by attestation), or other property acceptable to the Committee (including broker-assisted "cashless exercise" arrangements), and the methods by which shares of Stock shall be delivered or deemed to be delivered to Participants.
- (d) **Evidence Of Grant.** All Options shall be evidenced by a written Award Agreement between the Company and the Participant. The Award Agreement shall include such additional provisions as may be specified by the Committee.

7.2 **INCENTIVE STOCK OPTIONS.** Incentive Stock Options shall be granted only to employees and the terms of any Incentive Stock Options granted pursuant to the Plan must comply with the following additional provisions of this Section 7.2:

- (a) **Exercise Price.** Subject to 7.2(d), the exercise price per share of Stock shall be set by the Committee, provided that the exercise price for any Incentive Stock Option may not be less than the Fair Market Value as of the date of the grant.
- (b) **Exercise.** In no event, may any Incentive Stock Option be exercisable for more than ten years from the date of its grant.
- (c) **Lapse Of Option.** An Incentive Stock Option shall lapse pursuant to the following circumstances.
  - (1) The Incentive Stock Option shall lapse ten years from the date it is granted, unless an earlier time is set in the Award Agreement.
  - (2) The Incentive Stock Option shall lapse upon termination of employment for Cause or for any other reason other than the Participant's death or Disability, unless otherwise provided in the Award Agreement.
  - (3) If the Participant terminates employment on account of Disability or death before the Option lapses pursuant to paragraph (1) or (2) above, the Incentive Stock Option shall lapse, unless it is previously exercised, on the earlier of (i) the scheduled termination date of the Option; or (ii) 12 months after the date of the Participant's termination of employment on account of Disability or death. Upon the Participant's Disability or death, any Incentive Stock Options exercisable at the Participant's Disability or death may be exercised by the Participant's legal representative or representatives, by the person or persons entitled to do so pursuant to the Participant's last will and testament, or, if the Participant fails to make

testamentary disposition of such Incentive Stock Option or dies intestate, by the person or persons entitled to receive the Incentive Stock Option pursuant to the applicable laws of descent and distribution.

(d) **Individual Dollar Limitation.** The aggregate Fair Market Value (determined as of the time an Award is made) of all shares of Stock with respect to which Incentive Stock Options are first exercisable by a Participant in any calendar year may not exceed \$100,000.00 or such other limitation as imposed by Section 422(d) of the Code, or any successor provision. To the extent that Incentive Stock Options are first exercisable by a Participant in excess of such limitation, the excess shall be considered Non-Qualified Stock Options.

(e) **Ten Percent Owners.** An Incentive Stock Option shall be granted to any individual who, at the date of grant, owns stock possessing more than ten percent of the total combined voting power of all classes of Stock of the Company only if such Option is granted at a price that is not less than 110% of Fair Market Value on the date of grant and the Option is exercisable for no more than five years from the date of grant.

(f) **Expiration Of Incentive Stock Options.** No Award of an Incentive Stock Option may be made pursuant to this Plan after the tenth anniversary of the Effective Date.

(g) **Right To Exercise.** During a Participant's lifetime, an Incentive Stock Option may be exercised only by the Participant.

## ARTICLE 8 PROVISIONS APPLICABLE TO AWARDS

8.1 **STAND-ALONE AND TANDEM AWARDS.** Awards granted pursuant to the Plan may, in the discretion of the Committee, be granted either alone, in addition to, or in tandem with, any other Award granted pursuant to the Plan. Awards granted in addition to or in tandem with other Awards may be granted either at the same time as or at a different time from the grant of such other Awards.

8.2 **EXCHANGE PROVISIONS.** The Committee may at any time offer to exchange or buy out any previously granted Award for a payment in cash, Stock, or another Award, based on the terms and conditions the Committee determines and communicates to the Participant at the time the offer is made, provided that the Committee may not reduce the exercise price of any previously-granted Option without shareholder approval.

8.3 **TERM OF AWARD.** The term of each Award shall be for the period as determined by the Committee, provided that in no event shall the term of any Option granted in tandem with the Incentive Stock Option exceed a period of ten years from the date of its grant.

8.4 **FORM OF PAYMENT FOR AWARDS.** Subject to the terms of the Plan and any applicable law or Award Agreement, payments or transfers to be made by the Company or a Subsidiary on the grant or exercise of an Award may be made in such forms as the Committee determines at or after the time of grant, including, without limitation, cash, promissory note, Stock held for more than six months, other Awards, or other property, or any combination, and may be made in a single payment or transfer, in installments, or on a deferred basis, in each case determined in accordance with rules adopted by, and at the discretion of, the Committee.

8.5 **LIMITS ON TRANSFER.** No right or interest of a Participant in any Award may be pledged, encumbered, or hypothecated to or in favor of any party other than the Company or a Subsidiary, or shall be subject to any lien, obligation, or liability of such Participant to any other party other than the Company or a Subsidiary. Except as otherwise provided by the Committee, no Award shall be assigned, transferred, or otherwise disposed of by a Participant other than by will or the laws of descent and distribution.

8.6 **BENEFICIARIES.** Notwithstanding Section 8.5, a Participant may, in the manner determined by the 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. A beneficiary, legal guardian, legal representative, or other person claiming any rights pursuant to the Plan is subject to all terms and conditions of the Plan and any Award Agreement applicable to the Participant, except to the extent the Plan and Award Agreement otherwise provide, and to any additional restrictions deemed necessary or appropriate by the Committee. If the Participant is married and resides in a community property state, a designation of a person other than the Participant's spouse as his beneficiary with respect to more than 50% of the Participant's interest in the Award shall not be effective without the prior written consent of the Participant's spouse. If no beneficiary has been designated or survives the Participant, payment shall be made to the person entitled thereto pursuant to the Participant's will or the laws of descent and distribution. Subject to the foregoing, a beneficiary designation may be changed or revoked by a Participant at any time provided the change or revocation is filed with the Committee

8.7 **STOCK CERTIFICATES.** Notwithstanding anything herein to the contrary, the Company shall not be required to issue or deliver any certificates evidencing shares of Stock pursuant to the exercise of any Award, unless and until the Board has determined, with advice of counsel, that the issuance and delivery of such certificates is in compliance with all applicable laws, regulations of governmental authorities and, if applicable, the requirements of any exchange on which the shares of Stock are listed or traded. All Stock certificates delivered pursuant to the Plan are subject to any stop-transfer orders and other restrictions as the Committee deems necessary or advisable to comply with Federal, state, or foreign jurisdiction, securities or other laws, rules and regulations and the rules of any national securities exchange or automated quotation system on which the Stock is listed, quoted, or traded. The Committee may place legends on any Stock certificate to reference restrictions applicable to the Stock. In addition to the terms and conditions provided herein, the Board may require that a Participant make such reasonable covenants, agreements, and representations as the Board, in its discretion, deems advisable in order to comply with any such laws, regulations, or requirements.

8.8 **ACCELERATION UPON A CHANGE OF CONTROL.** If a Change of Control occurs, Awards are converted, assumed, or replaced by a successor, and the Participant's employment with the Company (or successor entity) is terminated without Cause within 90 days following the date of the Change of Control, all outstanding Awards due such Participant shall become fully exercisable and all restrictions on outstanding Awards shall lapse. 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 on outstanding Awards shall lapse. To the extent that this provision causes Incentive Stock Options to exceed the dollar limitation set forth in Section 7.2(d), the excess Options shall be deemed to be Non-Qualified Stock Options. Upon, or in anticipation of, such an event, the Committee may cause every Award outstanding hereunder to terminate at a specific time in the future and shall give each Participant the right to exercise Awards during a period of time as the Committee, in its sole and absolute discretion, shall determine.

## ARTICLE 9 CHANGES IN CAPITAL STRUCTURE

9.1 **SHARES AVAILABLE FOR GRANT.** In the event of any change in the number of shares of Stock outstanding by reason of any stock dividend or split, recapitalization, merger, consolidation, combination or exchange of shares or similar corporate change, the maximum aggregate number of shares of Stock with respect to which the Committee may grant Awards, the number of shares of Stock subject to any Award, and any numeric limitation expressed in the Plan shall be appropriately adjusted by the Committee.



9.2 **OUTSTANDING AWARDS—INCREASE OR DECREASE IN ISSUED SHARES WITHOUT CONSIDERATION.** Subject to any required action by the stockholders of the Company, in the event of any increase or decrease in the number of issued shares of Stock resulting from a subdivision or consolidation of shares of Stock or the payment of a stock dividend (but only on the shares of Stock), or any other increase or decrease in the number of such shares effected without receipt or payment of consideration by the Company, the Committee shall proportionally adjust the number of shares of Stock subject to each outstanding Award and the exercise price per share of Stock of each such Award.

9.3 **OUTSTANDING AWARDS—CERTAIN MERGERS.** Subject to any required action by the stockholders of the Company, in the event that the Company shall be the surviving corporation in any merger or consolidation (except a merger or consolidation as a result of which the holders of shares of Stock receive securities of another corporation), each Award outstanding on the date of such merger or consolidation shall pertain to and apply to the securities that a holder of the number of shares of Stock subject to such Award would have received in such merger or consolidation.

9.4 **OUTSTANDING AWARDS—OTHER CHANGES.** In the event of any other change in the capitalization of the Company or corporate change other than those specifically referred to in Article 9, the Committee may, in its absolute discretion, make such adjustments in the number and class of shares subject to Awards outstanding on the date on which such change occurs and in the per share exercise price of each Award as the Committee may consider appropriate to prevent dilution or enlargement of rights.

9.5 **NO OTHER RIGHTS.** Except as expressly provided in the Plan, no Participant shall have any rights by reason of any subdivision or consolidation of shares of stock of any class, the payment of any dividend, any increase or decrease in the number of shares of stock of any class or any dissolution, liquidation, merger, or consolidation of the Company or any other corporation. Except as expressly provided in the Plan, no issuance by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall affect, and no adjustment by reason thereof shall be made with respect to, the number of shares of Stock subject to an Award or the exercise price of any Award.

## **ARTICLE 10 AMENDMENT, MODIFICATION, AND TERMINATION**

10.1 **AMENDMENT, MODIFICATION, AND TERMINATION.** With the approval of the Board, at any time and from time to time, the Committee may terminate, amend or modify the Plan; provided, however, that (i) to the extent necessary and desirable to comply with any applicable law, regulation, or stock exchange rule, the Company shall obtain stockholder approval of any Plan amendment in such a manner and to such a degree as required, and (ii) shareholder approval is required for any amendment to the Plan that (A) increases the number of shares available under the Plan (other than any adjustment as provided by Article 9), (B) permits the Committee to grant Options with an exercise price that is below Fair Market Value on the date of grant, or (C) permits the Committee to extend the exercise period for an Option beyond ten years from the date of grant.

10.2 **AWARDS PREVIOUSLY GRANTED.** No termination, amendment, or modification of the Plan shall adversely affect in any material way any Award previously granted pursuant to the Plan without the prior written consent of the Participant.

## **ARTICLE 11 GENERAL PROVISIONS**

11.1 **NO RIGHTS TO AWARDS.** No Participant, employee, or other person shall have any claim to be granted any Award pursuant to the Plan, and neither the Company nor the Committee is obligated to treat Participants, employees, and other persons uniformly.

11.2 **NO STOCKHOLDERS RIGHTS.** No Award gives the Participant any of the rights of a stockholder of the Company unless and until shares of Stock are in fact issued to such person in connection with such Award.

11.3 **WITHHOLDING.** The Company or any Subsidiary shall have the authority and the right to deduct or withhold, or require a Participant to remit to the Company, an amount sufficient to satisfy Federal, state, and local taxes (including the Participant's FICA obligation) required by law to be withheld with respect to any taxable event concerning a Participant arising as a result of this Plan. With the Committee's consent, a Participant may elect to (i) have the Company withhold from those shares of Stock that would otherwise be received upon the exercise of any Option, a number of shares having a Fair Market Value equal to the minimum statutory amount necessary to satisfy the Company's applicable federal, state, local or foreign income and employment tax withholding obligations with respect to such Participant, or (ii) tender previously-owned shares of Stock held by the Participant for six months or longer to satisfy the Company's applicable federal, state, local, or foreign income and employment tax withholding obligations with respect to the Participant.

11.4 **NO RIGHT TO EMPLOYMENT OR SERVICES.** Nothing in the Plan or any Award Agreement shall interfere with or limit in any way the right of the Company or any Subsidiary to terminate any Participant's employment or services at any time, nor confer upon any Participant any right to continue in the employ or service of the Company or any Subsidiary.

11.5 **UNFUNDED STATUS OF AWARDS.** The Plan is intended to be an "unfunded" plan for incentive compensation. With respect to any payments not yet made to a Participant pursuant to an Award, nothing contained in the Plan or any Award Agreement shall give the Participant any rights that are greater than those of a general creditor of the Company or any Subsidiary.

11.6 **INDEMNIFICATION.** To the extent allowable pursuant to applicable law, each member of the Committee or of the Board shall be indemnified and held harmless by the Company from any loss, cost, liability, or expense that may be imposed upon or reasonably incurred by such member in connection with or resulting from any claim, action, suit, or proceeding to which he or she may be a party or in which he or she may be involved by reason of any action or failure to act pursuant to the Plan and against and from any and all amounts paid by him or her in satisfaction of judgment in such action, suit, or proceeding against him or her provided he or she gives the Company an opportunity, at its own expense, to handle and defend the same before he or she undertakes to handle and defend it on his or her own behalf. The foregoing right of indemnification shall not be exclusive of any other rights of indemnification to which such persons may be entitled pursuant to the Company's Certificate of Incorporation or Bylaws, as a matter of law, or otherwise, or any power that the Company may have to indemnify them or hold them harmless.

11.7 **RELATIONSHIP TO OTHER BENEFITS.** No payment pursuant to the Plan shall be taken into account in determining any benefits pursuant to any pension, retirement, savings, profit sharing, group insurance, welfare or other benefit plan of the Company or any Subsidiary.

11.8 **EXPENSES.** The expenses of administering the Plan shall be borne by the Company and its Subsidiaries.

11.9 **TITLES AND HEADINGS.** The titles and headings of the Sections in the Plan are for convenience of reference only and, in the event of any conflict, the text of the Plan, rather than such titles or headings, shall control.

11.10 **FRACTIONAL SHARES.** No fractional shares of Stock shall be issued and the Committee shall determine, in its discretion, whether cash shall be given in lieu of fractional shares or whether such fractional shares shall be eliminated by rounding up or down as appropriate.

11.11 **SECURITIES LAW COMPLIANCE.** With respect to any person who is, on the relevant date, obligated to file reports pursuant to Section 16 of the Exchange Act, transactions pursuant to this Plan are intended to comply with all applicable conditions of Rule 16b-3 or its successors pursuant to the Exchange Act. To the extent any provision of the Plan or action by the Committee fails to so comply, it shall be void to the extent permitted by law and voidable as deemed advisable by the Committee.

11.12 **GOVERNMENT AND OTHER REGULATIONS.** The obligation of the Company to make payment of awards in Stock or otherwise shall be subject to all applicable laws, rules, and regulations, and to such approvals by government agencies as may be required. The Company shall be under no obligation to register pursuant to the Securities Act of 1933, as amended, any of the shares of Stock paid pursuant to the Plan. If the shares paid pursuant to the Plan may in certain circumstances be exempt from registration pursuant to the Securities Act of 1933, as amended, the Company may restrict the transfer of such shares in such manner as it deems advisable to ensure the availability of any such exemption.

11.13 **GOVERNING LAW.** The Plan and all Award Agreements shall be construed in accordance with and governed by the laws of the State of Delaware.

**WILLDAN GROUP, INC.  
2006 STOCK INCENTIVE PLAN**

**EFFECTIVE DATE:** , 2006  
**APPROVED BY STOCKHOLDERS:** , 2006  
**TERMINATION DATE:** , 2016

**ARTICLE 12  
PURPOSE**

12.1 **GENERAL.** The purpose of Willdan Group, Inc. 2006 Stock Incentive Plan (the "Plan") is to promote the success and enhance the value of Willdan Group, Inc. ("WGI" or the "Company") by linking the personal interests of the members of the Board, employees, officers, executives, consultants and advisors to those of Company stockholders and by providing such individuals with an incentive for outstanding performance to generate superior returns to Company stockholders. The Plan is further intended to provide flexibility to the Company in its ability to motivate, attract, and retain the services of Board members, employees, officers, executives, consultants and advisors upon whose judgment, interest, and special effort the successful conduct of the Company's operation is largely dependent.

**ARTICLE 13  
EFFECTIVE AND EXPIRATION DATE**

13.1 **EFFECTIVE DATE.** The Plan is effective as of the date approved by the Board (the "Effective Date"). Any Awards granted under the Plan before the Company's stockholders approve the Plan are effective when made (unless the Committee specifies otherwise at the time of grant), but no Award may be exercised or settled and no restrictions relating to any Award may lapse before the Company's stockholders approve the Plan. If the Company's stockholders do not approve the Plan within 12 months after the Effective Date, any Award previously made is automatically canceled without any further act.

13.2 **EXPIRATION DATE.** The Plan will expire on, and no Award may be granted under the Plan after, the tenth anniversary of the Effective Date. Any Awards that are outstanding on the tenth anniversary of the Effective Date shall remain in force according to the terms of the Plan and the Award Agreement.

**ARTICLE 14**  
**DEFINITIONS AND CONSTRUCTION**

14.1 **DEFINITIONS.** The following words and phrases shall have the following meanings:

- (a) "*Award*" means any Option granted to a Participant under the Plan.
- (b) "*Award Agreement*" means any written agreement, contract, or other instrument or document evidencing an Award.
- (c) "*Board*" means the Board of Directors of the Company.
- (d) "*Cause*" means and will exist in the following circumstances: (i) you are convicted of a felony, (ii) you engage in any fraudulent or other dishonest act to the detriment of the Company, (iii) you fail to report for work on a regular basis, except for periods of authorized absence or bona fide illness, (iv) you misappropriate trade secrets, customer lists, or other proprietary information belonging to the Company for your own benefit or for the benefit of a competitor, (v) you engage in any willful misconduct designed to harm the Company or its stockholders, or (vi) you are negligent in performing your assigned duties.
- (e) "*Change of Control*" means and includes each of the following (subject to (4) below):
  - (1) A sale, transfer, or other disposition by the Company through a single transaction or a series of transactions of securities of the Company representing 50% or more of the combined voting power of the Company's then outstanding securities to any "Unrelated Person" or "Unrelated Persons" acting in concert with one another. For purposes of this definition and the Plan, the term "Person" shall mean and include any individual, partnership, joint venture, association, trust, corporation, or other entity (including a "group" as referred to in Section 13(d)(3) of the Securities Exchange Act of 1934 (the "Act")). For purposes of this definition, the term "Unrelated Person" shall mean and include any Person other than the Company, or an employee benefit plan of the Company; or
  - (2) A sale, transfer, or other disposition through a single transaction or a series of related transactions of all or substantially all of the assets of the Company to an Unrelated Person or Unrelated Persons acting in concert with one another; or
  - (3) Any consolidation or merger of the Company with or into an Unrelated Person, unless immediately after the consolidation or merger the holders of the common stock of the Company immediately prior to the consolidation or merger are the beneficial owners of securities of the surviving corporation representing at least 50% of the combined voting power of the surviving corporation's then outstanding securities.
- (f) "*Code*" means the Internal Revenue Code of 1986, as amended.
- (g) "*Committee*" means the committee of the Board described in Article 4.
- (h) "*Disability*" means, for purposes of this Plan, that the Participant qualifies to receive long-term disability payments under the Company's long term disability insurance program, as it may be amended from time to time.
- (i) "*Exchange Act*" means the Securities Exchange Act of 1934, as amended.
- (j) "*Fair Market Value*" means, as of any given date, the fair market value of Stock on a particular date determined by such methods or procedures as may be established from time to time by the Committee. Unless otherwise determined by the Committee, the Fair Market Value of Stock as of any date shall be the closing price for the Stock as reported on the national securities exchange on which the Stock is then listed for that date or, if no such prices are reported for that

date, the average of the high and low trading prices on the next preceding date for which such prices were reported.

(k) "*Incentive Stock Option*" means an Option that is intended to meet the requirements of Section 422 of the Code or any successor provision thereto.

(l) "*Non-Employee Director*" means a member of the Board who qualifies as a "Non-Employee Director" as defined in Rule 16b-3(b)(3) of the Exchange Act, or any successor definition adopted by the Board.

(m) "*Non-Qualified Stock Option*" means an Option that is not intended to be an Incentive Stock Option.

(n) "*Option*" means a right granted to a Participant pursuant to Article 7 of the Plan to purchase Stock at a specified price during specified time periods. An Option may be either an Incentive Stock Option or a Non-Qualified Stock Option.

(o) "*Participant*" means a person who, as a member of the Board, employee, officer, or executive of, or consultant or advisor providing services to, the Company or a Subsidiary, as determined by the Committee, has been granted an Award pursuant to the Plan.

(p) "*Plan*" means Willdan Group, Inc. 2006 Stock Incentive Plan, as amended.

(q) "*Stock*" means the common stock of the Company and such other securities of the Company that may be substituted for Stock pursuant to Article 9.

(r) "*Subsidiary*" means any corporation or other entity of which a majority of the outstanding voting stock or voting power is beneficially owned directly or indirectly by the Company, as permitted by the Board.

## **ARTICLE 15 ADMINISTRATION**

15.1 **COMMITTEE.** The Plan shall be administered by the Board of Directors, or by a compensation committee appointed by the Board of Directors. If the Board appoints a compensation committee (the "Committee"), it shall consist of at least two individuals, each of whom qualifies as a Non-Employee Director. If the Board does not appoint a Committee, references in this Plan to the Committee shall refer to the Board.

15.2 **ACTION BY THE COMMITTEE.** A majority of the Committee shall constitute a quorum. The acts of a majority of the members present at any meeting at which a quorum is present, and acts approved in writing by a majority of the Committee in lieu of a meeting, shall be deemed the acts of the Committee. Each member of the Committee is entitled to, in good faith, rely or act upon any report or other information furnished to that member by any officer or other employee of the Company or any Subsidiary, the Company's independent certified public accountants, or any executive compensation consultant or other professional retained by the Company to assist in the administration of the Plan.

15.3 **AUTHORITY OF COMMITTEE.** Subject to any specific designation in the Plan, the Committee has the exclusive power, authority and discretion to:

- (a) Designate Participants to receive Awards;
- (b) Determine the type or types of Awards to be granted to each Participant;
- (c) Determine the number of Awards to be granted and the number of shares of Stock to which an Award will relate;

(d) Determine the terms and conditions of any Award granted pursuant to the Plan, including, but not limited to, the exercise price, grant price, or purchase price, any restrictions or limitations on the Award, any schedule for lapse of forfeiture restrictions or restrictions on the exercisability of an Award, and accelerations or waivers thereof, based in each case on such considerations as the Committee in its sole discretion determines;

(e) Determine whether, to what extent, and pursuant to what circumstances an Award may be settled in, or the exercise price of an Award may be paid in, cash, Stock, other Awards, or other property, or an Award may be canceled, forfeited, or surrendered;

(f) Prescribe the form of each Award Agreement, which need not be identical for each Participant;

(g) Decide all other matters that must be determined in connection with an Award;

(h) Establish, adopt, or revise any rules and regulations as it may deem necessary or advisable to administer the Plan;

(i) Interpret the terms of, and any matter arising pursuant to, the Plan or any Award Agreement; and

(j) Make all other decisions and determinations that may be required pursuant to the Plan or as the Committee deems necessary or advisable to administer the Plan.

15.4 **DECISIONS BINDING.** The Committee's interpretation of the Plan, any Awards granted pursuant to the Plan, any Award Agreement and all decisions and determinations by the Committee with respect to the Plan are final, binding, and conclusive on all parties.

## **ARTICLE 16 SHARES SUBJECT TO THE PLAN**

16.1 **NUMBER OF SHARES.** Subject to adjustment provided in Article 9, the aggregate number of shares of Stock reserved and available for grant pursuant to the Plan shall be 300,000.

16.2 **LAPSED OR ASSUMED AWARDS.** To the extent that an Award terminates, expires, or lapses for any reason, any shares of Stock subject to the Award will again be available for the grant of an Award pursuant to the Plan. Additionally, to the maximum extent permitted by applicable law or any exchange rule, (i) any shares of stock tendered or withheld to satisfy the exercise price or tax withholding obligation pursuant to any Award shall again be available for the grant of an Award pursuant to the Plan, and (ii) shares of Stock issued in assumption of, or in substitution for, any outstanding awards of any entity acquired in any form of combination by the Company or any Subsidiary shall not be counted against shares of Stock available for grant pursuant to this Plan.

16.3 **STOCK DISTRIBUTED.** Any Stock distributed pursuant to an Award may consist, in whole or in part, of authorized and unissued Stock, treasury Stock or Stock purchased on the open market.

16.4 **LIMITATION ON NUMBER OF SHARES SUBJECT TO AWARDS.** Notwithstanding any provision in the Plan to the contrary, and subject to the adjustment in Article 9, the maximum number of shares of Stock with respect to one or more Awards that may be granted to any one Participant during a calendar year shall be 100,000.

**ARTICLE 17**  
**ELIGIBILITY AND PARTICIPATION**

**17.1 ELIGIBILITY.**

(a) **General.** Persons eligible to participate in this Plan include all members of the Board, employees, officers, and executives of, and consultants and advisors providing services to, the Company or a Subsidiary, as determined by the Committee.

(b) **Foreign Participants.** In order to assure the viability of Awards granted to Participants employed in foreign countries, the Committee may provide for such special terms as it may consider necessary or appropriate to accommodate differences in local law, tax policy, or custom. Moreover, the Committee may approve such supplements to, or amendments, restatements, or alternative versions of, the Plan as it may consider necessary or appropriate for such purposes without thereby affecting the terms of the Plan as in effect for any other purpose; provided, however, that no such supplements, amendments, restatements, or alternative versions shall increase the share limitations contained in Section 5.1 of the Plan.

**17.2 ACTUAL PARTICIPATION.** Subject to the provisions of the Plan, the Committee may, from time to time, select from among all eligible individuals, those to whom Awards shall be granted and shall determine the nature and amount of each Award. No individual shall have any right to be granted an Award pursuant to this Plan.

**ARTICLE 18**  
**STOCK OPTIONS**

**18.1 GENERAL.** The Committee is authorized to grant Options to Participants on the following terms and conditions:

(a) **Exercise Price.** The exercise price per share of Stock pursuant to an Option shall be determined by the Committee and set forth in the Award Agreement; provided that the exercise price for any Option shall not be less than the Fair Market Value as of the date of grant.

(b) **Time And Conditions Of Exercise.** The Committee shall determine the time or times at which an Option may be exercised in whole or in part provided that the term of any Option granted under the Plan shall not exceed ten years. The Committee shall also determine the performance or other conditions, if any, that must be satisfied before all or part of an Option may be exercised. Unless otherwise provided in an Award Agreement, an Option will lapse immediately if a Participant's employment is terminated for Cause.

(c) **Payment.** The Committee shall determine the methods by which the exercise price of an Option may be paid, the form of payment, including, without limitation, cash, promissory note, shares of Stock held for longer than six months (through actual tender or by attestation), or other property acceptable to the Committee (including broker-assisted "cashless exercise" arrangements), and the methods by which shares of Stock shall be delivered or deemed to be delivered to Participants.

(d) **Evidence Of Grant.** All Options shall be evidenced by a written Award Agreement between the Company and the Participant. The Award Agreement shall include such additional provisions as may be specified by the Committee.

18.2 **INCENTIVE STOCK OPTIONS.** Incentive Stock Options shall be granted only to employees and the terms of any Incentive Stock Options granted pursuant to the Plan must comply with the following additional provisions of this Section 7.2:

- (a) **Exercise Price.** Subject to 7.2(d), the exercise price per share of Stock shall be set by the Committee, provided that the exercise price for any Incentive Stock Option may not be less than the Fair Market Value as of the date of the grant.
- (b) **Exercise.** In no event, may any Incentive Stock Option be exercisable for more than ten years from the date of its grant.
- (c) **Lapse Of Option.** An Incentive Stock Option shall lapse pursuant to the following circumstances.
  - (1) The Incentive Stock Option shall lapse ten years from the date it is granted, unless an earlier time is set in the Award Agreement.
  - (2) The Incentive Stock Option shall lapse upon termination of employment for Cause or for any other reason other than the Participant's death or Disability, unless otherwise provided in the Award Agreement.
  - (3) If the Participant terminates employment on account of Disability or death before the Option lapses pursuant to paragraph (1) or (2) above, the Incentive Stock Option shall lapse, unless it is previously exercised, on the earlier of (i) the scheduled termination date of the Option; or (ii) 12 months after the date of the Participant's termination of employment on account of Disability or death. Upon the Participant's Disability or death, any Incentive Stock Options exercisable at the Participant's Disability or death may be exercised by the Participant's legal representative or representatives, by the person or persons entitled to do so pursuant to the Participant's last will and testament, or, if the Participant fails to make testamentary disposition of such Incentive Stock Option or dies intestate, by the person or persons entitled to receive the Incentive Stock Option pursuant to the applicable laws of descent and distribution.
- (d) **Individual Dollar Limitation.** The aggregate Fair Market Value (determined as of the time an Award is made) of all shares of Stock with respect to which Incentive Stock Options are first exercisable by a Participant in any calendar year may not exceed \$100,000.00 or such other limitation as imposed by Section 422(d) of the Code, or any successor provision. To the extent that Incentive Stock Options are first exercisable by a Participant in excess of such limitation, the excess shall be considered Non-Qualified Stock Options.
- (e) **Ten Percent Owners.** An Incentive Stock Option shall be granted to any individual who, at the date of grant, owns stock possessing more than ten percent of the total combined voting power of all classes of Stock of the Company only if such Option is granted at a price that is not less than 110% of Fair Market Value on the date of grant and the Option is exercisable for no more than five years from the date of grant.
- (f) **Expiration Of Incentive Stock Options.** No Award of an Incentive Stock Option may be made pursuant to this Plan after the tenth anniversary of the Effective Date.
- (g) **Right To Exercise.** During a Participant's lifetime, an Incentive Stock Option may be exercised only by the Participant.



**ARTICLE 19**  
**PROVISIONS APPLICABLE TO AWARDS**

19.1 **STAND-ALONE AND TANDEM AWARDS.** Awards granted pursuant to the Plan may, in the discretion of the Committee, be granted either alone, in addition to, or in tandem with, any other Award granted pursuant to the Plan. Awards granted in addition to or in tandem with other Awards may be granted either at the same time as or at a different time from the grant of such other Awards.

19.2 **EXCHANGE PROVISIONS.** The Committee may at any time offer to exchange or buy out any previously granted Award for a payment in cash, Stock, or another Award, based on the terms and conditions the Committee determines and communicates to the Participant at the time the offer is made, provided that the Committee may not reduce the exercise price of any previously-granted Option without shareholder approval.

19.3 **TERM OF AWARD.** The term of each Award shall be for the period as determined by the Committee, provided that in no event shall the term of any Option granted in tandem with the Incentive Stock Option exceed a period of ten years from the date of its grant.

19.4 **FORM OF PAYMENT FOR AWARDS.** Subject to the terms of the Plan and any applicable law or Award Agreement, payments or transfers to be made by the Company or a Subsidiary on the grant or exercise of an Award may be made in such forms as the Committee determines at or after the time of grant, including, without limitation, cash, promissory note, Stock held for more than six months, other Awards, or other property, or any combination, and may be made in a single payment or transfer, in installments, or on a deferred basis, in each case determined in accordance with rules adopted by, and at the discretion of, the Committee.

19.5 **LIMITS ON TRANSFER.** No right or interest of a Participant in any Award may be pledged, encumbered, or hypothecated to or in favor of any party other than the Company or a Subsidiary, or shall be subject to any lien, obligation, or liability of such Participant to any other party other than the Company or a Subsidiary. Except as otherwise provided by the Committee, no Award shall be assigned, transferred, or otherwise disposed of by a Participant other than by will or the laws of descent and distribution.

19.6 **BENEFICIARIES.** Notwithstanding Section 8.5, a Participant may, in the manner determined by the 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. A beneficiary, legal guardian, legal representative, or other person claiming any rights pursuant to the Plan is subject to all terms and conditions of the Plan and any Award Agreement applicable to the Participant, except to the extent the Plan and Award Agreement otherwise provide, and to any additional restrictions deemed necessary or appropriate by the Committee. If the Participant is married and resides in a community property state, a designation of a person other than the Participant's spouse as his beneficiary with respect to more than 50% of the Participant's interest in the Award shall not be effective without the prior written consent of the Participant's spouse. If no beneficiary has been designated or survives the Participant, payment shall be made to the person entitled thereto pursuant to the Participant's will or the laws of descent and distribution. Subject to the foregoing, a beneficiary designation may be changed or revoked by a Participant at any time provided the change or revocation is filed with the Committee.

19.7 **STOCK CERTIFICATES.** Notwithstanding anything herein to the contrary, the Company shall not be required to issue or deliver any certificates evidencing shares of Stock pursuant to the exercise of any Award, unless and until the Board has determined, with advice of counsel, that the issuance and delivery of such certificates is in compliance with all applicable laws, regulations of governmental authorities and, if applicable, the requirements of any exchange on which the shares of Stock are listed or traded. All Stock certificates delivered pursuant to the Plan are subject to any stop-transfer orders and other restrictions as the Committee deems necessary or advisable to comply

with Federal, state, or foreign jurisdiction, securities or other laws, rules and regulations and the rules of any national securities exchange or automated quotation system on which the Stock is listed, quoted, or traded. The Committee may place legends on any Stock certificate to reference restrictions applicable to the Stock. In addition to the terms and conditions provided herein, the Board may require that a Participant make such reasonable covenants, agreements, and representations as the Board, in its discretion, deems advisable in order to comply with any such laws, regulations, or requirements.

19.8 **ACCELERATION UPON A CHANGE OF CONTROL.** If a Change of Control occurs, and Awards are converted, assumed, or replaced by a successor, and the Participant's employment with the Company (or successor entity) is terminated without Cause within 90 days following the date of the Change of Control, all outstanding Awards due such Participant shall become fully exercisable and all restrictions on outstanding Awards shall lapse. 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 on outstanding Awards shall lapse. To the extent that this provision causes Incentive Stock Options to exceed the dollar limitation set forth in Section 7.2(d), the excess Options shall be deemed to be Non-Qualified Stock Options. Upon, or in anticipation of, such an event, the Committee may cause every Award outstanding hereunder to terminate at a specific time in the future and shall give each Participant the right to exercise Awards during a period of time as the Committee, in its sole and absolute discretion, shall determine.

## ARTICLE 20 CHANGES IN CAPITAL STRUCTURE

20.1 **SHARES AVAILABLE FOR GRANT.** In the event of any change in the number of shares of Stock outstanding by reason of any stock dividend or split, recapitalization, merger, consolidation, combination or exchange of shares or similar corporate change, the maximum aggregate number of shares of Stock with respect to which the Committee may grant Awards, the number of shares of Stock subject to any Award, and any numeric limitation expressed in the Plan shall be appropriately adjusted by the Committee.

20.2 **OUTSTANDING AWARDS—INCREASE OR DECREASE IN ISSUED SHARES WITHOUT CONSIDERATION.** Subject to any required action by the stockholders of the Company, in the event of any increase or decrease in the number of issued shares of Stock resulting from a subdivision or consolidation of shares of Stock or the payment of a stock dividend (but only on the shares of Stock), or any other increase or decrease in the number of such shares effected without receipt or payment of consideration by the Company, the Committee shall proportionally adjust the number of shares of Stock subject to each outstanding Award and the exercise price per share of Stock of each such Award.

20.3 **OUTSTANDING AWARDS—CERTAIN MERGERS.** Subject to any required action by the stockholders of the Company, in the event that the Company shall be the surviving corporation in any merger or consolidation (except a merger or consolidation as a result of which the holders of shares of Stock receive securities of another corporation), each Award outstanding on the date of such merger or consolidation shall pertain to and apply to the securities that a holder of the number of shares of Stock subject to such Award would have received in such merger or consolidation.

20.4 **OUTSTANDING AWARDS—OTHER CHANGES.** In the event of any other change in the capitalization of the Company or corporate change other than those specifically referred to in Article 9, the Committee may, in its absolute discretion, make such adjustments in the number and class of shares subject to Awards outstanding on the date on which such change occurs and in the per share exercise price of each Award as the Committee may consider appropriate to prevent dilution or enlargement of rights.

20.5 **NO OTHER RIGHTS.** Except as expressly provided in the Plan, no Participant shall have any rights by reason of any subdivision or consolidation of shares of stock of any class, the payment of any dividend, any increase or decrease in the number of shares of stock of any class or any dissolution, liquidation, merger, or consolidation of the Company or any other corporation. Except as expressly provided in the Plan, no issuance by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall affect, and no adjustment by reason thereof shall be made with respect to, the number of shares of Stock subject to an Award or the exercise price of any Award.

## **ARTICLE 21 AMENDMENT, MODIFICATION, AND TERMINATION**

21.1 **AMENDMENT, MODIFICATION, AND TERMINATION.** With the approval of the Board, at any time and from time to time, the Committee may terminate, amend or modify the Plan; provided, however, that (i) to the extent necessary and desirable to comply with any applicable law, regulation, or stock exchange rule, the Company shall obtain stockholder approval of any Plan amendment in such a manner and to such a degree as required, and (ii) shareholder approval is required for any amendment to the Plan that (A) increases the number of shares available under the Plan (other than any adjustment as provided by Article 9), (B) permits the Committee to grant Options with an exercise price that is below Fair Market Value on the date of grant, or (C) permits the Committee to extend the exercise period for an Option beyond ten years from the date of grant.

21.2 **AWARDS PREVIOUSLY GRANTED.** No termination, amendment, or modification of the Plan shall adversely affect in any material way any Award previously granted pursuant to the Plan without the prior written consent of the Participant.

## **ARTICLE 22 GENERAL PROVISIONS**

22.1 **NO RIGHTS TO AWARDS.** No Participant, employee, or other person shall have any claim to be granted any Award pursuant to the Plan, and neither the Company nor the Committee is obligated to treat Participants, employees, and other persons uniformly.

22.2 **NO STOCKHOLDERS RIGHTS.** No Award gives the Participant any of the rights of a stockholder of the Company unless and until shares of Stock are in fact issued to such person in connection with such Award.

22.3 **WITHHOLDING.** The Company or any Subsidiary shall have the authority and the right to deduct or withhold, or require a Participant to remit to the Company, an amount sufficient to satisfy Federal, state, and local taxes (including the Participant's FICA obligation) required by law to be withheld with respect to any taxable event concerning a Participant arising as a result of this Plan. With the Committee's consent, a Participant may elect to (i) have the Company withhold from those shares of Stock that would otherwise be received upon the exercise of any Option, a number of shares having a Fair Market Value equal to the minimum statutory amount necessary to satisfy the Company's applicable federal, state, local or foreign income and employment tax withholding obligations with respect to such Participant, or (ii) tender previously-owned shares of Stock held by the Participant for six months or longer to satisfy the Company's applicable federal, state, local, or foreign income and employment tax withholding obligations with respect to the Participant.

22.4 **NO RIGHT TO EMPLOYMENT OR SERVICES.** Nothing in the Plan or any Award Agreement shall interfere with or limit in any way the right of the Company or any Subsidiary to terminate any Participant's employment or services at any time, nor confer upon any Participant any right to continue in the employ or service of the Company or any Subsidiary.

22.5 **UNFUNDED STATUS OF AWARDS.** The Plan is intended to be an "unfunded" plan for incentive compensation. With respect to any payments not yet made to a Participant pursuant to an Award, nothing contained in the Plan or any Award Agreement shall give the Participant any rights that are greater than those of a general creditor of the Company or any Subsidiary.

22.6 **INDEMNIFICATION.** To the extent allowable pursuant to applicable law, each member of the Committee or of the Board shall be indemnified and held harmless by the Company from any loss, cost, liability, or expense that may be imposed upon or reasonably incurred by such member in connection with or resulting from any claim, action, suit, or proceeding to which he or she may be a party or in which he or she may be involved by reason of any action or failure to act pursuant to the Plan and against and from any and all amounts paid by him or her in satisfaction of judgment in such action, suit, or proceeding against him or her provided he or she gives the Company an opportunity, at its own expense, to handle and defend the same before he or she undertakes to handle and defend it on his or her own behalf. The foregoing right of indemnification shall not be exclusive of any other rights of indemnification to which such persons may be entitled pursuant to the Company's Certificate of Incorporation or Bylaws, as a matter of law, or otherwise, or any power that the Company may have to indemnify them or hold them harmless.

22.7 **RELATIONSHIP TO OTHER BENEFITS.** No payment pursuant to the Plan shall be taken into account in determining any benefits pursuant to any pension, retirement, savings, profit sharing, group insurance, welfare or other benefit plan of the Company or any Subsidiary.

22.8 **EXPENSES.** The expenses of administering the Plan shall be borne by the Company and its Subsidiaries.

22.9 **TITLES AND HEADINGS.** The titles and headings of the Sections in the Plan are for convenience of reference only and, in the event of any conflict, the text of the Plan, rather than such titles or headings, shall control.

22.10 **FRACTIONAL SHARES.** No fractional shares of Stock shall be issued and the Committee shall determine, in its discretion, whether cash shall be given in lieu of fractional shares or whether such fractional shares shall be eliminated by rounding up or down as appropriate.

22.11 **SECURITIES LAW COMPLIANCE.** With respect to any person who is, on the relevant date, obligated to file reports pursuant to Section 16 of the Exchange Act, transactions pursuant to this Plan are intended to comply with all applicable conditions of Rule 16b-3 or its successors pursuant to the Exchange Act. To the extent any provision of the Plan or action by the Committee fails to so comply, it shall be void to the extent permitted by law and voidable as deemed advisable by the Committee.

22.12 **GOVERNMENT AND OTHER REGULATIONS.** The obligation of the Company to make payment of awards in Stock or otherwise shall be subject to all applicable laws, rules, and regulations, and to such approvals by government agencies as may be required. The Company shall be under no obligation to register pursuant to the Securities Act of 1933, as amended, any of the shares of Stock paid pursuant to the Plan. If the shares paid pursuant to the Plan may in certain circumstances be exempt from registration pursuant to the Securities Act of 1933, as amended, the Company may restrict the transfer of such shares in such manner as it deems advisable to ensure the availability of any such exemption.

22.13 **GOVERNING LAW.** The Plan and all Award Agreements shall be construed in accordance with and governed by the laws of the State of Delaware.

## QuickLinks

[Exhibit 10.10](#)

**WILLDAN GROUP, INC.  
INCENTIVE STOCK OPTION AGREEMENT**

This Incentive Stock Option Agreement ("*Agreement*") is between Willdan Group, Inc. ("*Company*") and (the "*Optionee*"), and is effective as of the            day of            , 2006 ("*Date of Grant*").

**RECITALS**

- A. The Company has adopted the Willdan Group, Inc. 2006 Stock Incentive Plan ("*Plan*") to provide incentives to attract and retain those individuals whose services are considered unusually valuable by providing them an opportunity to own stock in the Company.
- B. The Company believes that entering into this Agreement with the Optionee is consistent with those purposes. Any capitalized term not defined in this Agreement will have the meaning as set forth in the Plan.

NOW, THEREFORE, the Company and Optionee agree as follows:

**AGREEMENT**

1. **GRANT OF OPTION.** Subject to the terms of this Agreement and Article 7 of the Plan, the Company grants to the Optionee the right and option to purchase from the Company for cash all or any part of an aggregate of            shares of Stock ("*Option*") of the Company ("*Stock*"). The delivery of any document evidencing the Option is subject to the provisions of Section 7.1(d) of the Plan. The Option granted under this Agreement is intended to be an "incentive stock option" ("*ISO*") under Section 422 of the Internal Revenue Code of 1986, as amended (the "*Code*").

2. **PURCHASE PRICE.** The purchase price under this Agreement is \$            per share of Stock, as determined by the Committee, which shall not be less than the Fair Market Value of a share of Stock on the Date of Grant.

3. **VESTING OF OPTION.** The Option shall vest and be exercisable according to the following schedule:

**[insert vesting schedule]**

4. **EXERCISE OF OPTION.** This Option may be exercised, to the extent vested (under 3 above), in whole or in part at anytime before the Option expires by delivery of a written notice of exercise (under 5 below) and payment of the purchase price. The purchase price may be paid in cash or such other method permitted by the Committee under Section 7.1(c) of the Plan and communicated to the Optionee before the date the Optionee exercises the Option.

5. **METHOD OF EXERCISING OPTION.** Subject to the terms of this Agreement, the Option may be exercised by timely delivery to the Company of written notice, which notice shall be effective on the date received by the Company. The notice shall state the Optionee's election to exercise the Option and the number of underlying shares in respect of which an election to exercise has been made. Such notice shall be signed by the Optionee, or if the Option is exercised by a person or persons other than the Optionee because of the Optionee's death or Disability, such notice must be signed by such other person or persons and shall be accompanied by proof acceptable to the Company of the legal right of such person or persons to exercise the Option.

6. **TERM OF OPTION.** The Option granted under this Agreement expires, unless sooner terminated, ten (10) years from the Date of Grant, through and including the normal close of business of the Company on the tenth (10<sup>th</sup>) anniversary of the Date of Grant ("*Expiration Date*").

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7. **TERMINATION OF EMPLOYMENT OR SERVICE.**

a. If the Optionee's employment with, or service to, the Company terminates for any reason other than death, Disability, or involuntary termination by the Company for Cause, the Optionee may at any time within three months after the date of his or her termination of employment or service exercise the Option to the extent that the Optionee was entitled to exercise the Option at the date of termination, provided that in no event shall the Option be exercisable after the Expiration Date. For purposes of this Agreement, the Optionee's service will be deemed to continue if the Optionee ceases to provide services as an employee of the Company or any subsidiary, but continues to provide services immediately after his or her termination of employment as a non-employee director, consultant or independent contractor. Notwithstanding the above, if the Optionee exercises any portion of the Option after the expiration of the three-month period following Optionee's termination of employment, the Option shall no longer be eligible for treatment as an ISO and shall be treated as a non-qualified stock option. If the Optionee dies or terminates employment or service on account of Disability while in the service of the Company or within three months following termination of such service (except in case of involuntary termination by the Company for Cause) the Option to the extent it is then exercisable may nevertheless be exercised by the Optionee's personal representative within the twelve-month period following the date of death or Disability of the Optionee, provided that in no event shall the Option be exercisable after the Expiration Date.

b. If the Optionee ceases to be employed by or to provide services to the Company by reason of his involuntary termination by the Company for Cause, this Option to the extent it is then unexercised shall automatically and without notice to Optionee, expire concurrently with such termination of employment or service.

8. **NON-TRANSFERABILITY OF RIGHTS.** Optionee may not assign or transfer Optionee's rights under this Agreement, nor may Optionee subject such rights (or any of them) to execution, attachment, garnishment, or similar process, except as permitted under Section 8.5 of the Plan. Any such impermissible attempted assignment or transfer by Optionee shall be null and void and shall not be recognized by the Company.

9. **RIGHTS OF OPTIONEE.** The Optionee will have no rights as a shareholder of the Company with respect to the grant of the Option under this Agreement until and to the extent the Option is exercised and the Company issues shares of Stock to the Optionee.

10. **NO RIGHT TO CONTINUED EMPLOYMENT OR SERVICE.** This Option shall not confer upon Optionee any right with respect to continuance of employment or service with the Company or any Subsidiary, nor shall it interfere in any way with the right of the Company to terminate his or her employment or service at any time.

11. **FEDERAL AND STATE TAXES.** Optionee may incur certain liabilities for Federal, state, or local taxes in connection with the exercise of the Option hereunder, and the Company may be required by law to withhold such taxes. Upon determination of the year in which such taxes are due and the determination by the Company of the amount of taxes required to be withheld, Optionee shall pay an amount equal to the amount of Federal, state, or local taxes required to be withheld to the Company. If Optionee fails to make such payment in a timely manner, the Company may withhold and set-off against compensation and any other amounts payable to the Optionee the amount of such required payment.

12. **ADJUSTMENT OF SHARES.** The number of shares of Stock issued to Optionee pursuant to this Agreement shall be adjusted by the Committee pursuant to Article 9 of the Plan, in its discretion, in the event of a change in the Company's capital structure.

13. **AMENDMENT OF AGREEMENT.** This Agreement may only be amended with the written approval of Optionee and the Company.

14. **GOVERNING LAW.** This Agreement shall be governed in all respects, whether as to validity, construction, capacity, performance, or otherwise, by the laws of the state of Delaware, without regard to conflicts-of-laws principles that would require the application of any other law.

15. **SEVERABILITY.** If any provision of this Agreement, or the application of any such provision to any person or circumstance, is held to be unenforceable or invalid by any court of competent jurisdiction or under any applicable law, the parties hereto shall negotiate an equitable adjustment to the provisions of this Agreement with the view to effecting, to the greatest extent possible, the original purpose and intent of this Agreement, and in any event, the validity and enforceability of the remaining provisions of this Agreement shall not be affected thereby.

16. **ENTIRE AGREEMENT.** This Agreement constitutes the entire, final, and complete agreement between the parties hereto with respect to the subject matter hereof and supersedes all prior agreements, promises, understandings, negotiations, representations, and commitments, both written and oral, between the parties hereto with respect to the subject matter hereof. Neither party hereto shall be bound by or be liable for any statement, representation, promise, inducement, commitment, or understanding of any kind whatsoever not expressly set forth in this Agreement.

17. **TAX INFORMATION AND NOTICE OF DISQUALIFYING DISPOSITION.** This Option is intended to be eligible for treatment as an Incentive Stock Option under Section 422 of the Code. Whether this Option will receive such tax treatment will depend, in part, on the actions by the Optionee after exercise of this Option. For example, if the Optionee disposes of any of the Stock acquired under this Option within two years after the Date of Grant and within one year of the date of exercise of this Option, the Optionee may lose the benefits of Section 422 of the Code. Accordingly, the Company makes no representations by way of the Plan, this Agreement, or otherwise, with respect to the actual tax consequences of the grant or exercise of this Option or the subsequent disposition of the Stock acquired under this Option.

If the Optionee sells or makes a disposition (within the meaning of Section 422 of the Code) of any of the Stock acquired under this Option prior to the later of (i) one year from the date of exercise of such Stock, or (ii) two years from the Date of Grant, the Optionee agrees to give written notice to the Company of such disposition. The notice shall include the Optionee's name, the number, exercise price and exercise date of the shares of Stock disposed of, and the date of disposition.

IN WITNESS WHEREOF, the Company has caused this Agreement to be executed by its duly authorized representative and Optionee has signed this Agreement, and this Agreement shall be effective as of the day and year first written above.

**WILLDAN GROUP, INC.**

By: \_\_\_\_\_

Its: \_\_\_\_\_

**OPTIONEE:**

\_\_\_\_\_



QuickLinks

[Exhibit 10.11](#)

[AGREEMENT](#)

**WILLDAN GROUP, INC.  
NON-QUALIFIED STOCK OPTION AGREEMENT**

This Non-Qualified Stock Option Agreement ("*Agreement*") is between Willdan Group, Inc. ("*Company*") and (the "*Optionee*"), and is effective as of the        day of       , 2006 ("*Date of Grant*").

**RECITALS**

A. The Company has adopted the Willdan Group, Inc. 2006 Stock Incentive Plan ("*Plan*") to provide incentives to attract and retain those individuals whose services are considered unusually valuable by providing them an opportunity to own stock in the Company.

B. The Company believes that entering into this Agreement with the Optionee is consistent with those purposes. Any capitalized term not defined in this Agreement will have the meaning as set forth in the Plan.

NOW, THEREFORE, the Company and Optionee agree as follows:

**AGREEMENT**

1. **GRANT OF OPTION.** Subject to the terms of this Agreement and Article 7 of the Plan, the Company grants to the Optionee the right and option to purchase from the Company for cash all or any part of an aggregate of        shares of Stock ("*Option*") of the Company ("*Stock*"). The delivery of any document evidencing the Option is subject to the provisions of Section 7.1(d) of the Plan. The Option granted under this Agreement **is not** intended to be an "incentive stock option" under Section 422 of the Internal Revenue Code of 1986, as amended.

2. **PURCHASE PRICE.** The purchase price under this Agreement is \$        per share of Stock, as determined by the Committee, which shall not be less than the Fair Market Value of a share of Stock on the Date of Grant.

3. **VESTING OF OPTION.** The Option shall vest and be exercisable according to the following schedule:

**[insert vesting schedule]**

4. **EXERCISE OF OPTION.** This Option may be exercised, to the extent vested (under 3 above), in whole or in part at anytime before the Option expires by delivery of a written notice of exercise (under 5 below) and payment of the purchase price. The purchase price may be paid in cash or such other method permitted by the Committee under Section 7.1(c) of the Plan and communicated to the Optionee before the date the Optionee exercises the Option.

5. **METHOD OF EXERCISING OPTION.** Subject to the terms of this Agreement, the Option may be exercised by timely delivery to the Company of written notice, which notice shall be effective on the date received by the Company. The notice shall state the Optionee's election to exercise the Option and the number of underlying shares in respect of which an election to exercise has been made. Such notice shall be signed by the Optionee, or if the Option is exercised by a person or persons other than the Optionee because of the Optionee's death or Disability, such notice must be signed by such other person or persons and shall be accompanied by proof acceptable to the Company of the legal right of such person or persons to exercise the Option.

6. **TERM OF OPTION.** The Option granted under this Agreement expires, unless sooner terminated, ten (10) years from the Date of Grant, through and including the normal close of business of the Company on the tenth (10<sup>th</sup>) anniversary of the Date of Grant ("*Expiration Date*").

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7. **TERMINATION OF EMPLOYMENT OR SERVICE.**

a. If the Optionee's employment with, or service to, the Company terminates for any reason other than death, Disability, or involuntary termination by the Company for Cause, the Optionee may at any time within three months after the date of his or her termination of employment or service exercise the Option to the extent that the Optionee was entitled to exercise the Option at the date of termination, provided that in no event shall the Option be exercisable after the Expiration Date. For purposes of this Agreement, the Optionee's service will be deemed to continue if the Optionee ceases to provide services as an employee of the Company or any subsidiary, but continues to provide services immediately after his or her termination of employment as a non-employee director, consultant or independent contractor. If the Optionee dies or terminates employment or service on account of Disability while in the service of the Company or within three months following termination of such service (except in case of involuntary termination by the Company for Cause) the Option to the extent it is then exercisable may nevertheless be exercised by the Optionee's personal representative within the twelve-month period following the date of death or Disability of the Optionee, provided that in no event shall the Option be exercisable after the Expiration Date.

b. If the Optionee ceases to be employed by or to provide services to the Company by reason of his involuntary termination by the Company for Cause, this Option to the extent it is then unexercised shall automatically and without notice to Optionee, expire concurrently with such termination of employment or service.

8. **NON-TRANSFERABILITY OF RIGHTS.** Optionee may not assign or transfer Optionee's rights under this Agreement, nor may Optionee subject such rights (or any of them) to execution, attachment, garnishment, or similar process, except as permitted under Section 8.5 of the Plan. Any such impermissible attempted assignment or transfer by Optionee shall be null and void and shall not be recognized by the Company.

9. **RIGHTS OF OPTIONEE.** The Optionee will have no rights as a shareholder of the Company with respect to the grant of the Option under this Agreement until and to the extent the Option is exercised and the Company issues shares of Stock to the Optionee.

10. **NO RIGHT TO CONTINUED EMPLOYMENT OR SERVICE.** This Option shall not confer upon Optionee any right with respect to continuance of employment or service with the Company or any Subsidiary, nor shall it interfere in any way with the right of the Company to terminate his or her employment or service at any time.

11. **FEDERAL AND STATE TAXES.** Optionee may incur certain liabilities for Federal, state, or local taxes in connection with the exercise of the Option hereunder, and the Company may be required by law to withhold such taxes. Upon determination of the year in which such taxes are due and the determination by the Company of the amount of taxes required to be withheld, Optionee shall pay an amount equal to the amount of Federal, state, or local taxes required to be withheld to the Company. If Optionee fails to make such payment in a timely manner, the Company may withhold and set-off against compensation and any other amounts payable to the Optionee the amount of such required payment.

12. **ADJUSTMENT OF SHARES.** The number of shares of Stock issued to Optionee pursuant to this Agreement shall be adjusted by the Committee pursuant to Article 9 of the Plan, in its discretion, in the event of a change in the Company's capital structure.

13. **AMENDMENT OF AGREEMENT.** This Agreement may only be amended with the written approval of Optionee and the Company.

14. **GOVERNING LAW.** This Agreement shall be governed in all respects, whether as to validity, construction, capacity, performance, or otherwise, by the laws of the state of Delaware, without regard to conflicts-of-laws principles that would require the application of any other law.

15. **SEVERABILITY.** If any provision of this Agreement, or the application of any such provision to any person or circumstance, is held to be unenforceable or invalid by any court of competent jurisdiction or under any applicable law, the parties hereto shall negotiate an equitable adjustment to the provisions of this Agreement with the view to effecting, to the greatest extent possible, the original purpose and intent of this Agreement, and in any event, the validity and enforceability of the remaining provisions of this Agreement shall not be affected thereby.

16. **ENTIRE AGREEMENT.** This Agreement constitutes the entire, final, and complete agreement between the parties hereto with respect to the subject matter hereof and supersedes all prior agreements, promises, understandings, negotiations, representations, and commitments, both written and oral, between the parties hereto with respect to the subject matter hereof. Neither party hereto shall be bound by or be liable for any statement, representation, promise, inducement, commitment, or understanding of any kind whatsoever not expressly set forth in this Agreement.

IN WITNESS WHEREOF, the Company has caused this Agreement to be executed by its duly authorized representative and Optionee has signed this Agreement, and this Agreement shall be effective as of the day and year first written above.

**WILLDAN GROUP, INC.**

By: \_\_\_\_\_

Its: \_\_\_\_\_

**OPTIONEE:**

\_\_\_\_\_

## QuickLinks

[Exhibit 10.12](#)

**WILLDAN GROUP, INC.  
2006 EMPLOYEE STOCK PURCHASE PLAN**

1. **PURPOSE.** The purpose of this Willdan Group, Inc. 2006 Employee Stock Purchase Plan (the "Plan") is to encourage stock ownership by eligible employees of Willdan Group, Inc. (the "Company") and its Subsidiaries, excluding Public Agency Resource (PARs), and to provide them with an incentive to contribute to the profitability and success of the Company. The Plan is intended to qualify as an "employee stock purchase plan" under Section 423 of the Code and will be maintained for the exclusive benefit of eligible employees of the Company and its Subsidiaries.

2. **DEFINITIONS.** For purposes of the Plan, in addition to the terms defined in Section 1, the following terms are defined:

- (a) "**Board**" means the Board of Directors of the Company.
- (b) "**Cash Account**" means the account maintained on behalf of a Participant by the Company for the purpose of holding cash contributions withheld from payroll pending an investment in Stock.
- (c) "**Code**" means the Internal Revenue Code of 1986, as amended.
- (d) "**Custodian**" means \_\_\_\_\_ or any successor or replacement appointed by the Board or its delagatee under Section 3(a).
- (e) "**Earnings**" means a Participant's salary or wages, including overtime (but excluding bonuses) for services performed for the Company and its Subsidiaries and received by a Participant for services rendered during an Offering Period.
- (f) "**Fair Market Value**" means the closing price of the Stock on the relevant date as reported on the Nasdaq Global Market (or any national securities exchange or quotation system on which the Stock is then listed), or if there were no sales on that date the closing price on the next preceding date for which a closing price was reported.
- (g) "**Offering Period**" means the six-month period beginning on each January 1 and ending each June 30 and the six-month period beginning on each July 1 and ending on each December 31.
- (h) "**Participant**" means an employee of the Company or a qualifying Subsidiary who is participating in the Plan.
- (i) "**Purchase Right**" means a Participant's option to purchase Stock that is deemed to be outstanding during a Offering Period. A Purchase Right represents an "option" under Section 423 of the Code.
- (j) "**Stock**" means the common stock of the Company.
- (k) "**Stock Account**" means the account maintained on behalf of the Participant by the Custodian for the purpose of holding Stock acquired under the Plan.
- (l) "**Subsidiary**" means any subsidiary corporation as defined in Code Section 424(f), as permitted by the Board.

3. **ADMINISTRATION.**

(a) **BOARD ADMINISTRATION.** The Plan will be administered by the Board. The Board may delegate its administrative duties and authority (other than its authority to amend or terminate the Plan) to any Board committee or to any officers or employees or committee thereof as the Board may designate (in which case references to the Board will be deemed to refer to the administrator to which such duties and authority have been delegated). The Board will have full authority to adopt, amend, suspend, waive, and rescind rules and regulations and appoint agents as

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it deems necessary or advisable to administer the Plan, to correct any defect or supply any omission or reconcile any inconsistency in the Plan and to construe and interpret the Plan and rules and regulations thereunder, to furnish to the Custodian such information as the Custodian may require, and to make all other decisions and determinations under the Plan (including determinations relating to eligibility). No person acting in connection with the administration of the Plan will, in that capacity, participate in deciding any matter relating to his or her participation in the Plan.

(b) **THE CUSTODIAN.** The Custodian will act as custodian under the Plan, and perform those duties specified in the Plan and in any agreement between the Company and the Custodian. The Custodian will establish and maintain Participants Stock Accounts and any subaccounts as may be necessary or desirable to administer the Plan.

(c) **WAIVERS.** The Board may waive or modify any requirement that a notice or election be made or filed under the Plan a specified period in advance on an individual case or by adopting a rule or regulation under the Plan, without amending the Plan.

(d) **OTHER ADMINISTRATIVE PROVISIONS.** The Company will furnish information from its records as directed by the Board, and such records, including a Participant's Earnings, will be conclusive on all persons unless determined by the Board to be incorrect. Each Participant and other person claiming benefits under the Plan must furnish to the Company in writing a current mailing address and any other information as the Board or Custodian may reasonably request. Any communication, statement, or notice mailed with postage prepaid to any such Participant or other person at the last mailing address filed with the Company will be deemed sufficiently given when mailed and will be binding upon the named recipient. The Plan will be administered on a reasonable and nondiscriminatory basis and uniform rules will apply to all persons similarly situated. All Participants will have equal rights and privileges (subject to the terms of the Plan) with respect to Purchase Right outstanding during any given Offering Period in accordance with Code Section 423(b)(5).

4. **STOCK SUBJECT TO PLAN.** Subject to adjustment as provided below, the total number of shares of Stock reserved and available for issuance or which may be otherwise acquired upon exercise of Purchase Rights under the Plan will be 300,000; provided, however, that not more than 100,000 shares of Stock shall be available for issuance during any one calendar year. Any shares of Stock delivered by the Company under the Plan may consist, in whole or in part, of authorized and unissued shares or treasury shares or shares of Stock purchased on the open market. The number and kind of such shares of Stock subject to the Plan will be proportionately adjusted, as determined by the Board, 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. If, at the end of any Offering Period, the number of shares of Stock with respect to which Purchase Rights are to be exercised exceeds the number of shares of Stock then available under the Plan, the Board shall make a pro rata allocation of the shares of Stock remaining available for purchase in as uniform a manner as shall be practicable and as it shall determine to be equitable.

#### 5. **ENROLLMENT AND CONTRIBUTIONS.**

(a) **ELIGIBILITY.** An employee of the Company or any Subsidiary designated by the Board may be enrolled in the Plan for any Offering Period if such employee is employed by the Company or a Subsidiary authorized to participate in the Plan on the first day of the Offering Period, unless one of the following applies to the employee:

- (i) such person is customarily employed by the Company or a Subsidiary for 20 hours or less a week;

- (ii) such person is customarily employed by the Company or a Subsidiary for not more than five months in any calendar year; or
- (iii) such person would, immediately upon enrollment, be deemed to own, for purposes of Section 423(b)(3) of the Code, an aggregate of five percent or more of the total combined voting power or value of all outstanding shares of all classes of the Stock of the Company or any Subsidiary.

The Company will notify an employee of the date as of which he or she is eligible to enroll in the Plan, and will make available to each eligible employee the necessary enrollment forms.

(b) **INITIAL ENROLLMENT.** An employee who is eligible under Section 5(a) (or who will become eligible on or before a given Offering Period) may, after receiving current information about the Plan, initially enroll in the Plan by executing and filing with the Company a properly completed enrollment form, including the employee's election as to the rate of payroll contributions for the Offering Period. To be effective for any Offering Period, such properly executed enrollment form must be filed with the Company at least two weeks (or such other period determined by the Board) preceding such Offering Period.

(c) **AUTOMATIC RE-ENROLLMENT FOR SUBSEQUENT OFFERING PERIODS.** A Participant whose enrollment in, and payroll contributions under, the Plan continues throughout a Offering Period will automatically be re-enrolled in the Plan for the next Offering Period unless (i) the Participant terminates enrollment before the next Offering Period in accordance with Section 7(a), or (ii) the Participant is ineligible to participate under Section 5(a). The initial rate of payroll contributions for a Participant who is automatically re-enrolled for a Offering Period will be the same as the rate of payroll contribution in effect at the end of the preceding Offering Period, unless the Participant files a new properly executed enrollment form designating a different rate of payroll contributions and such new enrollment form is filed with the Company no later than two weeks (or such other period determined by the Board) prior to the beginning of the next Offering Period.

(d) **PAYROLL CONTRIBUTIONS.** A Participant will make contributions under the Plan only by means of payroll deductions from Earnings for each payroll period that ends during the Offering Period, at the rate elected by the Participant in his or her enrollment form in effect for that Offering Period (except that such rate may be changed during the Offering Period to the extent permitted below). The rate of payroll contributions elected by a Participant may not be less than one percent (1%) nor more than ten percent (10%) of the Participant's Earnings for each payroll period, and only whole percentages may be elected; *provided, however*, that the Board may specify a lower minimum rate and higher maximum rate, subject to Section 8(c). Notwithstanding the above, a Participant's payroll contributions will be adjusted downward by the Company as necessary to ensure that the limit on the amount of Stock purchased for an Offering Period set forth in Section 6(a)(iii) is not exceeded. A Participant may elect to increase, decrease, or discontinue payroll contributions for a future Offering Period by filing a new enrollment form designating a different rate of payroll contributions, which properly executed form must be filed with the Company at least two weeks (or such other period determined by the Board) prior to the beginning of an Offering Period to be effective for that Offering Period. In addition, a Participant may elect to discontinue payroll contributions during an Offering Period by filing a new properly executed enrollment form, such change to be effective for the next payroll after the Participant's new enrollment form is filed with the Company.

(e) **CREDITING PAYROLL CONTRIBUTIONS TO CASH ACCOUNTS.** All payroll contributions by a Participant under the Plan will be credited to a Cash Account maintained by the Company on behalf of the Participant. The Company will credit payroll contributions to each



Participant's Cash Account as soon as practicable after the contributions are withheld from the Participant's Earnings.

(f) **NO INTEREST ON CASH ACCOUNTS.** No interest will be credited or paid on cash balances in Participant's Cash Accounts pending investment in Stock.

## 6. **PURCHASES OF STOCK.**

(a) **PURCHASE RIGHTS.** Enrollment in the Plan for any Offering Period by a Participant will constitute a grant by the Company of a Purchase Right to such Participant for such Offering Period as long as the participant remains eligible pursuant to Section 5(a) hereof. Each Purchase Right will be subject to the following terms:

- (i) The purchase price of each share of Stock purchased for each Offering Period will equal 95% of the Fair Market Value of a share of Stock on the last day of an Offering Period;
- (ii) The number of shares of Stock that may be purchased upon exercise of the Purchase Right for a Offering Period will equal the number of shares that can be purchased at the purchase price specified in Section 6(a)(i) with the aggregate amount credited to the Participant's Cash Account as of the last day of an Offering Period.
- (iii) The number of shares of Stock subject to a Participant's Purchase Right for any Offering Period will not exceed the number derived by dividing \$12,500 by 100% of the Fair Market Value of one share of Stock on the first day of the Offering Period; provided, however, that the above limitation for the first Offering Period will be adjusted by the Board on a pro rata basis, if such Offering Period is less or more than a six month period.
- (iv) The Purchase Right will be automatically exercised on the last day of the Offering Period.
- (v) Payments by a Participant for Stock purchased under a Purchase Right will be made only through payroll deduction in accordance with Section 5(d) and (e).
- (vi) The Purchase Right will expire on the earlier of the last day of the Offering Period or the date on which the Participant's enrollment in the Plan terminates.

(b) **PURCHASE OF STOCK.** At or as promptly as practicable after the last day of an Offering Period, amounts credited to each Participant's Cash Account will be applied by the Company to purchase Stock, in accordance with the terms of the Plan. Shares of Stock will be purchased from the Company or in the open market, as the Board determines. The Company will aggregate the amounts in all Cash Accounts when purchasing Stock, and shares purchased will be allocated to each Participant's Stock Account in proportion to the cash amounts withdrawn from such Participant's Cash Account. After completing purchases for each Offering Period (which will be completed in not more than 15 calendar days after the last day of an Offering Period), all shares of Stock so purchased for a Participant will be credited to the Participant's Stock Account.

(c) **DIVIDEND REINVESTMENT; OTHER DISTRIBUTIONS.** Cash dividends on any Stock credited to a Participant's Stock Account will be automatically reinvested in additional shares of Stock and such amounts will not be available in the form of cash to Participants. The Company will aggregate all purchases of Stock in connection with dividend reinvestment for a given dividend payment date. Purchases of Stock for purposes of dividend reinvestment will be made as promptly as practicable (but not more than 15 calendar days) after a dividend payment date. The purchases will be made directly from the Company at 100% of the Fair Market Value of a share of Stock on the dividend payment date or on the open market. Any shares of Stock distributed as a dividend or distribution in respect of shares of Stock or in connection with a split of the Stock credited to a Participant's Stock Account will be credited to such Account.

(d) **WITHDRAWALS AND TRANSFERS.** Shares of Stock may be withdrawn from a Participant's Stock Account, in which case one or more certificates for whole shares may be issued in the name of, and delivered to, the Participant, with such Participant receiving cash in lieu of fractional shares based on the Fair Market Value of a share of Stock on the day preceding the date of withdrawal. Alternatively, whole shares of Stock may be withdrawn from a Participant's Stock Account by means of a transfer to a broker-dealer or financial institution that maintains an account for the Participant, together with the transfer of cash in lieu of fractional shares based on the Fair Market Value of a share of Stock on the day preceding the date of withdrawal. Participants may not designate any other person to receive shares of Stock withdrawn or transferred under the Plan. A Participant seeking to withdraw or transfer shares of Stock must give instructions to the Custodian in such manner and form as may be prescribed by the Custodian, which instructions will be acted upon as promptly as practicable. Withdrawals and transfers will be subject to any fees imposed in accordance with Section 8(a).

(e) **EXCESS ACCOUNT BALANCES.** If any amounts remain in a Cash Account following the date on which the Company purchases Stock for an Offering Period for any reason, such amounts will be returned to the Participant as promptly as practicable.

#### 7. **TERMINATION AND DISTRIBUTIONS.**

(a) **TERMINATION OF ENROLLMENT.** A Participant's enrollment in the Plan will terminate upon (i) the beginning of any payroll period or Offering Period that begins after he or she files a written notice of termination of enrollment with the Company, provided that such Participant will continue to be deemed to be enrolled with respect to any completed Offering Period for which purchases have not been completed, (ii) such time as the Participant becomes ineligible to participate under Section 5(a) of the Plan, or (iii) the termination of the Participant's employment by the Company and its Subsidiaries. An employee whose enrollment in the Plan terminates may again enroll in the Plan as of any subsequent Offering Period that is at least 90 days after such termination of enrollment if he or she satisfies the eligibility requirements of Section 5(a) as of such Offering Period. A Participant's election to discontinue payroll contributions will not constitute a termination of enrollment.

(b) **DISTRIBUTION.** As soon as practicable after a Participant's enrollment in the Plan terminates, amounts in the Participant's Cash Account which resulted from payroll contributions will be repaid to the Participant. The Custodian will continue to maintain the Participant's Stock Account for the Participant until the earlier of such time as the Participant directs the sale of all Stock in the Account, withdraws, or transfers all Stock in the Account, or one year after the Participant ceases to be employed by the Company and its Subsidiaries. If a Participant's termination of enrollment results from his or her death, all amounts payable will be paid to his or her designated beneficiary or beneficiaries and if no such designation is made, to his or her estate.

#### 8. **GENERAL.**

(a) **COSTS.** Costs and expenses incurred in the administration of the Plan and maintenance of Accounts will be paid by the Company, to the extent provided in this Section 8(a). Any brokerage fees and commissions for the purchase of Stock under the Plan (including Stock purchased upon reinvestment of dividends and distributions) will be paid by the Company, but any brokerage fees and commissions for the sale of Stock under the Plan by a Participant will be borne by such Participant. The rate at which such fees and commissions will be charged to Participants will be determined by the Custodian or any broker-dealer used by the Custodian (including an affiliate of the Custodian), and communicated from time to time to Participants. In addition, the Custodian may impose or pass through a reasonable fee for the withdrawal of Stock in the form of stock certificates (as permitted under Section 6(d)), and reasonable fees for other services

unrelated to the purchase of Stock under the Plan, to the extent approved in writing by the Company and communicated to Participants.

(b) **STATEMENTS TO PARTICIPANTS.** The Participant's statement will reflect payroll contributions, purchases, sales, and withdrawals and transfers of shares of Stock and other Plan transactions by appropriate adjustments to the Participant's Accounts. The Custodian will, not less frequently than quarterly, provide or cause to be provided a written statement to the Participant showing the transactions in his or her Stock Account and the date thereof, the number of shares of Stock credited or sold, the aggregate purchase price paid or sales price received, the purchase or sales price per share, the brokerage fees and commissions paid (if any), the total shares held for the Participant's Stock Account (computed to at least three decimal places), and such other information as agreed to by the Custodian and the Company.

(c) **COMPLIANCE WITH SECTION 423.** It is the intent of the Company that this Plan comply in all respects with applicable requirements of Section 423 of the Code and regulations thereunder. Accordingly, if any provision of this Plan does not comply with such requirements, such provision will be construed or deemed amended to the extent necessary to conform to such requirements.

9. **GENERAL PROVISIONS.**

(a) **COMPLIANCE WITH LEGAL AND OTHER REQUIREMENTS.** The Plan, the granting and exercising of Purchase Rights hereunder, and the other obligations of the Company and the Custodian under the Plan will be subject to all applicable federal and state laws, rules, and regulations, and to such approvals by any regulatory or governmental agency as may be required. The Company may, in its discretion, postpone the issuance or delivery of Stock upon exercise of Purchase Rights until completion of such registration or qualification of such Stock or other required action under any federal or state law, rule, or regulation, or the laws of any country in which employees of the Company and a Subsidiary who are nonresident aliens and who are eligible to participate reside, or other required action with respect to any automated quotation system or stock exchange upon which the Stock or other Company securities are designated or listed, or compliance with any other contractual obligation of the Company, as the Company may consider appropriate. In addition, the Company may require any Participant to make such representations and furnish such information as it may consider appropriate in connection with the issuance or delivery of Stock in compliance with applicable laws, rules, and regulations, designation or listing requirements, or other contractual obligations.

(b) **LIMITS ON ENCUMBERING RIGHTS.** No right or interest of a Participant under the Plan, including any Purchase Right, may be pledged, encumbered, or hypothecated to or in favor of any party, subject to any lien, obligation, or liability of such Participant, or otherwise assigned, transferred, or disposed of except pursuant to the laws of descent or distribution, and any right of a Participant under the Plan will be exercisable during the Participant's lifetime only by the Participant.

(c) **NO RIGHT TO CONTINUED EMPLOYMENT.** Neither the Plan nor any action taken hereunder, including the grant of a Purchase Right, will be construed as giving any employee the right to be retained in the employ of the Company or any of its Subsidiaries, nor will it interfere in any way with the right of the Company or any of its Subsidiaries to terminate any employee's employment at any time.

(d) **TAXES.** The Company or any Subsidiary is authorized to withhold from any payment to be made to a Participant, including any payroll and other payments not related to the Plan, amounts of withholding and other taxes due in connection with any transaction under the Plan, and a Participant's enrollment in the Plan will be deemed to constitute his or her consent to such

withholding. In addition, Participants may be required to advise the Company of sales and other dispositions of Stock acquired under the plan in order to permit the Company to comply with tax laws and to claim any tax deductions to which the Company may be entitled with respect to the Plan. This provision and other Plan provisions do not set forth an explanation of the tax consequences to Participants under the Plan. A brief summary of the tax consequences will be included in disclosure documents to be separately furnished to Participants.

(e) **CHANGES TO THE PLAN.** The Board may amend, alter, suspend, discontinue, or terminate the Plan without the consent of shareholders or Participants, except that any such action will be subject to the approval of the Company's shareholders within one year after such Board action if such shareholder approval is required by any federal or state law or regulation or the rules of any automated quotation system or stock exchange on which the Stock may then be quoted or listed, or if such shareholder approval is necessary in order for the Plan to continue to meet the requirements of Section 423 of the Code, and the Board may otherwise, in its discretion, determine to submit other such actions to shareholders for approval. However, without the consent of an affected Participant, no amendment, alteration, suspension, discontinuation, or termination of the Plan may materially and adversely affect the rights of such Participant with respect to outstanding Purchase Rights relating to any Offering Period that has been completed prior to such Board action. The foregoing notwithstanding, upon termination of the Plan the Board may (i) elect to terminate all outstanding Purchase Rights at such time as the Board may designate, and all amounts contributed to the Plan which remain in a Participant's Cash Account will be returned to the Participant (without interest) as promptly as practicable, or (ii) shorten the Offering Period to such period determined by the Board and use amounts credited to a Participant Cash Account to purchase Stock.

(f) **NO RIGHTS TO PARTICIPATE; NO SHAREHOLDER RIGHTS.** No Participant or employee will have any claim to participate in the Plan with respect to Offering Periods that have not commenced, and the Company will have no obligation to continue the Plan. No Purchase Right will confer on any Participant any of the rights of a shareholder of the Company unless and until Stock is duly issued or transferred and delivered to the Participant (or credited to the Participant's Stock Account).

(g) **NO FRACTIONAL SHARES.** Unless otherwise determined by the Board, purchases of Stock under the Plan executed by the Custodian shall not result in the crediting of fractional shares of Stock to the Participant's Stock Account. Any amounts in a Participant's Account after the purchase of whole shares of Stock shall remain in the Participant's Account to be used for the purchase of shares of Stock for the next Offering Period or distribution in accordance with the terms of the Plan.

(h) **GOVERNING LAW.** The validity, construction, and effect of the Plan and any rules and regulations relating to the Plan will be determined in accordance with the laws of the State of Delaware, without giving effect to principles of conflicts of laws, and applicable federal law.

(i) **EFFECTIVE DATE.** The Plan will become effective on January 1, 2007, subject to the Plan being approved by stockholders of the Company, if not previously approved, by a vote sufficient to meet the requirements of Section 423(b)(2) of the Code. If the Plan is not approved in accordance with Section 423(b)(2) of the Code, each Participant's Purchase Right shall be void and amounts credited to the Participant's Cash Account shall be promptly returned to the Participant.

## QuickLinks

[Exhibit 10.13](#)

## ***OFFICE LEASE***

**LANDLORD:**

**SPECTRUM WAPLES STREET, LLC,  
a California limited liability company**

**and**

**SPECTRUM LAMBERT PLAZA, LLC,  
a California limited liability company,  
as tenants-in-common**

**TENANT:**

**THE WILLDAN GROUP OF COMPANIES,  
a California corporation**

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## SUMMARY OF BASIC LEASE INFORMATION AND DEFINITIONS

This SUMMARY OF BASIC LEASE INFORMATION AND DEFINITIONS ("**Summary**") is hereby incorporated into and made a part of the attached Office Lease which pertains to the Building described in Section 1.4 below. All references in the Lease to the "Lease" shall include this Summary. All references in the Lease to any term defined in this Summary shall have the meaning set forth in this Summary for such term. Any initially capitalized terms used in this Summary and any initially capitalized terms in the Lease which are not otherwise defined in this Summary shall have the meaning given to such terms in the Lease. If there is any inconsistency between the Summary and the Lease, the provisions of the Lease shall control.

1.1 **Landlord's Address:** Spectrum Waples Street, LLC and Spectrum Lambert Plaza, LLC  
c/o Layton-Belling & Associates  
4440 Von Karman Avenue, Suite 150  
Newport Beach, California 92660  
Attn: Property Management—Metroplex Building  
Telephone: (949) 833-0400  
Facsimile: (949) 955-9325

1.2 **Tenant's Address:** The Willdan Group of Companies  
2401 East Katella Avenue, Suite 300  
Anaheim, California 92806  
Attn: Roy Gill  
Telephone: (714) 940-6300  
Facsimile: (714) 940-4920

1.3 **Site; Project:** The Site consists of the parcel(s) of real property known as the Metroplex Building located at 2401 East Katella Avenue, Anaheim, County of Orange, State of California, as shown on the site plan attached hereto as *Exhibit "A"* as such area may be expanded or reduced from time to time. The Project includes the Site and all buildings, improvements and facilities, now or subsequently located on the Site from time to time, including, without limitation, the one (1) office building currently located on the Site, as depicted on the site plan attached hereto as *Exhibit "A"*.

1.4 **Building:** A six (6) story office building located on the Site, containing approximately 104,860 rentable square feet, the address of which is 2401 East Katella Avenue, Anaheim, California.

1.5 **Premises:** Those certain premises known as Suite(s) 300, 410, 420 and 440 as generally shown on the floor plans attached hereto as *Exhibit "B"*, comprised of the entire third (3rd) floor and a portion of the fourth (4th) floor of the Building, and containing approximately 31,136 aggregate rentable square feet (27,075 usable square feet), i.e., 18,136 rentable square feet (15,770 usable square feet) on the third (3rd) floor and 13,000 rentable square feet (11,304 usable square feet) on the fourth (4th) floor. Suites 410, 420 and 440 are collectively referred to hereinafter as Suite 450.

1.6 **Term:** Ninety (90) months as to Suite 300 and eighty-four (84) months as to Suite 450, expiring on August 31, 2012 as to Suite 300 and Suite 450.

1.7 **Suite 300 Commencement Date:** March 1, 2005; **Suite 450 Commencement Date:** September 1, 2005; **Expiration Date:** August 31, 2012.

1.8 **Monthly Basic Rent:** Upon the commencement of the Term of this Lease as to Suite 300, and on the first day of each month thereafter during the Term of this Lease, Tenant shall pay to

Landlord, in advance and without offset, deduction or demand as Monthly Basic Rent for Suite 300 the following monthly payments:

*Suite 300*

<u>Period</u>	<u>Monthly Basic Rent</u>
03/01/2005 - 08/31/2005	\$ 0.00
09/01/2005 - 02/28/2006	\$ 34,458.40
03/01/2006 - 02/29/2008	\$ 35,365.20
03/01/2008 - 02/28/2010	\$ 36,272.00
03/01/2010 - 08/31/2012	\$ 37,178.80

On the Suite 450 Commencement Date and on the first day of each month thereafter during the remainder of the Term of this Lease, Tenant shall pay to Landlord in advance and without offset, deduction or demand as Monthly Basic Rent for Suite 450 the following monthly payments:

*Suite 450*

<u>Period</u>	<u>Monthly Basic Rent</u>
09/01/2005 - 11/30/2005	\$ 6,800.10
12/01/2005 - 02/28/2006	\$ 24,700.00
03/01/2006 - 02/29/2008	\$ 25,350.00
03/01/2008 - 02/28/2010	\$ 26,000.00
03/01/2010 - 08/31/2012	\$ 26,650.00

1.9 **Tenant's Percentage:** As of the Suite 450 Commencement Date, 29.69%, which is the ratio that the rentable square footage of the Premises bears to the rentable square footage of the Building. Accordingly, as more particularly set forth in Section 4 hereof, commencing January 1, 2006, Tenant shall pay to Landlord: (a) 29.69% of the "Operating Expenses" (as defined in Section 4.4) in excess of "Landlord's Contribution to Operating Expenses" (b) 29.69% of Real Property Taxes and Assessments (as defined in Section 4.5) in excess of "Landlord's Contribution" to Real Property Taxes and Assessments; (c) 29.69% of Insurance Costs (as defined in Section 4.6) in excess of "Landlord's Contribution to Insurance Costs;" and (d) 29.69% of Utilities Costs (as defined in Section 4.7) in excess of "Landlord's Contribution to Utilities Costs," Landlord's Contribution being defined in Section 1.10 of the Summary below. Tenant's Percentage is subject to adjustment in accordance with Section 1.3 of the Lease.

1.10 **Landlord's Contribution to Operating Expenses, Real Property Taxes and Assessments, Insurance Costs and Utilities Costs:** Tenant's Percentage of Operating Expenses, Insurance Costs and Utilities Costs, respectively, incurred by Landlord during calendar year 2005 (the "**Base Year**"), adjusted to reflect an assumption that the Project is fully assessed for real property tax purposes as a completed Project ready for occupancy and that the Project is at least ninety-five percent (95%) occupied during such year. Landlord's Contribution to Real Property Taxes and Assessments shall be the Tenant's Percentage of Real Property Taxes and Assessments incurred by Landlord for the period commencing on July 1, 2005 and ending on June 30, 2006.

1.11 **Security Deposit:** \$70,211.68 (110% of last months rent)

1.12 **Permitted Use:** General office uses.

1.13 **Brokers:** Cushman & Wakefield representing Landlord.  
Julien J. Studley, Inc. representing Tenant.



1.14 **Interest Rate:** The lesser of: (a) the rate announced from time to time by Wells Fargo Bank or, if Wells Fargo Bank ceases to exist or ceases to publish such rate, then the rate announced from time to time by the largest (as measured by deposits) chartered bank operating in California, as its "prime rate" or "reference rate", plus five percent (5%); or (b) the maximum rate permitted by law.

1.15 **Tenant Improvements:** The tenant improvements installed or to be installed in the Premises as described in the Work Letter Agreement attached hereto as *Exhibit "C"*.

1.16 **Parking:** Based upon a ratio of 4 spaces per 1,000 usable square feet leased, a total of one hundred nine (109) unreserved parking spaces, at no monthly cost during the initial Term, subject, however, to the payment of Operating Expenses, Real Property Taxes and Assessments, Insurance Costs and Utilities Costs attributable to the parking areas and to the provisions set forth in Section 6.2. Notwithstanding the foregoing, Tenant shall have the right to convert up to fifteen (15) of Tenant's unreserved parking spaces to covered reserved status at a monthly cost of \$12.50 per covered reserved space.. All covered reserved spaces, if any, leased by Tenant pursuant to the preceding sentence shall be located in the parking structure as shown on Exhibit G. in the location depicted on *Exhibit "G"* attached hereto. No later than May 31, 2005, Tenant shall notify Landlord in writing of the number of covered reserved parking spaces that Tenant desires to lease. If Landlord has not received notice of the number of reserved spaces which Tenant will lease by the close of business on May 31, 2005, or if any portion of the fifteen (15) covered reserved parking spaces allocated to Tenant otherwise remains unused as of May 31, 2005, notwithstanding *Exhibit "G"*, effective as of June 1, 2005, Landlord, at its discretion, shall have the right to relocate any or all of Tenant's unused covered reserved parking spaces to other locations in the parking structure.

1.17 **Business Hours for the Building.** 7:00 a.m. to 7:00 p.m., Mondays through Fridays (except Building Holidays) and 9:00 a.m. to 12:00 p.m. on Saturdays (except Building Holidays). "**Building Holidays**" shall mean New Year's Day, Labor Day, Presidents' Day, Thanksgiving Day, Memorial Day, Independence Day and Christmas Day and such other national holidays as are adopted by Landlord as holidays for the Building. Notwithstanding the foregoing, subject to factors beyond Landlord's control and subject to the other provisions of this Lease, including, without limitation, Sections 4.2, 18, 19 and 27, Tenant shall have access to the Premises and entry access to the Building twenty-four (24) hours per day, seven (7) days per week year round.

**TABLE OF CONTENTS**

	<b>Page</b>
1. Premises	1
2. Term	1
3. Rent	1
4. Common Areas; Operating Expenses; Real Property Taxes and Assessments; Insurance Costs and Utilities Costs	2
5. Security Deposit	10
6. Use	11
7. Payments and Notices	16
8. Brokers	16
9. Surrender; Holding Over	16
10. Taxes on Tenant's Property	17
11. Condition of Premises; Repairs	18
12. Alterations	19
13. Liens	21
14. Assignment and Subletting	21
15. Entry by Landlord	24
16. Utilities and Services	24
17. Indemnification and Exculpation	26
18. Damage or Destruction	27
19. Eminent Domain	29
20. Tenant's Insurance	30
21. Landlord's Insurance	32
22. Waiver of Claims; Waiver of Subrogation	32
23. Tenant's Default and Landlord's Remedies	33
24. Landlord's Default	35
25. Subordination	36
26. Estoppel Certificate	36
27. Building Planning	37
28. Cure Rights of Landlord's Mortgagees and Lessors	37
29. Quiet Enjoyment	37
30. Transfer of Landlord's Interest	37
31. Limitation on Landlord's Liability	37
32. Miscellaneous	37
33. Lease Execution	40
34. Waiver of Jury Trial	41
35. Moving Allowance	41
36. Notice of Sale of Building	41

**EXHIBITS**

EXHIBIT "A"	Site Plan
EXHIBIT "B"	Floor Plan
EXHIBIT "C"	Work Letter Agreement
EXHIBIT "D"	Sample Form of Notice of Lease Term Dates
EXHIBIT "E"	Rules and Regulations
EXHIBIT "F"	Sample Form of Tenant Estoppel Certificate
EXHIBIT "G"	Location of Tenant's Covered Reserved Parking Spaces

	Page
Actual Statement	5
ADA	8
Base Year	<i>Summary</i>
Building Common Areas	2
Building Holidays	<i>Summary</i>
Cabling Plan	10
Cabling Work	10
Common Areas	2
Company Vehicles	<i>Exhibit C</i>
Cost Pools	3
days	27
Early Access Period	1
Eligibility Causes	2
Eligibility Period	2
Environmental Law	9
Environmental Permits	9
Estimate Statement	4
Excess Expenses	3
Excess Insurance Costs	3
Excess Real Property Taxes and Assessments	3
Excess Utilities Costs	3
Force Majeure Delays	28. <i>Exhibit C</i>
Hazardous Materials	10
HVAC	13
Indemnified Claims	19
Landlord	1
Landlord Indemnified Parties	9
Lavoie	16
Lease	1
LMJ	16
Monument Sign	9
Moving Allowance	29
Moving Costs	29
Objectionable Name	9
Operating Expenses	3
PCBs	10
Permitted Transfer	15
Permitted Transferee	15
Plans	<i>Exhibit C</i>
Pre-Approved Change	10, 14
Project Common Areas	2
Real Property Taxes and Assessments	4
rent	1
Restoration Notice	20
Sale Notice	29
Standards	<i>Exhibit C</i>
substantially completed	<i>Exhibit C</i>
Summary	<i>Summary</i>
Tenant	1
Tenant Changes	10, 13
Tenant Delays	<i>Exhibit C</i>
Tenant Improvements	<i>Exhibit C</i>
Tenant's Parties	9
Tenant's Percentage	7
The Willdan Group	9
Transfer	15
Transfer Notice	16
Transferee	16
Wires	10

## OFFICE LEASE

This LEASE, which includes the preceding Summary of Basic Lease Information and Definitions ("**Summary**") attached hereto and incorporated herein by this reference ("**Lease**"), is dated for reference purposes only as of the 15th day of October, 2004, by and between SPECTRUM WAPLES STREET, LLC, a California limited liability company, and SPECTRUM LAMBERT PLAZA, LLC, a California limited liability company, as tenants-in-common (collectively, "**Landlord**"), and THE WILLDAN GROUP OF COMPANIES, a California corporation ("**Tenant**").

### 1. Premises.

1.1 **Premises.** Landlord hereby leases to Tenant, and Tenant hereby leases from Landlord, the Premises described in Section 1.5 of the Summary above, improved or to be improved with the Tenant Improvements. Such lease is upon, and subject to, the terms, covenants and conditions herein set forth and each party covenants, as a material part of the consideration for this Lease, to keep and perform their respective obligations under this Lease.

1.2 **Landlord's Reservation of Rights.** Provided Tenant's use of and access to the Premises is not interfered with in an unreasonable manner, and subject to the terms of this Lease, Landlord reserves for itself the right from time to time to install, use, maintain, repair, replace and relocate pipes, ducts, conduits, wires and appurtenant meters and equipment above the ceiling surfaces, below the floor surfaces and within the walls of the Building and the Premises.

### 2. Term.

2.1 **Term; Notice of Lease Dates.** The Term of this Lease as to Suite 300 and Suite 450 shall be for the periods designated in Section 1.6 of the Summary commencing on the Suite 300 Commencement Date or the Suite 450 Commencement Date, and ending on August 31, 2012, unless the Term is sooner terminated as provided in this Lease. Within ten (10) days after Landlord's written request, Tenant shall execute a written confirmation of the basic terms of this Lease in the form of the Notice of Lease Term Dates attached hereto as *Exhibit "D"*. The Notice of Lease Term Dates shall be binding upon Tenant unless Tenant objects thereto in writing within such ten (10) day period.

2.2 **Early Occupancy.** Tenant shall have early access to Suite 300 and Suite 410 on February 15, 2005 and early access to Suites 420 and 440 on August 15, 2005 for purposes of installing Tenant's furniture, fixtures and equipment prior to the Suite 300 Commencement Date or the Suite 450 Commencement Date, as the case may be. Each such period is referred to hereinafter as an "**Early Access Period**." Each Early Access Period shall be subject to all the terms and conditions of this Lease, including, without limitation, the provisions of Sections 17, 20 and 22, except that Tenant shall not be required to pay rent for the applicable portion of the Premises during an Early Access Period. Tenant shall, however, be liable for the cost of any after hours or above standard usage of services (e.g., electricity, HVAC, and freight elevators) that are provided to Tenant during an Early Access Period. Tenant shall cooperate with Landlord during each Early Access Period so as not to interfere with Landlord in the completion of any improvements to the Premises constructed pursuant to *Exhibit "C"*.

### 3. Rent.

3.1 **Basic Rent.** Tenant agrees to pay Landlord, as basic rent for the Premises, the Monthly Basic Rent in the amounts designated in Section 1.8 of the Summary. Except as otherwise provided in this Lease, the Monthly Basic Rent shall be paid by Tenant for Suite 300 and Suite 450 in monthly installments in the amounts and at the times designated in Section 1.8 of the Summary in advance on the first day of each and every calendar month during the Term as to Suite 300 and Suite 450, without demand, notice, deduction or offset except that the initial installment of Monthly Basic Rent due for Suite 300 and Suite 450 shall be paid upon Tenant's execution and delivery of this Lease to Landlord. Monthly Basic Rent for any partial month shall be prorated in the proportion that the number of days this Lease is in effect during such month bears to the actual number of days in such month.

3.2 **Additional Rent.** All amounts and charges payable by Tenant under this Lease in addition to the Monthly Basic Rent described in Section 3.1 above (including, without limitation, payments for insurance, repairs and parking, and Tenant's Percentage of Operating Expenses, Real Property Taxes

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and Assessments, Insurance Costs, and Utilities Costs, respectively, in excess of Landlord's Contribution to Operating Expenses, Real Property Taxes and Assessments, Insurance Costs and Utilities Costs as provided in Section 4.3 shall be considered additional rent for the purposes of this Lease, and the word "rent" in this Lease shall include such additional rent unless the context specifically or clearly implies that only the Monthly Basic Rent is referenced. Except as otherwise provided in this Lease, the Monthly Basic Rent and additional rent shall be paid to Landlord as provided in Section 7, without any prior demand therefor and without any deduction or offset whatever, in lawful money of the United States of America.

3.3 **Abatement.** Notwithstanding anything to the contrary contained in this Lease, if Tenant's use of all or a material part of the Premises is materially impaired due to any of the causes identified in subparagraphs (i) through (v) below ("**Eligible Causes**") and such disruption materially interferes with the conduct of Tenant's business in the Premises for three (3) consecutive business days or twenty (20) days in any calendar year (such three (3) consecutive business day period or twenty (20) day period, as applicable, is referred to herein as the "**Eligibility Period**"), as any such Eligibility Period may be extended due to Force Majeure Delays (as defined in Section 32.15 of this Lease), then Tenant shall be entitled to an equitable abatement of Monthly Basic Rent and additional rent under this Lease based upon the portion of the Premises affected thereby (provided that if the operation of Tenant's business from the remainder of the Premises not affected thereby is not reasonably practicable under the circumstances and Tenant in fact does not operate for business from the remainder of the Premises, all Monthly Basic Rent and additional rent under this Lease shall be subject to such abatement) from the commencement of the Eligibility Period until the applicable material impairment is cured. As used herein, "**Eligible Causes**" shall mean (i) an interruption of utility or mechanical services to the Premises, (ii) an inability to access the Premises or parking areas within the Project which Tenant is entitled to use pursuant to this Lease unless resulting from governmental mandate, (iii) entry upon the Premises by Landlord or Landlord's employees, agents or contractors, (iv) repairs, maintenance or other work required to be made to the Premises or Building which are the responsibility of Landlord under this Lease or which otherwise are performed by or on behalf of Landlord, and/or (v) Landlord's failure to conduct repairs, maintenance or other work required to be made to the Premises or Building which are the responsibility of Landlord under this Lease or which otherwise are performed by or on behalf of Landlord. Any impairment of Tenant's use of the Premises resulting from acts or omissions of Tenant or any of Tenant's Parties (as defined in Section 6.4 below) shall not constitute Eligible Causes. The provisions of this Section 3.3 shall not, however, apply in the event of a casualty governed by the provisions of Section 18 below or in the event of a taking or condemnation governed by the provisions of Section 19 below.

#### **4. Common Areas; Operating Expenses; Real Property Taxes and Assessments; Insurance Costs and Utilities Costs.**

4.1 **Definitions; Tenant's Rights.** During the Term of this Lease, Tenant shall have the non-exclusive right to use, in common with other tenants in the Project, and subject to the Rules and Regulations referred to in Section 6.1 below, those portions of the Project (the "**Project Common Areas**") not leased or designated for lease to tenants that are provided for use in common by Landlord, Tenant and any other tenants of the Project (or by the sublessees (agents, employees, customers invitees, guests or licensees of any such party), whether or not those areas are open to the general public. The Project Common Areas shall include, without limitation, the parking structure and parking areas (subject to Section 6.2 below), loading and unloading areas, trash areas, roadways, sidewalks, walkways, parkways, driveways and landscaped areas appurtenant to the Building, fixtures, systems, decor, facilities and landscaping contained, maintained or used in connection with those areas, and shall be deemed to include any city sidewalks adjacent to the Project, any pedestrian walkway system, park or other facilities located on the Site and open to the general public.

The common areas of the Building shall be referred to herein as the "**Building Common Areas**" and shall include, without limitation, the following areas of the Building: the common entrances, lobbies, restrooms on multi-tenant floors, elevators, stairways and accessways, loading docks, ramps, drives and platforms and any passageways and serviceways thereto to the extent not exclusively serving another tenant or contained within another tenant's premises, and the common pipes, conduits, wires and appurtenant equipment serving the Premises. The Building Common Areas and the Project Common Areas shall be referred to herein collectively as the "**Common Areas**."

4.2 **Landlord's Reserved Rights.** Landlord reserves the right from time to time to use any of the Common Areas and to do any of the following, as long as such acts do not unreasonably interfere with Tenant's use of or access to the Premises:

- (a) expand the Building and construct or alter other buildings or improvements on the Site;
- (b) make any changes, additions, improvements, repairs or replacements in or to the Project, the Site, the Common Areas and/or the Building (including the Premises if required to do so by any law or regulation) and the fixtures and equipment thereof, including, without limitation:
  - (i) maintenance, replacement and relocation of pipes, ducts, conduits, wires and meters; and
  - (ii) changes in the location, size, shape and number of driveways, entrances, stairways, elevators, loading and unloading areas, ingress, egress, direction of traffic, landscaped areas and walkways, easements and, subject to Section 6.2, parking spaces and parking areas;
- (c) provided Tenant has access to the Premises in all non-emergency situations, close temporarily any of the Common Areas while engaged in making repairs, improvements or alterations to the Project, Site and/or Building; and
- (d) perform such other acts and make such other changes with respect to the Project, Site, Common Areas and Building, as Landlord may, in the exercise of good faith business judgment, deem to be appropriate.

4.3 **Excess Expenses, Real Property Taxes and Assessments, Insurance Costs and Utilities Costs.** In addition to the Monthly Basic Rent required to be paid by Tenant pursuant to Section 3.1 above, during each month during the Term of this Lease (after the Base Year noted in Section 1.10 of the Summary), Tenant shall pay to Landlord the amount by which Tenant's Percentage of Operating Expenses, Real Property Taxes and Assessments, Insurance Costs and Utilities Costs for such calendar year exceeds Landlord's Contribution to Operating Expenses, Real Property Taxes and Assessments, Insurance Costs and Utilities Costs (such amounts shall be referred to in this Section 4 as the "**Excess Expenses**," "**Excess Real Property Taxes and Assessments**," "**Excess Insurance Costs**," and "**Excess Utilities Costs**," respectively"), in the manner and at the times set forth in the following provisions of this Section 4. No reduction in Operating Expenses, Real Property Taxes and Assessments, Insurance Costs, or Utilities Costs after the Base Year will reduce the Monthly Basic Rent payable by Tenant hereunder. Notwithstanding anything to the contrary in this Lease, Landlord shall have the right, from time to time, to equitably allocate some or all of the Operating Expenses, Real Property Taxes and Assessments, Insurance Costs and Utilities Costs among different tenants and/or different buildings of the Project (the "**Cost Pools**"). Such Cost Pools may include, without limitation, office space tenants and retail space tenants in the Project and may be modified to take into account the addition of any additional buildings within the Project. Accordingly, in the event of such allocation into Cost Pools, Tenant's Percentage shall be appropriately adjusted to reflect such allocation. In addition, if Landlord does not furnish a particular service or work (the cost of which, if furnished by Landlord would be included in Operating Expenses, Insurance Costs, Utilities Costs or Real Property Taxes and Assessments) to a tenant (other than Tenant) that has undertaken to perform such service or work in lieu of receiving it from Landlord, then Operating Expenses, Insurance Costs, Utilities Costs or Real Property Taxes and Assessments, as applicable, shall be considered to be increased by an amount equal to the additional Operating Expense, Insurance Costs, Utilities Costs or Real Property Taxes and

Assessments that Landlord would reasonably have incurred had Landlord furnished such service or work to that tenant.

4.4 **Definition of Operating Expenses.** As used in this Lease, the term "**Operating Expenses**" shall consist of all reasonable and customary costs and expenses of operation, maintenance and repair of the Building and Building Common Areas as determined by standard accounting practices and calculated assuming the Building is at least ninety-five percent (95%) occupied. Operating Expenses include the following costs by way of illustration but not limitation:

- (a) any and all assessments imposed with respect to the Building, Common Areas, and/or Site pursuant to any covenants, conditions and restrictions affecting the Site, Common Areas or Building;
- (b) costs, levies or assessments resulting from statutes or regulations promulgated by any government authority in connection with the use or occupancy of the Site, Building or the Premises or the parking facilities serving the Site, Building or the Premises;
- (c) waste disposal and janitorial services;
- (d) security;
- (e) costs incurred in the management of the Site, Building and Common Areas, including, without limitation: (1) supplies, (2) wages, salaries, benefits, pension payments, fringe benefits, uniforms and dry-cleaning thereof (and payroll taxes, insurance and similar governmental charges related thereto) of employees at or below the level of Building manager used in the operation and maintenance of the Site, Building and Common Areas, (3) the rental of personal property used by Landlord's personnel in the maintenance, repair and operation of the Project, (4) management office expenses including rent and operating costs, (5) accounting fees, legal fees and real estate consultant's fees, and (6) a management/administrative fee covering Operating Expenses, Real Property Taxes and Assessments, Insurance Costs and Utilities Costs, not to exceed three percent (3%) of the annual gross receipts of the Building;
- (f) supplies, materials, equipment and tools;
- (g) repair and maintenance of the elevators and the structural portions of the Building, including the plumbing, heating, ventilating, air-conditioning and electrical systems installed or furnished by Landlord;
- (h) maintenance, costs and upkeep of all parking and Common Areas net of any revenues received from special event parking, if any;
- (i) amortization on a straight-line basis over the useful life together with interest at the Interest Rate (as defined in Section 1.14 of the Summary of this Lease) on the unamortized balance of all costs of a capital nature (including, without limitation, capital improvements, capital replacements, capital repairs, capital equipment and capital tools): (1) which actually produce a reduction in operating charges or energy consumption but only to the extent of such reduction; or (2) required after the date of this Lease under any governmental law or regulation that was not applicable to the Building at the time it was originally constructed;
- (j) costs and expenses of gardening and landscaping;
- (k) maintenance of signs (other than signs of tenants of the Site);
- (l) personal property taxes levied on or attributable to personal property used in connection with the Building, the Common Areas and/or the Site; and
- (m) costs and expenses of repairs, resurfacing, repairing, maintenance, painting, lighting, cleaning, refuse removal, security and similar items, including appropriate reserves.

For purposes of determining Landlord's Contribution to Operating Expenses, Operating Expenses shall not include one-time special assessments, charges, costs or fees or extraordinary charges or costs incurred in the Base Year only, including those attributable to boycotts, embargoes, strikes or other shortages of services or supplies or amortized costs relating to capital improvements which would not be included in Operating Expenses after the Base Year. Operating Expenses shall not include Real Property Taxes and Assessments, Insurance Costs or Utilities Costs which shall be separately accounted for.

**4.5 Definition of Real Property Taxes and Assessments.** All Real Property Taxes and Assessments shall be adjusted to reflect an assumption that the Building is fully assessed for real property tax purposes as a completed building(s) ready for occupancy. As used in this Lease, the term "**Real Property Taxes and Assessments**" shall mean: any form of assessment, license fee, license tax, business license fee, commercial rental tax, levy, charge, improvement bond, tax, water and sewer rents and charges, utilities and communications taxes and charges or similar or dissimilar imposition imposed by any authority having the direct power to tax, including any city, county, state or federal government, or any school, agricultural, lighting, drainage or other improvement or special assessment district thereof, or any other governmental charge, general and special, ordinary and extraordinary, foreseen and unforeseen, which may be assessed against any legal or equitable interest of Landlord in the Premises and the Building, Common Areas or Site, including the following by way of illustration but not limitation:

- (a) any tax on Landlord's "right" to rent or "right" to other income from the Premises or as against Landlord's business of leasing the Premises;
- (b) any assessment, tax, fee, levy or charge in substitution, partially or totally, of any assessment, tax, fee, levy or charge previously included within the definition of real property tax including assessments, taxes, fees, levies and charges may be imposed by governmental agencies for such services as fire protection, street, sidewalk and road maintenance, refuse removal and for other governmental services formerly provided without charge to property owners or occupants. It is the intention of Tenant and Landlord that all such new and increased assessments, taxes, fees, levies and charges be included within the definition of "real property taxes" for the purposes of this Lease; or
- (c) any assessment, tax, fee, levy or charge allocable to or measured by the area of the Premises or other premises in the Building or the rent payable by Tenant hereunder or other tenants of the Building, including, without limitation, any gross receipts tax or excise tax levied by state, city or federal government, or any political subdivision thereof, with respect to the receipt of such rent, or upon or with respect to the possession, leasing, operation, management, maintenance, alteration, repair, use or occupancy by any tenant of the Building, or any portion thereof but not on Landlord's other operations.

When calculating Real Property Taxes and Assessments for purposes of establishing Landlord's Contribution to Real Property Taxes and Assessments, Real Property Taxes and Assessments shall not include Real Property Taxes and Assessments attributable to one-time special assessments, charges, costs, or fees arising from modifications or changes in governmental laws or regulations, including, but not limited to the institution of a split tax roll during the Base Year only. Notwithstanding the foregoing provisions of this Section 4.5 above to the contrary, "Real Property Taxes and Assessments" shall not include Landlord's federal or state income, franchise, inheritance or estate taxes.

**4.6 Definition of Insurance Costs.** As used in this Lease, "Insurance Costs" shall mean the cost of insurance obtained by Landlord pursuant to Section 21 (including self-insured amounts and deductibles) for the Building, the Premises and the Tenant Improvements and the costs of such insurance for the Project Common Areas. Insurance Costs shall be calculated assuming the Project and Building are at least ninety-five percent (95%) occupied.



4.7 **Definition of Utilities Costs.** As used in this Lease, "Utilities Costs" shall mean all actual charges for utilities for the Building and the Project Common Areas calculated assuming the Building and Project are at least ninety-five percent (95%) occupied, including but not limited to water, sewer and electricity, and the costs of heating, ventilating and air conditioning and other utilities (but excluding those charges for which tenants are individually responsible) as well as related fees, assessments and surcharges. For purposes of determining Landlord's Contribution with respect to Utilities Costs, Utilities Costs shall not include any one time special charges, costs or fees or any extraordinary charges or costs incurred in the Base Year only, including, without limitation, utility rate increases and other costs arising from extraordinary market circumstances such as by way of example, boycotts, black-outs, brown-outs, the leasing of auxiliary power supply equipment, embargoes, strikes or other shortages of services or fuel (whether or not such shortages are deemed actual or manufactured), or any conservation surcharges, penalties or fines incurred by Landlord.

4.8 **Estimate Statement.** By the first day of April of each calendar year during the Term of this Lease (after the Base Year noted in Section 1.10 of the Summary), Landlord shall deliver to Tenant a statement ("**Estimate Statement**") estimating the Operating Expenses, Real Property Taxes and Assessments, Insurance Costs, and Utilities Costs for the current calendar year and the estimated amount of Excess Expenses, Excess Real Property Taxes and Assessments, Excess Insurance Costs, and Excess Utilities Costs payable by Tenant. Landlord shall have the right no more than three (3) times in any calendar year to deliver a revised Estimate Statement showing the Excess Expenses, Excess Real Property Taxes and Assessments, Excess Insurance Costs, and Excess Utilities Costs for such calendar year if Landlord determines that the Excess Expenses, Excess Real Property Taxes and Assessments, Excess Insurance Costs, and/or Excess Utilities Costs are greater than those set forth in the original Estimate Statement (or previously delivered revised Estimate Statement) for such calendar year. The Excess Expenses, Excess Real Property Taxes and Assessments, Excess Insurance Costs, and/or Excess Utilities Costs shown on the Estimate Statement (or revised Estimate Statement, as applicable) shall be divided into twelve (12) equal monthly installments, and Tenant shall pay to Landlord, concurrently with the regular monthly rent payment next due following the receipt of the Estimate Statement (or revised Estimate Statement, as applicable), an amount equal to one (1) monthly installment of such Excess Expenses, Excess Real Property Taxes and Assessments, Excess Insurance Costs, and Excess Utilities Costs multiplied by the number of months from January in the calendar year in which such statement is submitted to the month of such payment, both months inclusive (less any amounts previously paid by Tenant with respect to any previously delivered Estimate Statement or revised Estimate Statement for such calendar year). Subsequent installments shall be paid concurrently with the regular monthly rent payments for the balance of the calendar year and shall continue until the next calendar year's Estimate Statement (or current calendar year's revised Estimate Statement) is received.

4.9 **Actual Statement.** By the first day of April of each succeeding calendar year during the Term of this Lease, Landlord shall deliver to Tenant a statement ("**Actual Statement**") of the actual Operating Expenses, Real Property Taxes and Assessments, Insurance Costs, and Utilities Costs and Excess Expenses, Excess Real Property Taxes and Assessments, Excess Insurance Costs, and Excess Utilities Costs for the immediately preceding calendar year. If the Actual Statement reveals that Excess Expenses, Excess Real Property Taxes and Assessments, Excess Insurance Costs, and/or Excess Utilities Costs were overstated or under-stated in any Estimate Statement (or revised Estimate Statement) previously delivered by Landlord pursuant to Section 4.8 above, then within thirty (30) days after delivery of the Actual Statement, Tenant shall pay to Landlord the amount of any such under-payment, or, Landlord shall credit Tenant against the next monthly rent falling due, the amount of such over-payment, as the case may be. If Excess Expenses, Excess Real Property Taxes and Assessments, Excess Insurance Costs and Utilities Costs were overstated by more than five percent (5%), any credit or refund paid by Landlord to Tenant shall include interest at the Interest Rate for the period commencing January 1 of the calendar year in which the Actual Statement was delivered and ending on the date the Actual Statement is delivered to Tenant. Such obligation will be a continuing one which

will survive the expiration or earlier termination of this Lease. Prior to the expiration or sooner termination of the Lease Term and Landlord's acceptance of Tenant's surrender of the Premises, Landlord will have the right to estimate the actual Operating Expenses, Real Property Taxes and Assessments, Insurance Costs, and Utilities Costs for the then current Lease Year and to collect from Tenant prior to Tenant's surrender of the Premises, Tenant's Percentage of any excess of such actual Operating Expenses, Real Property Taxes and Assessments, Insurance Costs, and Utilities Costs over the estimated Operating Expenses, Real Property Taxes and Assessments, Insurance Costs, and Utilities Costs paid by Tenant in such calendar year.

4.10 **No Release.** Any delay or failure by Landlord in delivering any Estimate or Actual Statement pursuant to this Section 4 shall not constitute a waiver of its right to receive Tenant's payment of Excess Expenses, Excess Real Property Taxes and Assessments, Excess Insurance Costs, and Excess Utilities Costs, nor shall it relieve Tenant of its obligations to pay Excess Expenses, Excess Real Property Taxes and Assessments, Excess Insurance Costs, and Excess Utilities Costs pursuant to this Section 4, except that Tenant shall not be obligated to make any payments based on such Estimate or Actual Statement until twenty (20) days after receipt of such statement. Notwithstanding the foregoing, Landlord shall be deemed to have waived its right to receive Tenant's payment of Excess Expenses, Excess Real Property Taxes and Assessments (other than supplemental taxes and assessments which may be billed to Tenant at any time following receipt of a supplemental tax bill from the Orange County Tax Assessor), Excess Insurance Costs, and/or Excess Utilities Costs, if Landlord fails to deliver an Actual Statement, or fails to revise an Actual Statement, within twenty four (24) months after the expiration of the calendar year for which said Actual Statement is due.

4.11 **Exclusions from Operating Expenses, Real Property Taxes and Assessments, Insurance Costs and Utilities Costs.** Notwithstanding anything to the contrary contained elsewhere in this Section 4, the following items shall be excluded from Operating Expenses, Real Property Taxes and Assessments, Insurance Costs, and Utilities Costs, as applicable:

- (a) Costs of decorating, redecorating, or special cleaning or other services provided to certain tenants and not provided on a regular basis to all tenants of the Building;
- (b) Any charge for depreciation of the Building or equipment and any interest or other financing charge;
- (c) Any charge for Landlord's income taxes, excess profit taxes, franchise taxes, or similar taxes on Landlord's business;
- (d) All costs relating to activities for the marketing, solicitation, negotiation and execution of leases of space in the Building, including without limitation, costs of tenant improvements;
- (e) All costs for which Tenant or any other tenant in the Building is being charged other than pursuant to the operating expense clauses of leases for the Building;
- (f) The cost of correcting defects in the construction of the Building or in the building equipment, except that conditions (not occasioned by construction defects) resulting from ordinary wear and tear will not be deemed defects for the purpose of this category;
- (g) To the extent Landlord is reimbursed by third parties, the cost of repair made by Landlord because of the total or partial destruction of the Building or the condemnation of a portion of the Building;
- (h) The cost of any items for which Landlord is reimbursed by insurance or otherwise compensated by parties other than tenants of the Building pursuant to clauses similar to this paragraph;

- (i) The cost of any work or service performed for or facilities furnished to any tenant of the Building to a greater extent or in a manner more favorable to such tenant than that performed for or furnished to Tenant;
- (j) The cost of alterations of space in the Building leased to other tenants;
- (k) Ground rent or similar payments to a ground lessor;
- (l) Legal fees and related expenses incurred by Landlord (together with any damages awarded against Landlord) due to the negligence or willful misconduct of Landlord;
- (m) Costs arising from the presence of any Hazardous Materials within, upon or beneath the Project by reason of Landlord's acts;
- (n) Costs for acquiring sculpture, paintings or other objects of art in the Building which exceed those typically incurred in other similar first class office buildings in Orange County, California;
- (o) Salaries of management personnel to the extent that such persons provide services to properties other than the Building;
- (p) All costs associated with leasing space at the Building, including, but not limited to: leasing commissions, attorneys' fees, costs, disbursements and other expenses incurred by Landlord or its agents in connection with negotiations for leases with tenants, other occupants or prospective tenants or other occupants of the Building or Project, and similar costs incurred in connection with disputes with and/or enforcement of any leases with tenants, other occupants, or prospective tenants or other occupants of the Building or Project;
- (q) Costs of a capital nature, except as specifically provided in this Lease;
- (r) Costs or expenses (including fines, penalties and legal fees) incurred due to violation by Landlord, its employees, agents and/or contractors, or any tenant (other than Tenant) or other occupant of the Building or Project, of any terms and conditions (other than by Tenant) of this Lease or of the leases of other tenants in the Building or Project, and/or of any applicable laws, rules, regulations and codes of any federal, state, county, municipal or other governmental authority having jurisdiction over the Building or Project that would not have incurred but for such violation by Landlord, its employees, agents and/or contractors, it being intended that each party shall be responsible for the costs resulting from its own violation of such leases and laws, rules, regulations and codes as same shall pertain to the Building or Project;
- (s) Penalties for late payment, including, without limitation, late payment of taxes, rent on equipment leases, etc;
- (t) Payments in respect of overhead and/or profit to any subsidiary or affiliate of Landlord, or to any other party, as a result of a non-competitive selection process for services (other than the management fee) on or to the Building or Project, or for goods, supplies or other materials, to the extent that the costs of such services, goods, supplies and/or materials exceed the costs that would have been paid had the services, goods, supplies or materials been provided by parties unaffiliated with Landlord, or by third parties, of similar competence and experience, on a competitive basis;
- (u) Rentals and other related expenses, if any, incurred in leasing air conditioning systems, elevators or other equipment ordinarily considered to be of a capital nature, except as specifically provided with regard to capital investments in Section 4.4(i) of this Lease;

- (v) Costs incurred in installing, operating, maintaining and owning any specialty items or services not normally installed, operated and maintained in buildings comparable to the Building and not necessary for Landlord's operation, repair and maintenance of, and the providing of required services for the Building or the Project and/or any associated parking facilities including, but not limited to, broadcasting facilities (other than the Building's music system, and the life support and security systems), luncheon club, athletic or recreational club, helicopter pad, child-care center, kiosks, promotions, displays, etc;
- (w) any bad debt loss, rent loss reserves, or other reserves of any kind;
- (x) increases in insurance premiums resulting from decreases in Landlord's deductibles or self insured amounts, or increases in premiums resulting from increases in levels of coverage; provided, however, Landlord may include such premium increases in Insurance Costs so long as Landlord's Contribution to Insurance Costs is likewise increased to reflect higher premiums which would have been incurred as a result of any such changes during the Base Year.

4.12 **Tenant's Percentage.** "Tenant's Percentage" shall mean the percentage set forth in Section 1.9 of the Summary. Tenant's Percentage was calculated by multiplying the number of rentable square feet of the Premises by 100 and dividing the product by the total rentable square feet in the Building. Landlord shall have the right from time to time, in its discretion, to include or exclude existing or future buildings in the Project in the calculation of the total rentable square feet of the Project, for purposes of determining the Building Percentage of Operating Expenses, Real Property Taxes and Assessments, Insurance Costs and Utilities Costs and/or the provision of various services and amenities thereto, including equitable allocation of the foregoing in Cost Pools (as described in Section 4.3 above); in such event, Tenant's Percentage shall include such allocation of the Building Percentage of Operating Expenses, Real Property Taxes and Assessments, Insurance Costs, and Utilities Costs in the calculation of Tenant's Percentage. In addition, if either the rentable square feet of the Premises and/or the Building and other buildings in the Project changes, Tenant's Percentage and/or the Building Percentage shall be appropriately adjusted, and, as to the calendar year in which such change occurs, Tenant's Percentage and/or the Building Percentage for such year shall be determined on the basis of the number of days during such calendar year that each such Tenant's Percentage and/or the Building Percentage was in effect. As used herein the Building Percentage means a fraction, the numerator of which is the rentable square footage of the Building and the denominator of which is the rentable square footage of the Project. Notwithstanding the exercise of Landlord's rights under this Section 4.12, in no event shall Tenant's Percentage be greater than the percentage set forth in Section 1.9 of the Summary unless the Premises is hereafter expanded to include additional space.

4.13 **Audit Rights.** Notwithstanding anything to the contrary contained in this Section 4 or elsewhere in this Lease, if Tenant reasonably disputes any amount set forth in any Actual Statement described above in Section 4.9, Tenant will have the right not later than two (2) years following receipt of an Actual Statement and upon no less than ten (10) days notice to Landlord, to audit Landlord's books and records with respect to the Base Year and one or both of the preceding two (2) calendar years only, at no cost or expense to Landlord, by a party reasonably approved by Landlord. Notwithstanding the foregoing, in no event shall Tenant be entitled to audit the Base Year or any calendar year thereafter more than once during the Term. Tenant's audit shall be limited to an on-site review of Landlord's books and records respecting the accounting for the items comprising Operating Expenses, Real Property Taxes and Assessments, Insurance Costs and Utilities Costs. Any audit conducted by or on behalf of Tenant shall be performed at Landlord's office during Landlord's normal business hours and in a manner so as to minimize interference with Landlord's business operations. Landlord shall have no obligation to make photocopies of any of Landlord's ledgers, invoices or other items; however, Tenant shall have the right at Tenant's sole cost and expense to make photocopies of Landlord's ledgers, invoices or other items pertaining to Operating Expenses, Real Property Taxes and Assessments, Insurance Costs and Utilities Costs. Pending completion of any such audit, Tenant agrees

to pay Landlord any such disputed Operating Expenses, Real Property Taxes and Assessments, Insurance Costs and Utilities Costs amounts. The amounts payable under this Section 4.13 by Landlord to Tenant or Tenant to Landlord, as the case may be, will be appropriately adjusted on the basis of such audit, i.e., if Tenant has paid more than Tenant's Percentage of actual Operating Expenses, Real Property Taxes and Assessments, Insurance Costs, and/or Utilities Costs, as the case may be, Landlord shall either apply the amount overpaid by Tenant against future installments of Operating Expenses, Real Property Taxes and Assessments, Insurance Costs, and/or Utilities Costs or Monthly Basic Rent, as the case may be, or shall refund the amount of such overpayment to Tenant. Notwithstanding the foregoing, in the last year of the Term, Landlord shall refund such overpayment to Tenant. To the extent the audit reveals there is a deficiency between Tenant's Percentage of actual Operating Expenses, Real Property Taxes and Assessments, Insurance Costs, and/or Utilities Costs, and the estimated amounts for Operating Expenses, Real Property Taxes and Assessments, Insurance Costs, and/or Utilities Costs paid by Tenant during the applicable calendar year, Tenant shall pay the amount of any deficiency to Landlord concurrently with Tenant's delivery of the audit results to Landlord. If such audit discloses an overstatement of Operating Expenses, Real Property Taxes and Assessments, Insurance Costs, and Utilities Costs in excess of four percent (4%) of the actual total amount thereof for such calendar year, Tenant will receive a credit against Tenant's future obligations (or, if the Term of this Lease has expired, Landlord shall pay Tenant) for the reasonable cost of an audit performed by a third party; otherwise the cost of such audit will be borne by Tenant. To the extent Landlord must pay the cost of such third party audit, such cost shall not exceed a reasonable hourly charge for a reasonable amount of hours spent by such third-party in connection with the audit. In no event shall Landlord be liable for any contingency fee payments to any consultants of Tenant. Tenant agrees to keep, and to cause its accountants, attorneys and employees to keep, all information revealed by any audit of Landlord's books and records strictly confidential and not to disclose any such information or permit any such information to be disclosed to anyone other than Landlord or Tenant's accountants, auditors or attorneys, unless compelled to do so by a court of law or in connection with any litigation between Landlord and Tenant with respect to same. If Landlord disputes the results of any Tenant audit, Landlord shall have the right to initiate an arbitration in accordance with the rules of the American Arbitration Association.

**5. Security Deposit.** Concurrently with the execution of this Lease, Tenant shall deposit with Landlord the Security Deposit designated in Section 1.11 of the Summary. The Security Deposit shall be held by Landlord as security for the full and faithful performance by Tenant of all of the terms, covenants and conditions of this Lease to be performed by Tenant during the Term. If Tenant defaults with respect to any of its obligations under this Lease, Landlord may (but shall not be required to) use, apply or retain all or any part of the Security Deposit for the payment of any rent or any other sum in default, or for the payment of any other amount, loss or damage which Landlord may spend, incur or suffer by reason of Tenant's default. If any portion of the Security Deposit is so used or applied, Tenant shall, within ten (10) days after demand therefor, deposit cash with Landlord in an amount sufficient to restore the Security Deposit to its original amount. Landlord shall not be required to keep the Security Deposit separate from its general funds, and Tenant shall not be entitled to interest on the Security Deposit. If Tenant shall fully and faithfully perform every provision of this Lease to be performed by it, the Security Deposit or any balance thereof shall be returned to Tenant within two (2) weeks following the expiration of the Lease term, provided that Landlord may retain the Security Deposit until such time as any amount due from Tenant in accordance with Section 4 hereof has been determined and paid in full. If Landlord sells its interest in the Building during the Term and if Landlord deposits with the purchaser the Security Deposit (or balance thereof), then, upon such sale, Landlord shall be discharged from any further liability with respect to the Security Deposit. Tenant hereby waives the provisions of Section 1950.7 of the California Civil Code and agrees that the provisions of this Section 5 shall govern the treatment of Tenant's Security Deposit in all respects for this Lease.

## 6. Use.

6.1 **General.** Tenant shall use the Premises solely for the Permitted Use specified in Section 1.12 of the Summary, and shall not use or permit the Premises to be used for any other use or purpose whatsoever without Landlord's consent which shall not be unreasonably withheld, conditioned or delayed. Tenant shall observe and comply with the "Rules and Regulations" attached hereto as *Exhibit "E"*, and all reasonable non-discriminatory modifications thereof and additions thereto from time to time put into effect and furnished to Tenant by Landlord. Landlord shall use commercially reasonable efforts to enforce the Rules and Regulations. Tenant shall, at its sole cost and expense, observe and comply with all requirements of any board of fire underwriters or similar body relating to the Premises, all recorded covenants, conditions and restrictions now or hereafter affecting the Project, and all laws, statutes, codes, rules and regulations now or hereafter in force relating to or affecting the condition, use, occupancy, alteration or improvement of the Premises, including, without limitation, the provisions of Title III of the Americans with Disabilities Act of 1990 ("**ADA**") but solely as such laws pertain to Tenant's use, occupancy, improvement and alteration of the Premises. Tenant shall not use or allow the Premises to be used (a) in violation of any recorded covenants, conditions and restrictions affecting the Site or of any law or governmental rule or regulation, or of any certificate of occupancy issued for the Premises or Building, or (b) for any unlawful purpose. Tenant shall not do or permit to be done anything which will obstruct or interfere with the rights of other tenants or occupants of the Project or the Building, or injure or annoy them. Tenant shall not cause, maintain or permit any nuisance in, on or about the Premises, the Building, the Project or the Site, nor commit or suffer to be committed any waste in, on or about the Premises.

## 6.2 Parking.

- (a) *Tenant's Parking Spaces.* During the Term of this Lease, Tenant shall have the right to lease from Landlord, the number of parking spaces specified in Section 1.16 of the Summary hereof for use by Tenant's employees in the common parking areas for the Building within the Project, as designated by Landlord from time to time. Subject to the terms and conditions of Section 1.16, Landlord shall at all times have the right to establish and modify the nature and extent of the parking areas for the Building and Project (including whether such areas shall be surface, underground and/or other structures) as long as Tenant is provided the number and type of parking spaces designated in Section 1.16 of the Summary. In addition, Landlord may, in its sole discretion, assign any unreserved and unassigned parking spaces, and/or make all or a portion of such spaces reserved.
- (b) *Visitor Parking Charges.* In addition to such parking spaces for use by Tenant's employees, Landlord shall permit access to the parking areas for Tenant's visitors, subject to availability of spaces.
- (c) *Parking Rules.* The use of the parking areas shall be subject to the Parking Rules and Regulations contained in *Exhibit "E"* attached hereto and any other reasonable, non-discriminatory rules and regulations adopted by Landlord and/or Landlord's parking operators from time to time. Tenant shall not use more parking spaces than its allotment and shall not use any parking spaces specifically assigned by Landlord to other tenants of the Building or Project or for such other uses as visitor parking. Tenant's parking spaces shall be used only for parking by vehicles no larger than normally sized passenger automobiles or pick-up trucks. Tenant shall not permit or allow any vehicles that belong to or are controlled by Tenant or Tenant's employees, suppliers, shippers, customers or invitees to be loaded, unloaded, or parked in areas other than those designated by Landlord for such activities. If Tenant permits or allows any of the prohibited activities described herein, then Landlord shall have the right, without notice, in addition to such other rights and remedies that it may have, to remove or tow away the vehicle involved and charge the cost thereof to Tenant, which cost shall be immediately payable by Tenant upon demand by Landlord.

6.3 **Signs and Auctions.** Except for Tenant's name on the directory board in the Building lobby and one identity sign at the entry doors of the Premises (which signs shall be consistent with the Building's signage program and otherwise subject to Landlord's prior written approval), Tenant shall have no right to place any sign upon the Premises, the Building, Site or Project or which can be seen from outside the Premises. Tenant shall have no right to conduct any auction in, on or about the Premises, the Building or Site.

Notwithstanding the foregoing, subject to (i) Landlord's prior approval of Tenant's sign plans and specifications which approval shall not be unreasonably withheld or delayed, (ii) the sign criteria for the Project, (iii) all covenants, conditions, and restrictions affecting the Project, (iv) the rights of existing tenants, and (v) all applicable laws, rules, regulations and local ordinances, and subject to Tenant obtaining all necessary permits and approvals from the City of Anaheim, California, Tenant shall also have the non-exclusive right, at Tenant's sole cost and expense, to have the name "*The Willdan Group*" or any other name of Tenant which is not an "Objectionable Name," as defined below, placed on one panel (the "**Monument Sign**") on the sign pedestal in the Common Area outside the main entry to the Building. Tenant shall be solely responsible for payment of all costs and expenses arising from the Monument Sign, including, without limitation, all design, fabrication and permitting costs, license fees, installation, maintenance, repair and removal costs.

"**Objectionable Name**" shall mean any name which relates to an entity which is of a character or reputation, or is associated with a political orientation or faction, which is inconsistent with the quality of the Project, or which would otherwise reasonably offend landlords of comparable buildings in the vicinity of the Building or is in violation of sign rights previously granted to other tenants of the Building.

Landlord shall maintain and repair the Monument Sign at Tenant's expense. Upon the expiration or earlier termination of this Lease, Landlord shall, at Tenant's sole cost and expense, and after obtaining Tenant's reasonable approval of the bid for such removal, (i) cause Tenant's Monument Sign lettering to be removed from the Common Areas, (ii) except for ordinary wear and tear, repair any damage caused by the removal of the Monument Sign, and (iii) restore the underlying surface of the sign monument to the condition existing prior to the installation of the Monument Sign. Notwithstanding anything to the contrary in this paragraph, if the pedestal upon which the Tenant's Monument Sign is placed is occupied by signs of Landlord and/or other tenants, Tenant shall only be charged a pro rata share of the costs of maintaining and repairing the pedestal based upon the total number of users of said pedestal. The rights granted to the original Tenant hereunder are not assignable separate and apart from this Lease, nor may any right granted herein be separated from this Lease, either by reservation or otherwise.

6.4 **Hazardous Materials.** Tenant will (i) obtain and maintain in full force and effect all Environmental Permits that may be required from time to time under any Environmental Laws applicable to Tenant or the Premises and (ii) be and remain in compliance in all material respects with all terms and conditions of all such Environmental Permits and with all other limitations, restrictions, conditions, standards, prohibitions, requirements, obligations, schedules and timetables contained in all Environmental Laws applicable to Tenant or the Premises. As used in this Lease, the term "**Environmental Law**" means any past, present or future federal, state, local or foreign statutory or common law, or any regulation, ordinance, code, plan, order, permit, grant, franchise, concession, restriction or agreement issued, entered, promulgated or approved thereunder, relating to (a) the environment, human health or safety, including, without limitation, emissions, discharges, releases or threatened releases of Hazardous Materials (as defined below) into the environment (including, without limitation, air, surface water, groundwater or land), or (b) the manufacture, generation, refining, processing, distribution, use, sale, treatment, receipt, storage, disposal, transport, arranging for transport, or handling of Hazardous Materials. "**Environmental Permits**" means, collectively, any and all permits, consents, licenses, approvals and registrations of any nature at any time required pursuant

to, or in order to comply with, any Environmental Law. Except for ordinary and general office supplies, such as copier toner, liquid paper, glue, ink and common household cleaning materials (some or all of which may constitute "**Hazardous Materials**" as defined in this Lease), Tenant agrees not to cause or permit any Hazardous Materials to be brought upon, stored, used, handled, generated, released or disposed of on, in, under or about the Premises, the Building, the Common Areas or any other portion of the Project by Tenant, its agents, employees, subtenants, assignees, licensees, contractors or invitees (collectively, "**Tenant's Parties**"), without the prior written consent of Landlord, which consent Landlord may withhold in its sole and absolute discretion. Upon the expiration or earlier termination of this Lease, Tenant agrees to promptly remove from the Premises, the Building and the Project, at its sole cost and expense, any and all Hazardous Materials, including any equipment or systems containing Hazardous Materials which are installed, brought upon, stored, used, generated or released upon, in, under or about the Premises, the Building and/or the Project or any portion thereof by Tenant or any of Tenant's Parties. To the fullest extent permitted by law, Tenant agrees to promptly indemnify, protect, defend and hold harmless Landlord and Landlord's members, shareholders, partners, officers, directors, employees, agents, successors and assigns (collectively, "**Landlord Indemnified Parties**") from and against any and all claims, damages, judgments, suits, causes of action, losses, liabilities, penalties, fines, expenses and costs (including, without limitation, clean-up, removal, remediation and restoration costs, sums paid in settlement of claims, attorneys' fees, consultant fees and expert fees and court costs) which arise or result from the presence of Hazardous Materials on, in, under or about the Premises, the Building or any other portion of the Project and which are caused or permitted by Tenant or any of Tenant's Parties. Tenant agrees to promptly notify Landlord of any release of Hazardous Materials in the Premises, the Building or any other portion of the Project which Tenant becomes aware of during the Term of this Lease, whether caused by Tenant or any other persons or entities. In the event of any release of Hazardous Materials caused or permitted by Tenant or any of Tenant's Parties, Landlord shall have the right, but not the obligation, to cause Tenant to immediately take all steps Landlord deems necessary or appropriate to remediate such release and prevent any similar future release to the satisfaction of Landlord and Landlord's mortgagee(s). At all times during the Term of this Lease, Landlord will have the right, but not the obligation, to enter upon the Premises to inspect, investigate, sample and/or monitor the Premises to determine if Tenant is in compliance with the terms of this Lease regarding Hazardous Materials. Tenant will, upon the request of Landlord or any mortgagee at any time during which Tenant is in default under this Lease, cause to be performed an environmental audit of the Premises at Tenant's expense by an established environmental consulting firm reasonably acceptable to Tenant, Landlord and the mortgagee. As used in this Lease, the term "**Hazardous Materials**" shall mean and include any hazardous or toxic materials, substances or wastes as now or hereafter designated under any law, statute, ordinance, rule, regulation, order or ruling of any agency of the State, the United States Government or any local governmental authority, including, without limitation, asbestos, petroleum, petroleum hydrocarbons and petroleum based products, urea formaldehyde foam insulation, polychlorinated biphenyls ("**PCBs**"), and freon and other chlorofluorocarbons. The provisions of this Section 6.4 will survive the expiration or earlier termination of this Lease. Notwithstanding anything to the contrary in this Section 6.4, in no event shall Tenant be responsible for any costs arising from Hazardous Materials which existed on the Site prior to the date Landlord delivers possession of the Premises to Tenant or for costs arising from Hazardous Materials brought onto the Site or into the Building by anyone other than Tenant, its employees, agents or contractors.

**6.5 Occupancy Level.** Landlord and Tenant acknowledge and agree that based upon the space plan attached to *Exhibit "C"*, the Premises is designed for a maximum occupancy level of one hundred nine (109) persons. Tenant therefore covenants and agrees that the number of persons occupying the Premises shall not exceed one hundred nine (109) persons. If Landlord at any time reasonably determines that more than one hundred nine (109) persons occupy the Premises on a day-to-day basis, Landlord shall notify Tenant and Tenant shall have ten (10) business days to either (a) reduce the



occupancy level to one hundred nine (109) persons or less or (b) notify Landlord of Tenant's desire to lease additional space in the Building or elsewhere in the Project. If Landlord does not receive notice of Tenant's desire to lease additional space in the Building or the Project within ten (10) business days after the date of Landlord's notice of the violation of the maximum occupancy provision, and if the Premises occupancy level remains in excess of the maximum allocation as of the tenth (10th) business day following the date of Landlord's notice, Tenant shall automatically be deemed in default of this Lease and Landlord shall be entitled to exercise any and all remedies set forth in this Lease or at law or in equity by reason of such default. If Tenant selects option (b), subject to the availability of space in the Building or the Project, the parties shall in good faith, negotiate a proposal to expand the Premises. If no space will be available in the Building or elsewhere in the Project within ninety (90) days after Landlord's receipt of Tenant's request to lease additional space, or if Landlord and Tenant have not reached an agreement with respect to any available expansion space within thirty (30) days after Landlord's receipt of Tenant's request to lease additional space, Tenant shall have an additional ten (10) days to reduce the occupancy level of the Premises to the required maximum. Should Tenant fail to reduce the occupancy level within said additional ten (10) day period, Tenant shall automatically be deemed in default of this Lease and Landlord shall be entitled to exercise any and all remedies set forth in this Lease or at law or in equity by reason of such default.

#### 6.6 Electrical and Telecommunications Cabling.

- (a) *Cabling Work.* Subject to the terms and conditions of this Section 6.6 and the provisions of this Lease, Tenant, at its sole cost and expense, shall have the right to install, upgrade, maintain, operate, repair and remove electrical lines and telecommunications conduit and cabling (collectively "**Cabling Work**"), including telephone conduit ducts, risers and cabling from the existing copper wire telephone point of entry at the Building to the Premises (collectively, the "**Wires**"), within the Premises and as necessary, in common area portions of the Building outside of the Premises, including within the plenums and risers of the Building. All Wires shall be capped or sealed at each end and at each telecommunications/electrical closet and junction box connection, and shall be clearly labeled with Tenant's name and suite number in all areas of the Building outside of the Premises where Wires are installed. In exercising its rights under this Section 6.6, Tenant shall use a telecommunications contractor reasonably approved by Landlord to complete any Cabling Work and shall comply with all applicable laws, codes, statutes, rules and regulations and shall not interfere with access to, or the use and enjoyment of, the Building, the Common Areas or any other portions of the Project by Landlord and other tenants and occupants of the Building. Tenant shall coordinate all Cabling Work with Landlord so as not to interfere with the business operations of Landlord or any other tenants or occupants of the Building.
- (b) *Cabling Plans.* Prior to commencing any Cabling Work, Tenant shall submit to Landlord for Landlord's approval, a detailed plan showing the proposed location of any Wires ("**Cabling Plan**") which shall include a description of the type(s) and quantity of Wires, points of commencement and termination, routing of the Wires and such other information as Landlord may reasonably request. All subsequent changes to the original Cabling Plan shall require Landlord's prior written approval, which approval shall not be unreasonably withheld or delayed and changes occurring after the Commencement Date shall be deemed "**Tenant Changes**" subject to the provisions of Section 12 of the Lease; provided, however, that in no event shall any Cabling Work be deemed a "**Pre-Approved Change**" under Section 12.

- (c) *Landlord May Elect to Either Remove or Keep Wires.* Within thirty (30) days after the expiration or sooner termination of this Lease or at any time that any of the Wires are no longer in active use by Tenant, Landlord may elect by written notice to Tenant to:
- (i) Retain all or any portion of any Wires installed by Tenant within the Premises or anywhere in the Building outside the Premises, including, without limitation, the plenums or risers of the Building;
  - (ii) Remove any or all of the Wires and restore the Premises or the Building, as the case may be, to their condition existing prior to the installation of the Wires ("**Wire Restoration Work**"). Landlord, at its option, may perform such Wire Restoration Work at Tenant's sole cost and expense, in which event Tenant shall pay the cost of the Wire Restoration Work to Landlord within thirty (30) days after receipt of an invoice therefor from Landlord; or
  - (iii) Require Tenant to perform all or part of the Wire Restoration Work at Tenant's sole cost and expense.
- (d) *Compliance with Laws and Discontinuance of Wire Use.* Tenant shall comply with all applicable laws with respect to the Wires, subject to Landlord's right to elect to retain the Wires. If Tenant discontinues the use of all or any part of the Wires or is no longer using all or any part of the Wires, Tenant shall within thirty (30) days thereafter notify Landlord thereof in writing, and such notice shall be accompanied by the then current Cabling Plan showing the location of the discontinued Wire(s) to allow Landlord to determine if Landlord desires to retain same.
- (e) *Condition of Wires.* If Landlord elects to retain any or all of the Wires pursuant to Section 6.6(c)(i) of this Section 6.6, Tenant covenants that:
- (i) Tenant shall be the sole owner of the Wires, Tenant shall have the sole right to surrender the Wires, and the Wires shall be free of all liens and encumbrances; and
  - (ii) All Wires shall be left in good condition, working order, properly labeled and capped or sealed at each end and in each telecommunications/electrical closet and junction box, and in safe condition.
- (f) *Landlord Retains Security Deposit.* Notwithstanding anything to the contrary in Section 5 of this Lease, Landlord may retain the Security Deposit after the expiration or sooner termination of the Lease until one of the following events has occurred with respect to all of the Wires.
- (i) Landlord elects to retain the Wires pursuant to Section 6.6(c)(i);
  - (ii) Landlord elects to perform the Wire Restoration Work pursuant to Section 6.6(c)(ii) and the Wire Restoration Work is complete and Tenant has fully reimbursed Landlord for all costs related thereto; or
  - (iii) Landlord elects to require Tenant to perform the Wire Restoration Work pursuant to Section 6.6(c)(iii) and the Wire Restoration Work is complete and Tenant has paid for all costs related thereto.
- (g) *Application of Security Deposit.* If Tenant fails or refuses to pay all costs of the Wire Restoration Work within thirty (30) days of Tenant's receipt of Landlord's notice requesting Tenant's reimbursement for or payment of such costs or otherwise fails to comply with the provisions of this Section 6.6, Landlord may apply all or any portion of the Security Deposit toward the payment of any costs or expenses relative to the Wire Restoration Work or Tenant's obligations under this Section 6.6. The retention or application of such Security

Deposit by Landlord pursuant to this Section 6.6(g) does not constitute a limitation on or waiver of Landlord's right to seek further remedy under law or equity.

(h) *Survival.* The provisions of this Section 6.6 shall survive the expiration or sooner termination of the Lease.

**7. *Payments and Notices.*** All rent and other sums payable by Tenant to Landlord hereunder shall be paid to Landlord at the first address designated in Section 1.1 of the Summary, or to such other persons and/or at such other places as Landlord may hereafter designate in writing. Any notice required or permitted to be given hereunder must be in writing and may be given by personal delivery (including delivery by nationally recognized overnight courier or express mailing service), facsimile transmission sent by a machine capable of confirming transmission receipt, with a hard copy of such notice delivered no later than one (1) business day after facsimile transmission by another method specified in this Section 7, or by registered or certified mail, postage prepaid, return receipt requested, addressed to Tenant at the address(es) designated in Section 1.2 of the Summary, or to Landlord at the address(es) designated in Section 1.1 of the Summary. Either party may, by written notice to the other, specify a different address for notice purposes. Notice given in the foregoing manner shall be deemed given (i) upon confirmed transmission if sent by facsimile transmission, provided such transmission is prior to 5:00 p.m. on a business day (if such transmission is after 5:00 p.m. on a business day or is on a non-business day, such notice will be deemed given on the following business day), (ii) when actually received or refused by the party to whom sent if delivered by a carrier or personally served or (iii) if mailed, on the day of actual delivery or refusal as shown by the certified mail return receipt or the expiration of three (3) business days after the day of mailing, whichever first occurs. For purposes of this Section 7, a "business day" is Monday through Friday, excluding holidays observed by the United States Postal Service.

**8. *Brokers.*** The parties recognize that the broker(s) who negotiated this Lease are stated in Section 1.13 of the Summary, and agree that Landlord shall be solely responsible for the payment of brokerage commissions to said broker(s) pursuant to the terms of a separate commission agreement, and that Tenant shall have no responsibility therefor unless written provision to the contrary has been made. Each party represents and warrants to the other, that, to its knowledge, no other broker, agent or finder (a) negotiated or was instrumental in negotiating or consummating this Lease on its behalf, and (b) is or might be entitled to a commission or compensation in connection with this Lease. Any broker, agent or finder of Tenant whom Tenant has failed to disclose herein shall be paid by Tenant. Tenant shall indemnify, defend (by counsel reasonably approved in writing by Landlord) and hold Landlord harmless from and against any and all claims, judgments, suits, causes of action, damages, losses, liabilities and expenses (including attorneys' fees and court costs) resulting from any breach by Tenant of the foregoing representation, including, without limitation, any claims that may be asserted against Landlord by any broker, agent or finder undisclosed by Tenant herein. Landlord shall indemnify, defend (by counsel reasonably approved in writing by Tenant) and hold Tenant harmless from and against any and all claims, judgments, suits, causes of action, damages, losses, liabilities and expenses (including attorneys' fees and court costs) resulting from any breach by Landlord of the foregoing representation, including, without limitation, any claims that may be asserted against Tenant by any broker, agent or finder undisclosed by Landlord herein. The foregoing indemnities shall survive the expiration or earlier termination of this Lease.

## **9. *Surrender; Holding Over.***

**9.1 *Surrender of Premises.*** Upon the expiration or sooner termination of this Lease, Tenant shall surrender all keys for the Premises to Landlord, and exclusive possession of the Premises to Landlord broom clean and in first-class condition and repair, reasonable wear and tear excepted (and casualty damage excepted if this Lease is terminated as a result thereof pursuant to Section 18), with all of Tenant's personal property (and those items, if any, of Tenant Changes identified by Landlord pursuant to Section 12.2 below) removed therefrom and all damage caused by such removal repaired,

as required pursuant to Sections 12.2 and 12.3 below. If, for any reason, Tenant fails to surrender the Premises on the expiration or earlier termination of this Lease (including upon the expiration of any subsequent tenancy pursuant to Section 9.2 below), with such removal and repair obligations completed, then, in addition to the provisions of Section 9.3 below and Landlord's rights and remedies under Section 12.4 and the other provisions of this Lease, Tenant shall indemnify, protect, defend (by counsel approved in writing by Landlord) and hold Landlord harmless from and against any and all claims, judgments, suits, causes of action, damages, losses, liabilities and expenses (including attorneys' fees and court costs) resulting from such failure to surrender, including, without limitation, any claim made by any succeeding tenant based thereon. The foregoing indemnity shall survive the expiration or earlier termination of this Lease.

**9.2 Hold Over.** Tenant will not be permitted to hold over possession of the Premises after the expiration or earlier termination of the Term without the express written consent of Landlord, which consent Landlord may withhold in its sole and absolute discretion. If Tenant holds over after the expiration or earlier termination of the Lease Term without the express written consent of Landlord, then, in addition to all other remedies available to Landlord, Tenant shall become a tenant at sufferance only, upon the terms and conditions set forth in this Lease so far as applicable (including Tenant's obligation to pay all Excess Expenses, Excess Real Property Taxes and Assessments, Excess Insurance Costs, and Excess Utilities Costs and any other additional rent under this Lease), but at a Monthly Basic Rent equal to one hundred fifty percent (150%) of the Monthly Basic Rent applicable to the Premises immediately prior to the date of such expiration or earlier termination. Acceptance by Landlord of rent after such expiration or earlier termination shall not constitute a consent to a hold over hereunder or result in an extension of this Lease. Notwithstanding the foregoing, if Tenant remains in possession of the Premises after the expiration or earlier termination of the Lease Term with Landlord's express written consent, Tenant shall become a tenant from month-to-month upon the terms and conditions set forth in this Lease (including Tenant's obligation to pay all Excess Expenses, Excess Real Property Taxes and Assessments, Excess Insurance Costs, and Excess Utilities Costs and any other additional rent under this Lease), but at a Monthly Basic Rent equal to one hundred ten percent (110%) of the Monthly Basic Rent applicable to the Premises immediately prior to the date of such expiration or earlier termination during the first thirty (30) days of holdover and commencing on the 31<sup>st</sup> day of holdover, one hundred fifty percent (150%) of the Monthly Basic Rent applicable to the Premises immediately prior to the date of expiration or earlier termination. Tenant shall pay an entire month's Monthly Basic Rent calculated in accordance with this Section 9.2 for any portion of a month it holds over and remains in possession of the Premises pursuant to this Section 9.2. This Section 9.2 shall not be construed to create any express or implied right to holdover beyond the expiration of the Lease Term or any extension thereof.

**9.3 No Effect on Landlord's Rights.** The foregoing provisions of this Section 9 are in addition to, and do not affect, Landlord's right of re-entry or any other rights of Landlord hereunder or otherwise provided by law or equity.

**10. Taxes on Tenant's Property.** Tenant shall be liable for, and shall pay before delinquency, all taxes and assessments (real and personal) levied against (a) any personal property or trade fixtures placed by Tenant in or about the Premises (including any increase in the assessed value of the Premises based upon the value of any such personal property or trade fixtures); and (b) any Tenant Improvements or alterations in the Premises (whether installed and/or paid for by Landlord or Tenant) to the extent such items are assessed at a valuation higher than the valuation at which tenant improvements conforming to the Building's standard tenant improvements are assessed. If any such taxes or assessments are levied against Landlord or Landlord's property, Landlord may, after written notice to Tenant (and under proper protest if requested by Tenant) pay such taxes and assessments, and Tenant shall reimburse Landlord therefor within ten (10) business days after demand by Landlord; provided, however, Tenant, at its sole cost and expense, shall have the right, with Landlord's

cooperation, to bring suit in any court of competent jurisdiction to recover the amount of any such taxes and assessments so paid under protest.

#### **11. Condition of Premises; Repairs.**

**11.1 Condition of Premises.** Tenant acknowledges that, except as otherwise expressly set forth in this Lease, neither Landlord nor any agent of Landlord has made any representation or warranty with respect to the Premises, the Building, the Site or the Project or their condition, or with respect to the suitability thereof for the conduct of Tenant's business. Subject to the completion of any punchlist items pursuant to Section 3A of the Work Letter Agreement, the taking of possession of the Premises by Tenant shall conclusively establish that the Project, the Site, the Premises, the Tenant Improvements therein, the Building and the Common Areas were at such time complete and in good, sanitary and satisfactory condition and repair with all work required to be performed by Landlord, if any, pursuant to *Exhibit "C"* completed and without any obligation on Landlord's part to make any alterations, upgrades or improvements thereto.

**11.2 Landlord's Repair Obligations.** Subject to Sections 18.1 and 18.2 of this Lease, Landlord shall, as part of the Operating Expenses, repair, maintain and replace, as necessary (a) the Building shell and other structural portions of the Building (including the roof and foundations), (b) the basic heating, ventilating, air conditioning ("**HVAC**"), sprinkler and electrical systems within the Building core and standard conduits, connections and distribution systems thereof within the Premises (but not any above standard improvements installed in the Premises such as, for example, but not by way of limitation, custom lighting, special or supplementary HVAC or plumbing systems or distribution extensions, special or supplemental electrical panels or distribution systems, or kitchen or restroom facilities and appliances to the extent such facilities and appliances are intended for the exclusive use of Tenant), and (c) the Common Areas; provided, however, to the extent such maintenance, repairs or replacements are required as a result of any act, neglect, fault or omission of Tenant or any of Tenant's agents, employees, contractors, licensees or invitees, Tenant shall pay to Landlord, as additional rent, the costs of such maintenance, repairs and replacements. Except as provided in this Lease, Landlord shall not be liable to Tenant for failure to perform any such maintenance, repairs or replacements, unless Landlord shall fail to make such maintenance, repairs or replacements and such failure shall continue for an unreasonable time following written notice from Tenant to Landlord of the need therefor. Without limiting the foregoing, Tenant waives the right to make repairs at Landlord's expense under any law, statute or ordinance now or hereafter in effect (including the provisions of California Civil Code Section 1942 and any successive sections or statutes of a similar nature).

**11.3 Tenant's Repair Obligations.** Except for Landlord's obligations specifically set forth in Sections 11.1, 11.2, 16.1, 18.1 and 19.2 hereof, Tenant shall at all times and at Tenant's sole cost and expense, keep, maintain, clean, repair, preserve and replace, as necessary, the Premises and all parts thereof including, without limitation, all Tenant Improvements, Tenant Changes, all special or supplemental: HVAC systems, electrical systems, pipes and conduits, located within the Premises, all fixtures, furniture and equipment, including, without limitation, all computer, telephone and data cabling and equipment, Tenant's signs, locks, closing devices, security devices, windows, window sashes, casements and frames, floors and floor coverings, shelving, kitchen and/or restroom facilities and appliances located within the Premises to the extent such facilities and appliances are intended for the exclusive use of Tenant, if any, custom lighting, and any alterations, additions and other property located within the Premises in good condition and repair, reasonable wear and tear excepted. Tenant shall replace, at its expense, any and all plate and other glass in and about the Premises which is damaged or broken by Tenant, its employees, contractors, agents or invitees. Such maintenance and repairs shall be performed with due diligence, lien-free and in a first-class and workmanlike manner, by licensed contractor(s) which are selected by Tenant and approved by Landlord, which approval Landlord shall not unreasonably withhold or delay. Except as otherwise expressly provided in this

Lease, Landlord shall have no obligation to alter, remodel, improve, repair, renovate, redecorate or paint all or any part of the Premises.

## 12. Alterations.

12.1 **Tenant Changes; Conditions.** After installation of the initial Tenant Improvements for the Premises pursuant to *Exhibit "C"*, Tenant may, at its sole cost and expense, make alterations, additions, improvements and decorations to the Premises (collectively, "**Tenant Changes**") subject to and upon the following terms and conditions:

- (a) Notwithstanding any provision in this Section 12 to the contrary, Tenant is prohibited from making any alterations, additions, improvements or decorations which: (i) affect any area outside the Premises; (ii) affect the Building's structure, equipment, services or systems, or the proper functioning thereof, or Landlord's access thereto; (iii) affect the outside appearance, character or use of the Project, the Building or the Common Areas; (iv) weaken or impair the structural strength of the Building; (v) will violate or require a change in any occupancy certificate applicable to the Premises; or (vi) would trigger a legal requirement which would require Landlord to make any alteration or improvements to the Premises, Building or Project.
- (b) Before proceeding with any Tenant Change which is not otherwise prohibited in Section 12.1(a) above, Tenant must first obtain Landlord's written approval thereof (including approval of all plans, specifications and working drawings for such Tenant Change), which approval shall not be unreasonably withheld or delayed. However, Landlord's prior approval shall not be required for any Tenant Change which satisfies the following conditions (hereinafter a "**Pre-Approved Change**"): (i) the costs of such Tenant Change does not exceed Five Thousand Dollars (\$5,000) individually; (ii) the costs of such Tenant Change when aggregated with the costs of all other Tenant Changes made by Tenant during the Term of this Lease do not exceed Twenty Thousand Dollars (\$20,000); (iii) Tenant delivers to Landlord final plans, specifications and working drawings for such Tenant Change at least ten (10) days prior to commencement of the work thereof; and (iv) Tenant and such Tenant Change otherwise satisfy all other conditions set forth in this Section 12.1.
- (c) After Landlord has approved the Tenant Changes and the plans, specifications and working drawings therefor (or is deemed to have approved the Pre-Approved Changes as set forth in Section 12.1(b) above), Tenant shall: (i) enter into an agreement for the performance of such Tenant Changes with such contractors and subcontractors selected by Tenant and approved by Landlord, which approval shall not be unreasonably withheld or delayed; (ii) before proceeding with any Tenant Change (including any Pre-Approved Change), provide Landlord with ten (10) days' prior written notice thereof; and (iii) pay to Landlord, within ten (10) days after written demand, the costs of any increased insurance premiums incurred by Landlord to include such Tenant Changes in the fire and extended coverage insurance obtained by Landlord pursuant to Section 21 below. However, Landlord shall be required to include the Tenant Changes under such insurance only to the extent such insurance is actually obtained by Landlord and such Tenant Changes are insurable under such insurance; if such Tenant Changes are not or cannot be included in Landlord's insurance, Tenant shall insure the Tenant Changes under its casualty insurance pursuant to Section 20.1(a) below. In addition, before proceeding with any Tenant Change, Tenant's contractors shall obtain, on behalf of Tenant and at Tenant's sole cost and expense: (a) all necessary governmental permits and approvals for the commencement and completion of such Tenant Change; and (b) a completion and lien indemnity bond, or other surety, satisfactory to Landlord for such Tenant Change. Landlord's approval of any contractor(s) and subcontractor(s) of Tenant shall not release Tenant or any such contractor(s) and/or subcontractor(s) from any liability for any conduct or acts of such contractor(s) and/or subcontractor(s).

- (d) Tenant shall pay to Landlord, as additional rent, the reasonable costs of Landlord's engineers and other consultants (but not Landlord's on-site management personnel) for review of all plans, specifications and working drawings for the Tenant Changes, within ten (10) business days after Tenant's receipt of invoices either from Landlord or such consultants. In addition to such costs, Tenant shall pay to Landlord, within ten (10) business days after completion of any Tenant Change, the actual, reasonable costs incurred by Landlord for services rendered by Landlord's management personnel and engineers to coordinate and/or supervise any of the Tenant Changes to the extent such services are provided in excess of or after the normal on-site hours of such engineers and management personnel.
- (e) All Tenant Changes shall be performed: (i) in accordance with the approved plans, specifications and working drawings; (ii) lien-free and in a good and workmanlike manner; (iii) in compliance with all laws, rules, regulations of all governmental agencies and authorities including, without limitation, the provisions of the ADA; (iv) in such a manner so as not to unreasonably interfere with the occupancy of any other tenant in the Project or Building, nor impose any additional expense upon nor delay Landlord in the maintenance and operation of the Project or Building; and (v) at such times, in such manner and subject to such rules and regulations as Landlord may from time to time reasonably designate.
- (f) Throughout the performance of the Tenant Changes, Tenant shall obtain, or cause its contractors to obtain, workers compensation insurance and general liability insurance in compliance with the provisions of Section 20 of this Lease.

**12.2 Removal of Tenant Changes and Tenant Improvements.** All Tenant Changes and the initial Tenant Improvements in the Premises (whether installed or paid for by Landlord or Tenant), shall become the property of Landlord and shall remain upon and be surrendered with the Premises at the end of the Term of this Lease; provided, however, Landlord will, by written notice delivered to Tenant at the time Landlord approves the plans for any Tenant Change or is notified of a Pre-Approved Change, identify those items of Tenant Changes, if any, which Landlord shall require Tenant to remove at the end of the Term of this Lease. If Landlord requires Tenant to remove any such items as described above, Tenant shall, at its sole cost, remove the identified items on or before the expiration or sooner termination of this Lease and repair any damage to the Premises caused by such removal (or, at Landlord's option, shall pay to Landlord all of Landlord's costs of such removal and repair). In no event shall Tenant be required to remove any of the Tenant Improvements constructed by Landlord pursuant to *Exhibit "C"*.

**12.3 Removal of Personal Property.** All articles of personal property owned by Tenant or installed by Tenant at its expense in the Premises (including business and trade fixtures, furniture and moveable partitions) shall be, and remain, the property of Tenant, and shall be removed by Tenant from the Premises, at Tenant's sole cost and expense, within five (5) days of the expiration or sooner termination of this Lease. Tenant shall promptly repair any damage caused by such removal.

**12.4 Tenant's Failure to Remove.** If Tenant fails to remove by the expiration or sooner termination of this Lease all of its personal property, or any items of Tenant Changes identified by Landlord for removal pursuant to Section 12.2 above, or if Tenant fails to comply with its obligations under Section 12.3, Landlord may (without liability to Tenant for loss thereof), at Tenant's sole cost and in addition to Landlord's other rights and remedies under this Lease, at law or in equity: (a) remove and store such items in accordance with applicable law; and/or (b) upon ten (10) days' prior notice to Tenant, sell all or any such items at private or public sale for such price as Landlord may obtain as permitted under applicable law. Landlord shall apply the proceeds of any such sale to any amounts due to Landlord under this Lease from Tenant (including Landlord's attorneys' fees and other costs incurred in the removal, storage and/or sale of such items), with any remainder to be paid to Tenant.

**13. Liens.** Tenant shall not permit any mechanic's, materialmen's or other liens to be filed against all or any part of the Project, the Site, the Building or the Premises, nor against Tenant's leasehold interest in the Premises, by reason of or in connection with any repairs, alterations, improvements or other work contracted for or undertaken by Tenant or any other act or omission of Tenant or Tenant's agents, employees, contractors, licensees or invitees. Tenant shall, at Landlord's request, provide Landlord with enforceable, unconditional and final lien releases (and other evidence reasonably requested by Landlord to demonstrate protection from liens) from all persons furnishing labor and/or materials with respect to the Premises. Landlord shall have the right at all reasonable times to post on the Premises and record any notices of non-responsibility which it deems necessary for protection from such liens. If any such liens are filed, Tenant shall, at its sole cost, immediately cause such lien to be released of record or bonded to Landlord's reasonable satisfaction so that it no longer affects title to the Project, the Site, the Building or the Premises. If Tenant fails to cause such lien to be so released or bonded within twenty (20) days after receipt of written notice from Landlord of the filing thereof, Landlord may, without waiving its rights and remedies based on such breach, and without releasing Tenant from any of its obligations, cause such lien to be released by any means it shall deem proper, including payment in satisfaction of the claim giving rise to such lien. Tenant shall pay to Landlord within five (5) days after receipt of invoice from Landlord, any sum paid by Landlord to remove such liens, together with interest at the Interest Rate from the date of such payment by Landlord. **NOTICE IS HEREBY GIVEN THAT EXCEPT FOR THE IMPROVEMENTS TO BE CONSTRUCTED BY LANDLORD FOR TENANT PURSUANT TO THE WORK LETTER AGREEMENT, LANDLORD SHALL NOT BE LIABLE FOR ANY LABOR, SERVICES OR MATERIALS FURNISHED OR TO BE FURNISHED TO TENANT, OR TO ANYONE HOLDING THE PREMISES THROUGH OR UNDER TENANT, AND THAT NO MECHANICS' OR OTHER LIENS FOR ANY SUCH LABOR, SERVICES OR MATERIALS SHALL ATTACH TO OR AFFECT THE INTEREST OF LANDLORD IN THE PREMISES.**

**14. Assignment and Subletting.**

**14.1 Restriction on Transfer.** Except as otherwise expressly provided in this Section 14, Tenant shall not, without the prior written consent of Landlord, which consent Landlord will not unreasonably withhold, condition or delay, assign this Lease or any interest herein or sublet the Premises or any part thereof, or permit the use or occupancy of the Premises by any party other than Tenant (any such assignment, encumbrance, sublease, license or the like shall sometimes be referred to as a "**Transfer**"). In no event may Tenant encumber this Lease. Any Transfer without Landlord's consent (except for a Permitted Transfer pursuant to Section 14.2 below) shall constitute a default by Tenant under this Lease, and in addition to all of Landlord's other remedies at law, in equity or under this Lease, such Transfer shall be voidable at Landlord's election. In addition, this Lease shall not, nor shall any interest of Tenant herein, be assignable by operation of law without the written consent of Landlord. For purposes of this Section 14, other than with respect to a Permitted Transfer under Section 14.2 and transfers of stock of Tenant if Tenant is a publicly-held corporation and such stock is transferred publicly over a recognized security exchange or over-the-counter market, if Tenant is a corporation, partnership or other entity, any transfer, assignment, encumbrance or hypothecation of fifty percent (50%) or more (individually or in the aggregate) of any stock or other ownership interest in such entity, and/or any transfer, assignment, hypothecation or encumbrance of any controlling ownership or voting interest in such entity, shall be deemed an assignment of this Lease and shall be subject to all of the restrictions and provisions contained in this Section 14. Any change in the amount of stock owned, whether increased or decreased, by the current shareholders of The Willdan Group of Companies shall not be considered a Transfer as defined herein.

**14.2 Permitted Controlled Transfers.** Notwithstanding the provisions of Sections 14.1 above to the contrary, Tenant may assign this Lease or sublet the Premises or any portion thereof (herein, a "**Permitted Transfer**"), without Landlord's consent and without extending any sublease or termination option to Landlord, to a "**Permitted Transferee**," i.e., to any corporation or other entity which controls,



is controlled by or is under common control with Tenant, or to any corporation resulting from a merger or consolidation with Tenant, or to any person or entity which acquires all the assets of Tenant's business as a going concern, provided that: (a) at least twenty (20) days prior to such assignment or sublease, Tenant delivers to Landlord the financial statements and other financial and background information of the assignee or sublessee described in Section 14.3 below; (b) if an assignment, the assignee assumes, in full, the obligations of Tenant under this Lease (or if a sublease, the sublessee of a portion of the Premises or Term assumes, in full, the obligations of Tenant with respect to such portion); and the Guarantor, if any, executes a reaffirmation of its Guaranty in form satisfactory to Landlord; (c) the financial net worth of the assignee or sublessee equals or exceeds that of Tenant as of the date of execution of this Lease; (d) Tenant remains fully liable under this Lease; and (e) the use of the Premises under Article 6 remains unchanged.

In addition to the foregoing, Tenant shall be entitled to sublease up to 5,000 total rentable square feet of the Premises to Lavoie, McCain & Jarman, a California partnership ("**LMJ**"), or any successor law firm of which Robert L. Lavoie is a partner or member (LMJ and any such successor law firm being referred to hereinafter as "**Lavoie**") and as part of the maximum 5,000 rentable square feet, Tenant may also sublease a portion of the Premises to Mai Wells, attorney at law, ("**Wells**") without Landlord's consent, but subject to the provisions set forth above in this Section 14.2 governing Permitted Transferees. Accordingly, Lavoie and Wells are hereby deemed Permitted Transferees for purposes of this Section 14.

**14.3 Landlord's Options.** If at any time or from time to time during the Term Tenant desires to effect a Transfer, Tenant shall deliver to Landlord written notice ("**Transfer Notice**") setting forth the terms and provisions of the proposed Transfer and the identity of the proposed assignee, sublessee or other transferee (sometimes referred to hereinafter as a "**Transferee**"). Tenant shall also deliver to Landlord with the Transfer Notice, a current financial statement and to the extent available, financial statements for the preceding two (2) years of the Transferee which have been certified or audited by a reputable independent accounting firm acceptable to Landlord, and such other information concerning the business background and financial condition of the proposed Transferee as Landlord may reasonably request. Except with respect to a Permitted Transfer, Landlord shall have the option, exercisable by written notice delivered to Tenant within twenty (20) days after Landlord's receipt of the Transfer Notice, such financial statements and other information, either to approve or disapprove such Transfer, which approval shall not be unreasonably withheld.

**14.4 Additional Conditions; Excess Rent.** If for a Transfer other than a Permitted Transfer Landlord does not exercise its sublease or termination option and instead approves of the proposed Transfer pursuant to Section 14.3(a) above, Tenant may enter into the proposed Transfer with such proposed Transferee subject to the following further conditions:

- (a) the Transfer shall be on the same terms set forth in the Transfer Notice delivered to Landlord (if the terms have changed, Tenant must submit a revised Transfer Notice to Landlord and Landlord shall have another twenty (20) days after receipt thereof to make the election in Sections 14.3(a) or 14.3(b) above);
- (b) no Transfer shall be valid and no Transferee shall take possession of the Premises until an executed counterpart of the assignment, sublease or other instrument affecting the Transfer has been delivered to Landlord pursuant to which the Transferee shall expressly assume all of Tenant's obligations under this Lease (or with respect to a sublease of a portion of the Premises or for a portion of the Term, all of Tenant's obligations applicable to such portion);
- (c) no Transferee shall have a further right to assign, encumber or sublet, except on the terms herein contained; and

- (d) fifty percent (50%) of any rent or other economic consideration received by Tenant as a result of such Transfer which exceeds, in the aggregate, (i) the total rent which Tenant is obligated to pay Landlord under this Lease (prorated to reflect obligations allocable to any portion of the Premises subleased), plus (ii) any reasonable brokerage commissions, attorneys' fees, reasonable tenant improvement costs and rent concessions actually paid by Tenant in connection with such Transfer, shall be paid to Landlord within ten (10) days after receipt thereof as additional rental under this Lease, without affecting or reducing any other obligations of Tenant hereunder.

**14.5 Reasonable Disapproval.** Landlord and Tenant hereby acknowledge that Landlord's disapproval of any proposed Transfer (other than a Permitted Transfer) pursuant to Section 14.3(a) shall be deemed reasonably withheld if based upon any reasonable factor, including, without limitation, any or all of the following factors: (a) the proposed Transferee is an existing tenant of the Project; provided, however, if no space with a rentable area ten percent (10%) greater or ten percent (10%) less than the rentable area of the space being offered by Tenant, is vacant and available for lease in the Building, the proposed Transferee may be an existing tenant of the Building; (b) the proposed Transferee is a governmental entity; (c) the portion of the Premises to be sublet or assigned is irregular in shape with inadequate means of ingress and egress; (d) the use of the Premises by the Transferee (i) is not permitted by the use provisions in Section 6 hereof, or (ii) violates any exclusive use granted by Landlord to another tenant in the Building; (e) the Transfer would likely result in significant increase in the use of the parking areas or Common Areas by the Transferee's employees or visitors, and/or significantly increase the demand upon utilities and services to be provided by Landlord to the Premises; (f) the Transferee does not have the financial capability in Landlord's commercially reasonable judgment to fulfill the obligations imposed by the Transfer; or (g) the Transferee is not in Landlord's reasonable opinion of reputable or good character.

**14.6 No Release.** No Transfer shall release Tenant of Tenant's obligations under this Lease or alter the primary liability of Tenant to pay the rent and to perform all other obligations to be performed by Tenant hereunder. Landlord may require that any Transferee remit directly to Landlord on a monthly basis, all monies due Tenant by said Transferee, and each sublease shall provide that if Landlord gives said sublessee written notice that Tenant is in default under this Lease, said sublessee will thereafter make all payments due under the sublease directly to or as directed by Landlord, which payments will be credited against any payments due under this Lease. Tenant hereby irrevocably and unconditionally assigns to Landlord all rents and other sums payable under any sublease of the Premises; provided, however, that Landlord hereby grants Tenant a license to collect all such rents and other sums so long as Tenant is not in default under this Lease. Tenant shall, within ten (10) days after the execution and delivery of any assignment or sublease, deliver a duplicate original copy thereof to Landlord. However, the acceptance of rent by Landlord from any other person shall not be deemed to be a waiver by Landlord of any provision hereof. Consent by Landlord to one Transfer shall not be deemed consent to any subsequent Transfer. In the event of default by any Transferee of Tenant or any successor of Tenant in the performance of any of the terms hereof, Landlord may proceed directly against Tenant without the necessity of exhausting remedies against such Transferee or successor. Landlord may consent to subsequent assignments of the Lease or sublettings or amendments or modifications to the Lease with assignees of Tenant, without notifying Tenant, or any successor of Tenant, and by obtaining its or their consent thereto.

**14.7 Administrative and Attorneys' Fees.** If Tenant effects a Transfer or requests the consent of Landlord to any Transfer, then Tenant shall, upon demand, pay Landlord a non-refundable administrative fee of Five Hundred Dollars (\$500.00), plus any reasonable attorneys' and paralegal fees and costs incurred by Landlord in connection with such Transfer or request for consent (whether attributable to Landlord's in-house attorneys or paralegals or otherwise) up to a maximum of One Thousand Five Hundred Dollars (\$1,500.00) per Transfer or Permitted Transfer. Acceptance of the

\$500.00 administrative fee and/or reimbursement of Landlord's attorneys' and paralegal fees shall in no event obligate Landlord to consent to any proposed Transfer.

**15. Entry by Landlord.** Landlord and its employees and agents shall at all reasonable times have the right to enter the Premises to inspect the same, to supply janitorial service and any other service required to be provided by Landlord to Tenant under this Lease, to exhibit the Premises to prospective lenders or purchasers (or during the last year of the Term, to prospective tenants), to post notices of non-responsibility, and/or to alter, improve or repair the Premises or any other portion of the Building or Project, all without being deemed guilty of or liable for any breach of Landlord's covenant of quiet enjoyment or any eviction of Tenant, and without abatement of rent. In exercising such entry rights, Landlord shall endeavor to minimize, as reasonably practicable, the interference with Tenant's business, and shall provide Tenant with reasonable advance written notice of such entry (except in emergency situations and for scheduled services). For each of the foregoing purposes, Landlord shall at all times have and retain a key with which to unlock all of the doors in, upon and about the Premises, excluding Tenant's vaults and safes, and Landlord shall have the means which Landlord may deem proper to open said doors in an emergency in order to obtain entry to the Premises. Any entry to the Premises obtained by Landlord by any of said means or otherwise shall not under any circumstances be construed or deemed to be a forcible or unlawful entry into, or a detainer of, the Premises, or an eviction of Tenant from the Premises or any portion thereof, or grounds for any abatement or reduction of rent and Landlord shall not have any liability to Tenant for any damages or losses on account of any such entry by Landlord except, subject to the provisions of Section 22.1, to the extent of Landlord's gross negligence or willful misconduct.

**16. Utilities and Services.**

**16.1 Standard Utilities and Services.** Subject to the terms and conditions of this Lease, and the obligations of Tenant as set forth hereinbelow, Landlord shall furnish or cause to be furnished to the Premises the following utilities and services (Landlord reserves the right to adopt non-discriminatory modifications and additions to the following provisions from time to time):

- (a) Landlord shall make the elevator of the Building available for Tenant's non-exclusive use, twenty-four (24) hours per day.
- (b) Landlord shall furnish during the Business Hours for the Building specified in Section 1.17 of the Summary, HVAC for the Premises as required in Landlord's judgment for the comfortable and normal occupancy of the Premises. The cost of maintenance and service calls to adjust and regulate the HVAC system shall be charged to Tenant if the need for maintenance work results from either Tenant's adjustment of room thermostats or Tenant's failure to comply with its obligations under this Section 16, including keeping window coverings closed as needed. Such work shall be charged at hourly rates equal to then-current journeyman's wages for HVAC mechanics. If Tenant desires HVAC at any time other than during the Business Hours for the Building, Landlord shall provide such "after-hours" usage after advance reasonable request by Tenant, and Tenant shall pay to Landlord, as additional rent (and not as part of the Operating Expenses) the cost, as fairly determined by Landlord, of such after-hours usage (as well as the cost of any HVAC used by Tenant in excess of what Landlord reasonably considers reasonable or normal), including any minimum hour charges for after-hours requests and any special start-up costs for after-hours services which requires a special start-up (such as late evenings, weekends and holidays). Notwithstanding the foregoing, after-hours HVAC services shall be charged to Tenant at a flat rate of \$40.00 per hour during the initial Term.
- (c) Landlord shall furnish to the Premises twenty-four (24) hours per day, reasonable quantities of electric current as required in Landlord's judgment for normal lighting and fractional horsepower office business machines. In no event shall Tenant's use of electric current ever exceed the capacity of the feeders to the Building or the risers or wiring installation of the

Building. Landlord shall also furnish water to the Premises twenty-four (24) hours per day for drinking and lavatory purposes, in such quantities as required in Landlord's judgment for the comfortable and normal use of the Premises. If Tenant requires or consumes water or electrical power in excess of average levels used by other tenants in the Building on a per square foot basis, Landlord may require Tenant to pay to Landlord, as additional rent, the cost as fairly determined by Landlord incurred for such excess usage.

- (d) Landlord shall furnish janitorial services to the Premises five (5) days per week pursuant to janitorial and cleaning specifications as may be adopted by Landlord from time to time. No person(s) other than those persons approved by Landlord shall be permitted to enter the Premises for such purposes. Janitor service shall include ordinary dusting and cleaning by the janitor assigned to do such work and shall not include cleaning of carpets or rugs, except normal vacuuming, or moving of furniture, interior window cleaning, coffee or eating area cleaning and other special services. Such additional services may be rendered by Landlord pursuant to written agreement with Tenant as to the extent of such services and the payment of the cost thereof. Janitor service will not be furnished on nights when rooms are occupied after 7:30 p.m. or to rooms which are locked unless a key is furnished to the Landlord for use by the janitorial contractor. Window cleaning shall be done only by Landlord, at such time and frequency as determined by Landlord at Landlord's sole discretion. Tenant shall pay to Landlord the cost of removal of any of Tenant's refuse and rubbish to the extent that the same exceeds the refuse and rubbish usually attendant upon the use of the Premises as offices.
- (e) Landlord may provide security service or protection in the Building, in any manner deemed reasonable by Landlord at Landlord's sole discretion, from the Commencement Date throughout the Term. Landlord shall have no liability in connection with the decision whether or not to provide such services and Tenant hereby waives all claims based thereon. Landlord shall not be liable for losses due to theft, vandalism or similar causes.
- (f) If Landlord reasonably and in good faith determines that Tenant's use of utilities substantially exceeds that of the majority of tenants of the Building on a per rentable square foot basis, at Landlord's option, Landlord may install water, electricity and/or HVAC meters in the Premises to measure Tenant's consumption of such utilities, including any after-hours and extraordinary usage described above. Tenant shall pay to Landlord, within ten (10) days after demand, the costs of the maintenance and repair of such meter(s).

The costs of Building services shall be included in Operating Expenses and all charges with respect to utilities shall be included in Utilities Costs as defined in Section 4.7 above. Landlord may, but is not obligated to, provide additional services hereunder; provided, however, that if Landlord does provide such extra services at Tenant's request, Tenant agrees to pay a five percent (5%) administration fee for the provisions of such services.

**16.2 Tenant's Obligations.** Tenant shall cooperate fully at all times with Landlord, and abide by all reasonable regulations and requirements which Landlord may prescribe for the proper functioning and protection of the Building's services and systems. Tenant shall not use any apparatus or device in, upon or about the Premises which may in any way increase the amount of services or utilities usually furnished or supplied to the Premises or other premises in the Building. In addition, Tenant shall not connect any conduit, pipe, apparatus or other device to the Building's water, waste or other supply lines or systems for any purpose. Neither Tenant nor its employees, agents, contractors, licensees or invitees shall at any time enter, adjust, tamper with, touch or otherwise in any manner affect the mechanical installations or facilities of the Building.

**16.3 Failure to Provide Utilities.** Landlord's failure to furnish any of the utilities and services described in Section 16.1 above when such failure is caused by all or any of the following shall not result in any liability of Landlord: (a) accident, breakage or repairs so long as Landlord diligently

pursues all necessary repairs; (b) strikes, lockouts or other labor disturbances or labor disputes of any such character; (c) governmental regulation, moratorium or other governmental action; (d) inability, despite the exercise of reasonable diligence, to obtain electricity, water or fuel; or (e) service interruptions or any other unavailability of utilities resulting from causes beyond Landlord's control. In addition, in the event of the failure of any said utilities or services, Tenant shall not be entitled to any abatement or reduction of rent (except as expressly provided in Sections 18.3 and 19.2 if such failure is a result of a damage or taking described therein), no eviction of Tenant shall result, and Tenant shall not be relieved from the performance of any covenant or agreement in this Lease. In the event of any stoppage or interruption of services or utilities, Landlord shall diligently attempt to resume such services or utilities as promptly as practicable.

#### **17. Indemnification and Exculpation.**

**17.1 Tenant's Assumption of Risk and Waiver.** Subject to the terms of Section 22 and except to the extent such matter is not covered by the insurance required to be maintained by Tenant under this Lease and such matter is attributable to the negligence or willful misconduct of Landlord, Landlord shall not be liable to Tenant, Tenant's employees, agents or invitees for: (i) any damage to property of Tenant, or of others, located in, on or about the Premises, nor for (ii) the loss of or damage to any property of Tenant or of others by theft or otherwise, (iii) any injury or damage to persons or property resulting from fire, explosion, falling plaster, steam, gas, electricity, water, rain or leaks from any part of the Premises or from the pipes, appliance of plumbing works or from the roof, street or subsurface or from any other places or by dampness or by any other cause of whatsoever nature, or (iv) any such damage caused by other tenants or persons in the Premises, occupants of adjacent property of the Project, or the public, or caused by operations in construction of any private, public or quasi-public work. Landlord shall in no event be liable to Tenant for any consequential damages or for loss of revenue or income and Tenant waives any and all claims for any such damages. Notwithstanding anything to the contrary contained in this Section 17.1, all property of Tenant, its agents, employees and invitees kept or stored on the Premises, whether leased or owned by any such parties, shall be so kept or stored at the sole risk of Tenant and Tenant shall hold Landlord harmless from any claims arising out of damage to the same, including subrogation claims by Tenant's insurance carriers, unless such damage shall be caused by the negligence or willful misconduct of Landlord. Landlord or its agents shall not be liable for interference with the light or other intangible rights.

**17.2 Tenant's Indemnification of Landlord.** Tenant shall be liable for, and shall indemnify, defend, protect and hold Landlord and the Landlord Indemnified Parties harmless from and against, any and all claims, damages, judgments, suits, causes of action, losses, liabilities and expenses, including attorneys' fees and court costs (collectively, "**Indemnified Claims**"), arising or resulting from (a) any occurrence at the Premises following the date Landlord delivers all or any portion of the Premises to Tenant, unless caused by the negligence or willful misconduct of Landlord or its agents, employees or contractors, (b) any act or omission of Tenant or any of Tenant's Parties (as defined in Section 6.4); (c) the use of the Premises and Common Areas and conduct of Tenant's business by Tenant or any of Tenant's Parties, or any other activity, work or thing done, permitted or suffered by Tenant or any of Tenant's Parties, in or about the Premises, the Building or elsewhere in the Project; and/or (d) any default by Tenant of any obligations on Tenant's part to be performed under the terms of this Lease or the terms of any contract or agreement to which Tenant is a party or by which it is bound, affecting this Lease or the Premises. The foregoing indemnification shall include, but not be limited to, any injury to, or death of, any person, or any loss of, or damage to, any property on the Premises, adjoining sidewalks, streets or ways, or connected with the use, condition or occupancy thereof. In case any action or proceeding is brought against Landlord or any Landlord Indemnified Parties by reason of any such Indemnified Claims, Tenant, upon notice from Landlord, shall defend the same at Tenant's expense by counsel approved in writing by Landlord, which approval shall not be unreasonably withheld.

**17.3 Landlord's Indemnification of Tenant.** Notwithstanding anything to the contrary contained in Section 17.1 or 17.2, Tenant shall not be required to protect, defend, save harmless or indemnify Landlord from any liability for injury, loss, accident or damage to any person resulting from Landlord's negligent acts or omissions or willful misconduct or that of its agents, contractors, servants, employees or licensees, in connection with Landlord's activities on or about the Premises, and subject to the terms of Section 22, Landlord hereby indemnifies and agrees to protect, defend and hold Tenant harmless from and against Indemnified Claims out of Landlord's negligent acts or omissions or willful misconduct or those of its agents, contractors, servants, employees or licensees in connection with Landlord's activities on or about the Premises to the extent that injuries are involved and any default by Landlord of Landlord's obligations under this Lease. Such exclusion from Tenant's indemnity and such agreement by Landlord to so indemnify and hold Tenant harmless are not intended to and shall not relieve any insurance carrier of its obligations under policies required to be carried by Tenant pursuant to the provisions of this Lease to the extent that such policies cover (or, if such policies would have been carried as required, would have covered) the result of negligent acts or omissions or willful misconduct of Landlord or those of its agents, contractors, servants, employees or licensees; provided, however, the provisions of this sentence shall in no way be construed to imply the availability of any double or duplicate coverage.

**17.4 Survival; No Release of Insurers.** The indemnification obligations under Sections 17.2 and 17.3 shall survive the expiration or earlier termination of this Lease. Landlord's and Tenant's covenants, agreements and indemnification in Sections 17.1, 17.2 and 17.3 above are not intended to and shall not relieve any insurance carrier of its obligations under policies required to be carried by Landlord and Tenant pursuant to the provisions of this Lease. Landlord's and Tenant's indemnification obligations hereunder may or may not be coverable by insurance, but the failure of either Landlord or Tenant to carry insurance covering the indemnification obligation shall not limit their indemnity obligations hereunder.

**18. Damage or Destruction.**

**18.1 Landlord's Rights and Obligations.** In the event the Premises or any part of the Building is damaged by fire or other casualty to an extent not exceeding twenty-five percent (25%) of the full replacement cost thereof, and Landlord's contractor estimates in a writing delivered to the parties that the damage thereto is such that the Building and/or Premises may be repaired, reconstructed or restored to substantially its condition immediately prior to such damage within one hundred twenty (120) days from the date of such casualty, and Landlord will receive insurance proceeds sufficient to cover the costs of such repairs, reconstruction and restoration exclusive of deductible amounts (including proceeds from Tenant and/or Tenant's insurance which Tenant is required to deliver to Landlord pursuant to Section 18.2 below), then Landlord shall commence and proceed diligently with the work of repair, reconstruction and restoration and this Lease shall continue in full force and effect. If, however, the Premises or any other part of the Building is damaged to an extent exceeding twenty-five percent (25%) of the full replacement cost thereof, or Landlord's contractor estimates that such work of repair, reconstruction and restoration will require longer than one hundred twenty (120) days to complete, or Landlord will not receive insurance proceeds (and/or proceeds from Tenant, as applicable) sufficient to cover the costs of such repairs, reconstruction and restoration (exclusive of deductible amounts), then Landlord may elect to either:

- (a) repair, reconstruct and restore the portion of the Building and Premises damaged by such casualty (including the Tenant Improvements and, to the extent of insurance proceeds received from Tenant, Tenant Changes), in which case this Lease shall continue in full force and effect; or
- (b) terminate this Lease effective as of the date which is thirty (30) days after Tenant's receipt of Landlord's election to so terminate.

Under any of the conditions of this Section 18.1, Landlord shall give written notice to Tenant of its intention to repair or terminate within the later of sixty (60) days after the occurrence of such casualty, or fifteen (15) days after Landlord's receipt of the estimate from Landlord's contractor or as applicable, thirty (30) days after Landlord receives approval from Landlord's lender to rebuild.

**18.2 Tenant's Costs and Insurance Proceeds.** In the event of any damage or destruction of all or any part of the Premises, Tenant shall immediately: (a) notify Landlord thereof; and (b) deliver to Landlord all insurance proceeds received by Tenant with respect to the Tenant Improvements and Tenant Changes in the Premises (excluding proceeds for Tenant's furniture and other personal property), whether or not this Lease is terminated as permitted in this Section 18, and Tenant hereby assigns to Landlord all rights to receive such insurance proceeds. If, for any reason (including Tenant's failure to obtain insurance for the full replacement cost of any Tenant Changes which Tenant is required to insure pursuant to Sections 12.1(c) and/or 20.1(a) hereof), Tenant fails to receive insurance proceeds covering the full replacement cost of such Tenant Changes which are damaged, Tenant shall be deemed to have self-insured the replacement cost of such Tenant Changes, and upon any damage or destruction thereto, Tenant shall immediately pay to Landlord the full replacement cost of such items, less any insurance proceeds actually received by Landlord from Landlord's or Tenant's insurance with respect to such items.

**18.3 Abatement of Rent.** In the event that as a result of any such damage, repair, reconstruction and/or restoration of the Premises or the Building, Tenant is prevented from using, and does not use, the Premises or any portion thereof, pursuant to the requirements of Landlord or the City and/or County in which the Premises are located, then the rent shall be abated or reduced, as the case may be, during the period that Tenant continues to be so prevented from using and does not use the Premises or portion thereof, in the proportion that the Rentable Square Feet of the portion of the Premises that Tenant is prevented from using, and does not use, bears to the total Rentable Square Feet of the Premises. Notwithstanding the foregoing to the contrary, if the damage is due to the negligence or willful misconduct of Tenant or any of Tenant's Parties, there shall be no abatement of rent. Except for abatement of rent as provided hereinabove, Tenant shall not be entitled to any compensation or damages for loss of, or interference with, Tenant's business or use or access of all or any part of the Premises resulting from any such damage, repair, reconstruction or restoration.

**18.4 Inability to Complete.** Notwithstanding anything to the contrary contained in this Section 18, in the event Landlord is obligated or elects to repair, reconstruct and/or restore the damaged portion of the Building or Premises pursuant to Section 18.1 above, but is delayed from completing such repair, reconstruction and/or restoration beyond the date which is six (6) months after the date estimated by Landlord's contractor for completion thereof pursuant to Section 18.1, by reason of any causes beyond the reasonable control of Landlord (including, without limitation, delays due to Force Majeure events as defined in Section 32.15, and delays caused by Tenant or any of Tenant's Parties), then Landlord may elect to terminate this Lease upon thirty (30) days' prior written notice to Tenant.

**18.5 Damage Near End of Term.** In addition to its termination rights in Sections 18.1 and 18.4 above, Landlord shall have the right to terminate this Lease if any damage to the Building or Premises occurs during the last twelve (12) months of the Term of this Lease and Landlord's contractor estimates in a writing delivered to the parties that the repair, reconstruction or restoration of such damage cannot be completed within the earlier of (a) the scheduled expiration date of the Lease Term, or (b) sixty (60) days after the date of such casualty.

**18.6 Tenant's Termination Rights.** Notwithstanding anything to the contrary in this Section 18, Tenant may elect to terminate this Lease if (i) the damage or destruction occurs during the last twelve (12) months of the Term or (ii) for reasons other than delays caused by Tenant, the Premises are not, or cannot reasonably be, substantially restored within one hundred eighty (180) days from the date of

the casualty. The determination as to the time required to restore the Premises following a casualty shall be made by Landlord in its sole, but commercially reasonable discretion. Unless Landlord exercises its right to terminate this Lease as provided above, Landlord shall notify Tenant of the estimated restoration period ("**Restoration Notice**") within sixty (60) days following the date of the casualty. If the estimated restoration period exceeds one hundred eighty (180) days from the date of the casualty, Tenant shall have the right to terminate this Lease upon notice to Landlord given within ten (10) days following Tenant's receipt of the Restoration Notice. If Tenant fails to terminate the Lease within said ten (10) day period, Tenant shall be deemed to have elected to continue this Lease in full force and effect. However, if subsequent to the Restoration Notice, the Premises have not been substantially restored as of the two hundred tenth (210th) day following the date of the casualty for reasons other than delays caused by Tenant, Tenant may terminate this Lease upon thirty (30) days' written notice to Landlord. Should Landlord thereafter complete the restoration of the Premises within thirty (30) days after receipt of Tenant's termination notice, Tenant's termination notice shall automatically be deemed null, void and rescinded as if it had never been sent, and this Lease shall continue in full force and effect.

18.7 **Waiver of Termination Right.** This Lease sets forth the terms and conditions upon which this Lease may terminate in the event of any damage or destruction. Accordingly, the parties hereby waive the provisions of California Civil Code Section 1932, Subsection 2, and Section 1933, Subsection 4 (and any successor statutes thereof permitting the parties to terminate this Lease as a result of any damage or destruction).

## 19. *Eminent Domain.*

19.1 **Substantial Taking.** Subject to the provisions of Section 19.4 below in case the whole of the Premises, or such part thereof as shall substantially interfere with Tenant's use and occupancy of the Premises as reasonably determined by Landlord, shall be taken for any public or quasi-public purpose by any lawful power or authority by exercise of the right of appropriation, condemnation or eminent domain, or sold to prevent such taking, Landlord, subject to space availability, shall have the right to relocate Tenant to comparable space within the Project, and if no such space is then available, Landlord shall notify Tenant and either party shall have the right to terminate this Lease effective as of the date possession is required to be surrendered to said authority.

19.2 **Partial Taking; Abatement of Rent.** In the event of a taking of a portion of the Premises which does not substantially interfere with the conduct of Tenant's business, then, except as otherwise provided in the immediately following sentence, neither party shall have the right to terminate this Lease and Landlord shall thereafter proceed to make a functional unit of the remaining portion of the Premises (but only to the extent Landlord receives proceeds therefor from the condemning authority), and rent shall be abated with respect to the part of the Premises which Tenant shall be so deprived on account of such taking. Notwithstanding the immediately preceding sentence to the contrary, if any part of the Building or the Site shall be taken (whether or not such taking substantially interferes with Tenant's use of the Premises), Landlord may terminate this Lease upon thirty (30) days' prior written notice to Tenant as long as Landlord also terminates leases of other tenants leasing comparably sized space within the Building for comparable lease terms.

19.3 **Condemnation Award.** Subject to the provisions of Section 19.4 below, in connection with any taking of the Premises or Building, Landlord shall be entitled to receive the entire amount of any award which may be made or given in such taking or condemnation, without deduction or apportionment for any estate or interest of Tenant, it being expressly understood and agreed by Tenant that no portion of any such award shall be allowed or paid to Tenant for any so-called bonus or excess value of this Lease, and such bonus or excess value shall be the sole property of Landlord. Tenant shall not assert any claim against Landlord or the taking authority for any compensation because of such taking (including any claim for bonus or excess value of this Lease); provided, however, if any portion of the Premises is taken, Tenant shall be granted the right to recover from the condemning authority



(but not from Landlord) any compensation as may be separately awarded or recoverable by Tenant for the taking of Tenant's furniture, fixtures, equipment and other personal property within the Premises, for Tenant's relocation expenses, the unamortized cost of any Tenant Changes installed by or on behalf of Tenant at Tenant's sole cost and expense, and for any loss of goodwill or other damage to Tenant's business by reason of such taking.

**19.4 Temporary Taking.** In the event of a taking of the Premises or any part thereof for temporary use, (a) this Lease shall be and remain unaffected thereby and rent shall not abate, and (b) Tenant shall be entitled to receive for itself such portion or portions of any award made for such use with respect to the period of the taking which is within the Term, provided that if such taking shall remain in force at the expiration or earlier termination of this Lease, Tenant shall perform its obligations under Section 9 with respect to surrender of the Premises and shall pay to Landlord the portion of any award which is attributable to any period of time beyond the Term expiration date. For purpose of this Section 19.4, a temporary taking shall be defined as a taking for a period of two hundred seventy (270) days or less.

**19.5 Waiver of Termination Right.** This Lease sets forth the terms and conditions upon which this Lease may terminate in the event of a taking. Accordingly, the parties waive the provisions of the California Code of Civil Procedure Section 1265.130 and any successor or similar statutes permitting the parties to terminate this Lease as a result of a taking.

## **20. Tenant's Insurance.**

**20.1 Types of Insurance.** On or before the earlier of the Commencement Date or the date Tenant commences or causes to be commenced any work of any type in or on the Premises pursuant to this Lease, and continuing during the entire Term, Tenant shall obtain and keep in full force and effect, the following insurance:

- (a) Special Form (formerly known as All Risk) insurance, including fire and extended coverage, sprinkler leakage (including earthquake sprinkler leakage), vandalism, malicious mischief plus earthquake and flood coverage upon property of every description and kind owned by Tenant and located in the Premises or Building, or for which Tenant is legally liable or installed by or on behalf of Tenant including, without limitation, furniture, equipment and any other personal property, and any Tenant Changes (but excluding the initial Tenant Improvements previously existing or installed in the Premises), in an amount not less than the full replacement cost thereof.
- (b) Commercial general liability insurance coverage on an occurrence basis, including personal injury, bodily injury (including wrongful death), broad form property damage, operations hazard, owner's protective coverage, contractual liability (including Tenant's indemnification obligations under this Lease, including Section 17 hereof), liquor liability (if Tenant serves alcohol on the Premises), products and completed operations liability, and owned/non-owned auto liability, with an initial combined single limit of liability of not less than Two Million Dollars (\$2,000,000.00). The limits of liability of such commercial general liability insurance may be increased every five (5) years during the Term of this Lease in accordance with the levels of insurance then being required by owners of comparable office buildings in the Angel Stadium area of Anaheim, California.
- (c) Worker's compensation and employer's liability insurance, in statutory amounts and limits, covering all persons employed in connection with any work done on or about the Premises for which claims for death or bodily injury could be asserted against Landlord, Tenant or the Premises.
- (d) Loss of income, extra expense and business interruption insurance in such amounts as will reimburse Tenant for direct or indirect loss of earnings attributable to all perils commonly

insured against by prudent tenants or attributable to prevention of access to the Premises, Tenant's parking areas or to the Building as a result of such perils.

**20.2 Requirements.** Each policy required to be obtained by Tenant hereunder shall: (a) be issued by insurers which are approved by Landlord and/or Landlord's mortgagees and are authorized to do business in the state in which the Building is located and rated not less than financial class X, and not less than policyholder rating A in the most recent version of Best's Key Rating Guide (provided that, in any event, the same insurance company shall provide the coverages described in Sections 20.1(a) and 20.1(d) above); (b) be in form reasonably satisfactory from time to time to Landlord; (c) name Tenant as named insured thereunder and shall name Landlord and, at Landlord's request, such other persons or entities of which Tenant has been informed in writing, as additional insureds thereunder, all as their respective interests may appear; (d) shall not have a deductible amount exceeding Five Thousand Dollars (\$5,000.00), which deductible amount shall be deemed self-insured with full waiver of subrogation; (e) specifically provide that the insurance afforded by such policy for the benefit of Landlord and any other additional insureds shall be primary, and any insurance carried by Landlord or any other additional insureds shall be excess and non-contributing; (f) contain an endorsement that the insurer waives its right to subrogation as described in Section 22 below; (g) require the insurer to notify Landlord (and any other additional insureds) in writing not less than thirty (30) days prior to any material change, reduction in coverage, cancellation or other termination thereof; (h) contain a cross liability or severability of interest endorsement; and (i) be in amounts sufficient at all times to satisfy any coinsurance requirements thereof. Each such policy shall also provide that any loss otherwise payable thereunder shall be payable notwithstanding (i) any act or omission of Landlord or Tenant which might, absent such provision, result in a forfeiture of all or a part of such insurance payment, (ii) the occupation or use of the Premises for purposes more hazardous than permitted by the provisions of such policy, (iii) any foreclosure or other action or proceeding taken by any mortgagee pursuant to any provision of the mortgage upon the happening of a default thereunder, or (iv) any change in title or ownership of the Premises. Tenant agrees to deliver to Landlord, as soon as practicable after the placing of the required insurance, but in no event later than the date Tenant is required to obtain such insurance as set forth in Section 20.1 above, certificates from the insurance company evidencing the existence of such insurance and Tenant's compliance with the foregoing provisions of this Section 20. Tenant shall cause replacement certificates to be delivered to Landlord not less than thirty (30) days prior to the expiration of any such policy or policies. If any such initial or replacement certificates are not furnished within the time(s) specified herein, Landlord shall notify Tenant and Tenant shall have an additional five (5) business days following receipt of Landlord's notice to deliver the required certificates and if Landlord has not received such certificates by the expiration of such five (5) business day period, Tenant shall be deemed to be in material default under this Lease without the benefit of any additional notice or cure period provided in Section 23.1 below, and Landlord shall have the right, but not the obligation, to procure such policies and certificates at Tenant's expense.

Notwithstanding anything to the contrary in this Section 20.2, so long as The Willdan Group of Companies, a California corporation, is the Tenant under this Lease, the maximum deductible amount shall be increased from Five Thousand and No/100ths Dollars (\$5,000.00) to Twenty Thousand and No/100ths Dollars (\$20,000.00).

**20.3 Effect on Insurance.** Tenant shall not knowingly and willfully do or permit to be done anything which will (a) violate or invalidate any insurance policy maintained by Landlord or Tenant hereunder, or (b) increase the costs of any insurance policy maintained by Landlord pursuant to Section 21 or otherwise with respect to the Building or the Project. If Tenant's occupancy or conduct of its business in or on the Premises results in any increase in premiums for any insurance carried by Landlord with respect to the Building or the Project, Tenant shall pay such increase as additional rent within ten (10) days after being billed therefor by Landlord. If any insurance coverage carried by

Landlord pursuant to Section 21 or otherwise with respect to the Building or the Project shall be cancelled or reduced (or cancellation or reduction thereof shall be threatened) by reason of the use or occupancy of the Premises by Tenant or by anyone permitted by Tenant to be upon the Premises, and if Tenant fails to remedy such condition within five (5) days after notice thereof, Tenant shall be deemed to be in default under this Lease, without the benefit of any additional notice or cure period specified in Section 23.1 below, and Landlord shall have all remedies provided in this Lease, at law or in equity, including, without limitation, the right (but not the obligation) to enter upon the Premises and attempt to remedy such condition at Tenant's cost.

**21. Landlord's Insurance.** During the Term, Landlord shall insure the Project Common Areas, the Building, the Premises and the Tenant Improvements initially installed in the Premises pursuant to *Exhibit "C"* (excluding, however, Tenant's furniture, equipment and other personal property and any Tenant Changes) against damage by fire and standard extended coverage perils and with vandalism and malicious mischief endorsements, rental loss coverage, at Landlord's option, earthquake damage coverage, and such additional coverage as Landlord deems appropriate. Landlord shall also carry commercial general liability insurance, in such reasonable amounts and with such reasonable deductibles as would be carried by a prudent owner of a similar building in the state in which the Building is located. At Landlord's option, all such insurance may be carried under any blanket or umbrella policies which Landlord has in force for other buildings and projects. In addition, at Landlord's option, Landlord may elect to self-insure all or any part of such required insurance coverage. Landlord may, but shall not be obligated to, carry any other form or forms of insurance as Landlord or the mortgagees or ground lessors of Landlord may reasonably determine is advisable. The cost of insurance obtained by Landlord pursuant to this Section 21 (including self-insured amounts and deductibles) shall be included in Insurance Costs, except that any increase in the premium for the property insurance attributable to the replacement cost of the Tenant Improvements in excess of Building standard shall not be included as Insurance Costs, but shall be paid by Tenant concurrently with Tenant's monthly installment of its share of Insurance Costs.

**22. Waiver of Claims; Waiver of Subrogation.**

**22.1 Mutual Waiver of Parties.** Landlord and Tenant hereby waive their rights against each other with respect to any claims or damages or losses, including any deductibles and self-insured amounts which are caused by or result from (a) any occurrence insured against under any insurance policy (other than the commercial general liability insurance) carried by Landlord or Tenant (as the case may be) pursuant to the provisions of this Lease and enforceable at the time of such damage or loss, or (b) any occurrence which would have been covered under any insurance (other than the commercial general liability insurance) required to be obtained and maintained by Landlord or Tenant (as the case may be) under Sections 20 and 21 of this Lease (as applicable) had such insurance been obtained and maintained as required therein or (c) any occurrence which is insurable (except for occurrences covered by commercial general liability insurance), whether or not a party is required to carry such insurance hereunder. The foregoing waivers shall be in addition to, and not a limitation of, any other waivers or releases contained in this Lease.

**22.2 Waiver of Insurers.** Each party shall cause each insurance policy (other than the commercial general liability insurance) required to be obtained by it pursuant to Sections 20 and 21 to provide that the insurer waives all rights of recovery by way of subrogation against either Landlord or Tenant, as the case may be, in connection with any claims, losses and damages covered by such policy. If either party fails to maintain insurance for an insurable loss, such loss shall be deemed to be self-insured with a deemed full waiver of subrogation as set forth in the immediately preceding sentence.

**23. Tenant's Default and Landlord's Remedies.**

23.1 **Tenant's Default.** The occurrence of any one or more of the following events shall constitute a default under this Lease by Tenant:

- (a) the failure by Tenant to make any payment of rent or additional rent or any other payment required to be made by Tenant hereunder, when such failure continues for five (5) business days after written notice thereof from Landlord that such payment was not received when due;
- (b) the failure by Tenant to observe or perform any of the express or implied covenants or provisions of this Lease to be observed or performed by Tenant, other than as specified in Sections 23.1(a) or (b) above, where such failure shall continue for a period of thirty (30) days after written notice thereof from Landlord to Tenant; provided, however, that, if the nature of Tenant's default is such that more than thirty (30) days are reasonably required for its cure, then Tenant shall not be deemed to be in default if Tenant shall commence such cure within said thirty (30) day period and thereafter diligently prosecute such cure to completion, which completion shall occur not later than one hundred twenty (120) days from the date of such notice from Landlord; and
- (c) (i) the making by Tenant or any guarantor hereof of any general assignment for the benefit of creditors, (ii) the filing by or against Tenant or any guarantor hereof of a petition to have Tenant or the guarantor adjudged a bankrupt or a petition for reorganization or arrangement under any law relating to bankruptcy (unless, in the case of a petition filed against the Tenant or the guarantor, the same is dismissed within sixty (60) days), (iii) the appointment of a trustee or receiver to take possession of substantially all of Tenant's assets located at the Premises or of Tenant's interest in this Lease or of substantially all of the guarantor's assets, where possession is not restored to Tenant or the guarantor within sixty (60) days, or (iv) the attachment, execution or other judicial seizure of substantially all of Tenant's assets located at the Premises or of Tenant's interest in this Lease or of substantially all of the guarantor's assets where such seizure is not discharged within sixty (60) days.
- (d) Tenant shall be liquidated or dissolved or shall begin proceedings towards its liquidation or dissolution.

Any notice sent by Landlord to Tenant pursuant to this Section 23 shall be in lieu of, and not in addition to, any notice required under California Code of Civil Procedure, Section 1161.

23.2 **Landlord's Remedies; Termination.** In the event of any such default by Tenant, in addition to any other remedies available to Landlord under this Lease, at law or in equity, Landlord shall have the immediate option to terminate this Lease and all rights of Tenant hereunder. In the event that Landlord shall elect to so terminate this Lease, then Landlord may recover from Tenant:

- (a) the worth at the time of award of any unpaid rent which had been earned at the time of such termination; plus
- (b) the worth at the time of the award of the amount by which the unpaid rent which would have been earned after termination until the time of award exceeds the amount of such rental loss that Tenant proves could have been reasonably avoided; plus
- (c) the worth at the time of award of the amount by which the unpaid rent for the balance of the term after the time of award exceeds the amount of such rental loss that Tenant proves could be reasonably avoided; plus
- (d) any other amount necessary to compensate Landlord for all the detriment proximately caused by Tenant's failure to perform its obligations under this Lease or which, in the ordinary course of things, would be likely to result therefrom including, but not limited to: unamortized Tenant Improvement costs; attorneys' fees; brokers' commissions; the costs of refurbishment,

alterations, renovation and repair of the Premises; and removal (including the repair of any damage caused by such removal) and storage (or disposal) of Tenant's personal property, equipment, fixtures, Tenant Changes, Tenant Improvements and any other items which Tenant is required under this Lease to remove but does not remove.

As used in Sections 23.2(a) and 23.2(b) above, the "**worth at the time of award**" is computed by allowing interest at the Interest Rate set forth in Section 1.14 of the Summary. As used in Section 23.2(c) above, the "worth at the time of award" is computed by discounting such amount at the discount rate of the Federal Reserve Bank of San Francisco at the time of award plus one percent (1%).

**23.3 Landlord's Remedies; Re-Entry Rights.** In the event of any such default by Tenant, in addition to any other remedies available to Landlord under this Lease, at law or in equity, Landlord shall also have the right, with or without terminating this Lease, to re-enter the Premises and remove all persons and property from the Premises; such property may be removed, stored and/or disposed of pursuant to Section 12.4 of this Lease or any other procedures permitted by applicable law. No re-entry or taking possession of the Premises by Landlord pursuant to this Section 23.3, and no acceptance of surrender of the Premises or other action on Landlord's part, shall be construed as an election to terminate this Lease unless a written notice of such intention be given to Tenant or unless the termination thereof be decreed by a court of competent jurisdiction.

**23.4 Landlord's Remedies; Continuation of Lease.** In the event of any such default by Tenant, in addition to any other remedies available to Landlord under this Lease, at law or in equity, Landlord shall have the right to continue this Lease in full force and effect, whether or not Tenant shall have abandoned the Premises. The foregoing remedy shall also be available to Landlord pursuant to California Civil Code Section 1951.4 and any successor statute thereof in the event Tenant has abandoned the Premises. In the event Landlord elects to continue this Lease in full force and effect pursuant to this Section 23.4, then Landlord shall be entitled to enforce all of its rights and remedies under this Lease, including the right to recover rent as it becomes due. Landlord's election not to terminate this Lease pursuant to this Section 23.4 or pursuant to any other provision of this Lease, at law or in equity, shall not preclude Landlord from subsequently electing to terminate this Lease or pursuing any of its other remedies.

**23.5 Landlord's Right to Perform.** Except as specifically provided otherwise in this Lease, all covenants and agreements by Tenant under this Lease shall be performed by Tenant at Tenant's sole cost and expense and without any abatement or offset of rent. If Tenant shall fail to pay any sum of money (other than Monthly Basic Rent) or perform any other act on its part to be paid or performed hereunder and such failure shall continue for three (3) days with respect to monetary obligations (or ten (10) days with respect to non-monetary obligations) after Tenant's receipt of written notice thereof from Landlord, Landlord may, without waiving or releasing Tenant from any of Tenant's obligations, make such payment or perform such other act on behalf of Tenant. All sums so paid by Landlord and all necessary incidental costs incurred by Landlord in performing such other acts shall be payable by Tenant to Landlord within five (5) days after demand therefor as additional rent.

23.6 **Interest.** If any monthly installment of Rent or Project Operating Expenses, or any other amount payable by Tenant hereunder is not received by Landlord by the date when due, it shall bear interest at the Interest Rate set forth in Section 1.14 of the Summary from the date due until paid. All interest, and any late charges imposed pursuant to Section 23.7 below, shall be considered additional rent due from Tenant to Landlord under the terms of this Lease.

23.7 **Late Charges.** Tenant acknowledges that, in addition to interest costs, the late payments by Tenant to Landlord of any Monthly Basic Rent or other sums due under this Lease will cause Landlord to incur costs not contemplated by this Lease, the exact amount of such costs being extremely difficult and impractical to fix. Such other costs include, without limitation, processing, administrative and accounting charges and late charges that may be imposed on Landlord by the terms of any mortgage, deed of trust or related loan documents encumbering the Premises, the Building or the Project. Accordingly, if any monthly installment of Monthly Basic Rent or Project Operating Expenses or any other amount payable by Tenant hereunder is not received by Landlord within ten (10) days of the due date thereof, Tenant shall pay to Landlord an additional sum of five percent (5%) of the overdue amount as a late charge, but in no event more than the maximum late charge allowed by law; provided, however, no late charge shall apply to the first late payment in any calendar year during the Term. The parties agree that such late charge represents a fair and reasonable estimate of the costs that Landlord will incur by reason of any late payment as hereinabove referred to by Tenant, and the payment of late charges and interest are distinct and separate in that the payment of interest is to compensate Landlord for the use of Landlord's money by Tenant, while the payment of late charges is to compensate Landlord for Landlord's processing, administrative and other costs incurred by Landlord as a result of Tenant's delinquent payments. Acceptance of a late charge or interest shall not constitute a waiver of Tenant's default with respect to the overdue amount or prevent Landlord from exercising any of the other rights and remedies available to Landlord under this Lease or at law or in equity now or hereafter in effect.

23.8 **Rights and Remedies Cumulative.** All rights, options and remedies of Landlord and Tenant contained in this Section 23 and Section 24 and elsewhere in this Lease (including Section 28 below) shall be construed and held to be cumulative, and no one of them shall be exclusive of the other, and Landlord and Tenant shall have the right to pursue any one or all of such remedies or any other remedy or relief which may be provided by law or in equity, whether or not stated in this Lease. Nothing in this Section 23 shall be deemed to limit or otherwise affect Tenant's indemnification of Landlord pursuant to any provision of this Lease.

23.9 **Tenant's Waiver of Redemption.** Intentionally omitted.

23.10 **Costs Upon Default and Litigation.** Subject to Section 32.4, Tenant shall pay to Landlord and its mortgagees as additional rent all the expenses incurred by Landlord or its mortgagees in connection with any default by Tenant hereunder or the exercise of any remedy by reason of any default by Tenant hereunder, including reasonable attorneys' fees and expenses. If Landlord or its mortgagees shall be made a party to any litigation commenced against Tenant or any litigation pertaining to this Lease or the Premises, at the option of Landlord and/or its mortgagees, Tenant, at its expense, shall provide Landlord and/or its mortgagees with counsel approved by Landlord and/or its mortgagees and shall pay all costs incurred or paid by Landlord and/or its mortgagees in connection with such litigation.

24. **Landlord's Default.** Landlord shall not be in default in the performance of any obligation required to be performed by Landlord under this Lease unless Landlord has failed to perform such obligation within thirty (30) days after the receipt of written notice from Tenant specifying in detail Landlord's failure to perform; provided however, that if the nature of Landlord's obligation is such that more than thirty (30) days are required for its performance, then Landlord shall not be deemed in default if it commences such performance within such thirty (30) day period and thereafter diligently

pursues the same to completion. Upon any such uncured default by Landlord, Tenant may exercise any of its rights provided at law or in equity; provided, however: (a) Tenant shall have no right to offset or abate rent in the event of any default by Landlord under this Lease, except to the extent offset rights are specifically provided to Tenant in this Lease; (b) Tenant's rights and remedies hereunder shall be limited to the extent (i) Tenant has expressly waived in this Lease any of such rights or remedies and/or (ii) this Lease otherwise expressly limits Tenant's rights or remedies, including the limitation on Landlord's liability contained in Section 31 hereof and (c) in no event shall Landlord be liable for consequential damages.

**25. Subordination.** Without the necessity of any additional document being executed by Tenant for the purpose of effecting a subordination, and at the election of Landlord or any mortgagee of a mortgage or a beneficiary of a deed of trust now or hereafter encumbering all or any portion of the Building or Site, or any lessor of any ground or master lease now or hereafter affecting all or any portion of the Building or Site, this Lease shall be subject and subordinate at all times to such ground or master leases (and such extensions and modifications thereof), and to the lien of such mortgages and deeds of trust (as well as to any advances made thereunder and to all renewals, replacements, modifications and extensions thereof). Notwithstanding the foregoing, Landlord and any mortgagee and/or ground lessor of Landlord, as applicable, shall have the right to subordinate or cause to be subordinated any or all ground or master leases or the lien of any or all mortgages or deeds of trust to this Lease. In the event that any ground or master lease terminates for any reason or any mortgage or deed of trust is foreclosed or a conveyance in lieu of foreclosure is made for any reason, at the election of Landlord's successor in interest, Tenant shall attorn to and become the tenant of such successor. Tenant hereby waives its rights under any current or future law which gives or purports to give Tenant any right to terminate or otherwise adversely affect this Lease and the obligations of Tenant hereunder in the event of any such foreclosure proceeding or sale. Tenant covenants and agrees to execute and deliver to Landlord within ten (10) days after receipt of written demand by Landlord and in the form reasonably required by Landlord, any additional documents evidencing the priority or subordination of this Lease with respect to any such ground or master lease or the lien of any such mortgage or deed of trust or Tenant's agreement to attorn. Should Tenant fail to sign and return any such documents within said ten day period, Landlord shall notify Tenant of the expiration of said ten (10) day period and shall provide Tenant an additional five (5) days to deliver the documents. Should Tenant fail to deliver such documents to Landlord within said five (5) day period, Tenant shall be in default hereunder without the benefit of any additional notice or cure periods specified in Section 23.1 above.

**26. Estoppel Certificate.**

**26.1 Tenant's Obligations.** Within ten (10) business days following Landlord's written request, Tenant shall execute and deliver to Landlord an estoppel certificate, in a form substantially similar to the form of *Exhibit "F"* attached hereto, certifying: (a) the Commencement Date of this Lease; (b) that this Lease is unmodified and in full force and effect (or, if modified, that this Lease is in full force and effect as modified, and stating the date and nature of such modifications); (c) the date to which the rent and other sums payable under this Lease have been paid; (d) that there are not, to the best of Tenant's knowledge, any defaults under this Lease by either Landlord or Tenant, except as specified in such certificate; and (e) such other matters as are reasonably requested by Landlord. Any such estoppel certificate delivered pursuant to this Section 26.1 may be relied upon by any mortgagee, beneficiary, purchaser or prospective purchaser of any portion of the Site, as well as their assignees.

**26.2 Tenant's Failure to Deliver.** Tenant's failure to deliver such estoppel certificate within such time shall be conclusive upon Tenant that: (a) this Lease is in full force and effect without modification, except as may be represented by Landlord; (b) there are no uncured defaults in Landlord's or Tenant's performance (other than Tenant's failure to deliver the estoppel certificate); and (c) not more than one (1) month's rental has been paid in advance. Tenant shall indemnify, defend (with counsel reasonably approved by Landlord in writing) and hold Landlord harmless from and

against any and all claims, judgments, suits, causes of action, damages, losses, liabilities and expenses (including attorneys' fees and court costs) attributable to any failure by Tenant to timely deliver any such estoppel certificate to Landlord pursuant to Section 26.1 above.

**27. Building Planning.** Intentionally Omitted.

**28. Cure Rights of Landlord's Mortgagees and Lessors.** In the event of any default on the part of Landlord, Tenant will give notice by registered or certified mail to any beneficiary of a deed of trust or mortgagee covering the Premises or ground lessor of Landlord whose address shall have been furnished to Tenant, and shall offer such beneficiary, mortgagee or ground lessor a reasonable opportunity to cure the default (including with respect to any such beneficiary or mortgagee, time to obtain possession of the Premises, subject to this Lease and Tenant's rights hereunder, by power of sale or a judicial foreclosure, if such should prove necessary to effect a cure).

**29. Quiet Enjoyment.** Landlord covenants and agrees with Tenant that, upon Tenant performing all of the covenants and provisions on Tenant's part to be observed and performed under this Lease (including payment of rent hereunder), Tenant shall have the right to use and occupy the Premises in accordance with and subject to the terms and conditions of this Lease as against all persons claiming by, through or under Landlord.

**30. Transfer of Landlord's Interest.** The term "Landlord" as used in this Lease, so far as covenants or obligations on the part of the Landlord are concerned, shall be limited to mean and include only the owner or owners, at the time in question, of the fee title to, or a lessee's interest in a ground lease of, the Site. In the event of any transfer or conveyance of any such title or interest (other than a transfer for security purposes only), the transferor shall be automatically relieved of all covenants and obligations on the part of Landlord contained in this Lease accruing after the date of such transfer or conveyance upon the transferee's written assumption of Landlord's obligations under this Lease. Landlord and Landlord's transferees and assignees shall have the absolute right to transfer all or any portion of their respective title and interest in the Site, the Building, the Premises and/or this Lease without the consent of Tenant, and such transfer or subsequent transfer shall not be deemed a violation on Landlord's part of any of the terms and conditions of this Lease.

**31. Limitation on Landlord's Liability.** Notwithstanding anything contained in this Lease to the contrary, the obligations of Landlord under this Lease (including any actual or alleged breach or default by Landlord) do not constitute personal obligations of the individual partners, directors, officers, members or shareholders of Landlord or Landlord's members or partners, and Tenant shall not seek recourse against the individual partners, directors, officers, members or shareholders of Landlord or against Landlord's members or partners or any other persons or entities having any interest in Landlord, or any of their personal assets for satisfaction of any liability with respect to this Lease. In addition, in consideration of the benefits accruing hereunder to Tenant and notwithstanding anything contained in this Lease to the contrary, Tenant hereby covenants and agrees for itself and all of its successors and assigns that the liability of Landlord for its obligations under this Lease (including any liability as a result of any actual or alleged failure, breach or default hereunder by Landlord), shall be limited solely to, and Tenant's and its successors' and assigns' sole and exclusive remedy shall be against, Landlord's interest in the Project, including the rents, proceeds and profits derived therefrom and no other assets of Landlord.

**32. Miscellaneous.**

**32.1 Governing Law.** This Lease shall be governed by, and construed pursuant to, the laws of the state in which the Building is located.

**32.2 Successors and Assigns.** Subject to the provisions of Section 30 above, and except as otherwise provided in this Lease, all of the covenants, conditions and provisions of this Lease shall be binding upon, and shall inure to the benefit of, the parties hereto and their respective heirs, personal



representatives and permitted successors and assigns; provided, however, no rights shall inure to the benefit of any Transferee of Tenant unless the Transfer to such Transferee is made in compliance with the provisions of Section 14, and no options or other rights which are expressly made personal to the original Tenant hereunder or in any rider attached hereto shall be assignable to or exercisable by anyone other than the original Tenant under this Lease.

32.3 **No Merger.** The voluntary or other surrender of this Lease by Tenant or a mutual termination thereof shall not work as a merger and shall, at the option of Landlord, either (a) terminate all or any existing subleases, or (b) operate as an assignment to Landlord of Tenant's interest under any or all such subleases.

32.4 **Professional Fees.** If either Landlord or Tenant should bring suit against the other with respect to this Lease, including for unlawful detainer or any other relief against the other hereunder, then all costs and expenses incurred by the prevailing party therein (including, without limitation, its actual appraisers', accountants', attorneys' and other professional fees and court costs), shall be paid by the other party.

32.5 **Waiver.** The waiver by either party of any breach by the other party of any term, covenant or condition herein contained shall not be deemed to be a waiver of any subsequent breach of the same or any other term, covenant and condition herein contained, nor shall any custom or practice which may become established between the parties in the administration of the terms hereof be deemed a waiver of, or in any way affect, the right of any party to insist upon the performance by the other in strict accordance with said terms. No waiver of any default of either party hereunder shall be implied from any acceptance by Landlord or delivery by Tenant (as the case may be) of any rent or other payments due hereunder or any omission by the non-defaulting party to take any action on account of such default if such default persists or is repeated, and no express waiver shall affect defaults other than as specified in said waiver. The subsequent acceptance of rent hereunder by Landlord shall not be deemed to be a waiver of any preceding breach by Tenant of any term, covenant or condition of this Lease other than the failure of Tenant to pay the particular rent so accepted, regardless of Landlord's knowledge of such preceding breach at the time of acceptance of such rent.

32.6 **Terms and Headings.** The words "Landlord" and "Tenant" as used herein shall include the plural as well as the singular. Words used in any gender include other genders. The Section headings of this Lease are not a part of this Lease and shall have no effect upon the construction or interpretation of any part hereof. Any deletion of language from this Lease prior to its execution by Landlord and Tenant shall not be construed to raise any presumption, canon of construction or implication, including, without limitation, any implication that the parties intended thereby to state the converse of the deleted language.

32.7 **Time.** Time is of the essence with respect to performance of every provision of this Lease in which time or performance is a factor. All references in this Lease to "**days**" shall mean calendar days unless specifically modified herein to be "business" days.

32.8 **Prior Agreements; Amendments.** This Lease (and the Exhibits attached hereto) contain all of the covenants, provisions, agreements, conditions and understandings between Landlord and Tenant concerning the Premises and any other matter covered or mentioned in this Lease, and no prior agreement or understanding, oral or written, express or implied, pertaining to the Premises or any such other matter shall be effective for any purpose. No provision of this Lease may be amended or added to except by an agreement in writing signed by the parties hereto or their respective successors in interest. The parties acknowledge that all prior agreements, representations and negotiations are deemed superseded by the execution of this Lease to the extent they are not expressly incorporated herein.

32.9 **Separability.** The invalidity or unenforceability of any provision of this Lease (except for Tenant's obligation to pay Monthly Basic Rent and Excess Expenses, Excess Real Property Taxes and Assessments, Excess Insurance Costs, and Excess Utilities Costs) shall in no way affect, impair or invalidate any other provision hereof, and such other provisions shall remain valid and in full force and effect to the fullest extent permitted by law.

32.10 **Recording.** Neither Landlord nor Tenant shall record this Lease. In addition, neither party shall record a short form memorandum of this Lease without the prior written consent (and signature on the memorandum) of the other, and provided that prior to recordation Tenant executes and delivers to Landlord, in recordable form, a properly acknowledged quitclaim deed or other instrument extinguishing all of the Tenant's rights and interest in and to the Site, Building and Premises, and designating Landlord as the transferee, which deed or other instrument shall be held by Landlord and may be recorded by Landlord once the Lease terminates or expires (but not prior thereto). If such short form memorandum is recorded in accordance with the foregoing, the party requesting the recording shall pay for all costs of or related to such recording, including, but not limited to, recording charges and documentary transfer taxes.

32.11 **Exhibits.** All Exhibits attached to this Lease are hereby incorporated in this Lease as though set forth at length herein.

32.12 **Accord and Satisfaction.** No payment by Tenant or receipt by Landlord of a lesser amount than the rent payment herein stipulated shall be deemed to be other than on account of the rent, nor shall any endorsement or statement on any check or any letter accompanying any check or payment as rent be deemed an accord and satisfaction, and Landlord may accept such check or payment without prejudice to Landlord's right to recover the balance of such rent or pursue any other remedy provided in this Lease. Tenant agrees that each of the foregoing covenants and agreements shall be applicable to any covenant or agreement either expressly contained in this Lease or imposed by any statute or at common law.

32.13 **Financial Statements.** Upon ten (10) days prior written request from Landlord (which Landlord may make at any time during the Term but no more often than two (2) times in any calendar year), Tenant shall deliver to Landlord (a) a current financial statement of Tenant and any guarantor of this Lease, and (b) financial statements of Tenant and such guarantor for the two (2) years prior to the current financial statement year. Such statements shall be prepared in accordance with generally acceptable accounting principles and certified as true in all material respects by Tenant (if Tenant is an individual) or by an authorized officer, member/manager or general partner of Tenant (if Tenant is a corporation, limited liability company or partnership, respectively). Without Tenant's prior written consent, Landlord will not disclose Tenant's financial statements to any third party other than Landlord's partners, investors, accountants, attorneys, lenders or prospective purchasers of the Building.

32.14 **No Partnership.** Landlord does not, in any way or for any purpose, become a partner of Tenant in the conduct of its business, or otherwise, or joint venturer or a member of a joint enterprise with Tenant by reason of this Lease.

32.15 **Force Majeure.** In the event that either party hereto shall be delayed or hindered in or prevented from the performance of any act required hereunder by reason of strikes, lock-outs, labor troubles, inability to procure materials, failure of power, governmental moratorium or other governmental action or inaction (including failure, refusal or delay in issuing permits, approvals and/or authorizations), injunction or court order, riots, insurrection, war, terrorism, bioterrorism, fire, earthquake, flood or other natural disaster or other reason of a like nature not the fault of the party delaying in performing work or doing acts required under the terms of this Lease (but excluding delays due to financial inability) (herein collectively, "**Force Majeure Delays**"), then performance of such act shall be excused for the period of the delay and the period for the performance of any such act shall be extended for a period equivalent to the period of such delay. The provisions of this Section 32.15

shall not apply to nor operate to excuse Tenant from the payment of Monthly Basic Rent, Project Operating Expenses, additional rent or any other payments strictly in accordance with the terms of this Lease.

32.16 **Counterparts.** This Lease may be executed in one or more counterparts, each of which shall constitute an original and all of which shall be one and the same agreement.

32.17 **Nondisclosure of Lease Terms.** Tenant acknowledges and agrees that the terms of this Lease are confidential and constitute proprietary information of Landlord. Disclosure of the terms could adversely affect the ability of Landlord to negotiate other leases and impair Landlord's relationship with other tenants. Accordingly, Tenant agrees that it, and its partners, officers, directors, employees, agents and attorneys, shall not intentionally and voluntarily disclose the terms and conditions of this Lease to any newspaper or other publication or any other tenant or apparent prospective tenant of the Building or other portion of the Project, or real estate agent, either directly or indirectly, without the prior written consent of Landlord, provided, however, that Tenant may disclose the terms to prospective subtenants or assignees under this Lease.

32.18 **Non-Discrimination.** Tenant acknowledges and agrees that there shall be no discrimination against, or segregation of, any person, group of persons, or entity on the basis of race, color, creed, religion, age, sex, marital status, national origin, or ancestry in the leasing, subleasing, transferring, assignment, occupancy, tenure, use, or enjoyment of the Premises, or any portion thereof.

32.19 **Reasonableness.** Regardless of any reference to the words "sole" or "absolute" (but except for matters which (a) would have an adverse effect on the structural integrity of the Building (b) could have an adverse effect on the Building systems, or (c) could have an effect on the exterior appearance of the Building, whereupon in each such case Landlord's duty is to act in good faith and in compliance with the Lease), any time the consent of Landlord or Tenant is required, such consent shall not be unreasonably withheld, conditioned or delayed. Whenever the Lease grants Landlord or Tenant the right to take action, exercise discretion, establish rules and regulations or make allocations or other determinations (other than decisions to exercise expansion, contraction, cancellation, termination or renewal options), Landlord and Tenant shall act reasonably and in good faith and take no action which might result in the frustration of the reasonable expectations of a sophisticated tenant or landlord concerning the benefits to be enjoyed under the Lease.

### 33. *Lease Execution.*

33.1 **Authority.** If Tenant executes this Lease as a partnership, corporation or limited liability company, then Tenant and the persons and/or entities executing this Lease on behalf of Tenant represent and warrant that: (a) Tenant is a duly organized and existing partnership, corporation or limited liability company, as the case may be, and is qualified to do business in the state in which the Building is located; (b) such persons and/or entities executing this Lease are duly authorized to execute and deliver this Lease on Tenant's behalf in accordance with the Tenant's partnership agreement (if Tenant is a partnership), or a duly adopted resolution of Tenant's board of directors and the Tenant's by-laws (if Tenant is a corporation) or with Tenant's operating agreement (if Tenant is a limited liability company); and (c) this Lease is binding upon Tenant in accordance with its terms. Concurrently with Tenant's execution and delivery of this Lease to Landlord and/or at any time during the Term within ten (10) days of Landlord's request, Tenant shall provide to Landlord a copy of any documents reasonably requested by Landlord evidencing such qualification, organization, existence and authorization.

If Landlord executes this Lease as a partnership, corporation or limited liability company, then Landlord and the persons and/or entities executing this Lease on behalf of Landlord represent and warrant that: (a) Landlord is a duly organized and existing partnership, corporation or limited liability company, as the case may be, and is qualified to do business in the state in which the Building is located; (b) such persons and/or entities executing this Lease are duly authorized to execute and deliver

this Lease on Landlord's behalf in accordance with the Landlord's partnership agreement (if Landlord is a partnership), or a duly adopted resolution of Landlord's board of directors and Landlord's by-laws (if Landlord is a corporation) or with Landlord's operating agreement (if Landlord is a limited liability company); and (c) this Lease is binding upon Landlord in accordance with its terms. Concurrently with Landlord's execution and delivery of this Lease to Tenant and/or at any time during the Term within ten (10) days of Tenant's request, Landlord shall provide to Tenant a copy of any documents reasonably requested by Tenant evidencing such qualification, organization, existence and authorization.

**33.2 Joint and Several Liability.** If more than one person or entity executes this Lease as Tenant: (a) each of them is and shall be jointly and severally liable for the covenants, conditions, provisions and agreements of this Lease to be kept, observed and performed by Tenant; and (b) the act or signature of, or notice from or to, any one or more of them with respect to this Lease shall be binding upon each and all of the persons and entities executing this Lease as Tenant with the same force and effect as if each and all of them had so acted or signed, or given or received such notice.

**33.3 Guaranty.** Intentionally omitted.

**33.4 No Option.** The submission of this Lease for examination or execution by Tenant does not constitute a reservation of or option for the Premises and this Lease shall not become effective as a Lease until it has been executed by Landlord and delivered to Tenant.

**34. Waiver of Jury Trial.** EACH PARTY HEREBY WAIVES ANY RIGHT TO A TRIAL BY JURY IN ANY ACTION SEEKING SPECIFIC PERFORMANCE OF ANY PROVISION OF THIS LEASE, FOR DAMAGES FOR ANY BREACH UNDER THIS LEASE, OR OTHERWISE FOR ENFORCEMENT OF ANY RIGHT OR REMEDY HEREUNDER.

**35. Moving Allowance.** Provided Tenant is not in default under this Lease, Tenant shall be entitled to receive from Landlord and Landlord shall pay to Tenant an allowance of \$6.50 per rentable square foot, i.e., One Hundred Seventeen Thousand Eight Hundred Eighty Four and No/100ths Dollars (\$117,884.00) for Suite 300 based upon 18,136 rentable square feet in Suite 300 and Eighty Four Thousand Five Hundred and No/100ths Dollars (\$84,500.00) for Suite 450 based upon 13,000 rentable square feet in Suite 450 (the "**Moving Allowance**"). Tenant shall be entitled to use the Moving Allowance for reimbursement of Tenant's actual out-of-pocket relocation and moving costs, including, without limitation, moving expenses, sign creation and installation, and telecommunications cabling and equipment installation ("**Moving Costs**"), and Landlord shall pay the lesser of the actual Moving Costs for Suite 300 or Suite 450 as the case may be, or the applicable portion of the Moving Allowance for Suite 300 or Suite 450 as the case may be, to Tenant within thirty (30) days after the Suite 300 Commencement Date or the Suite 450 Commencement Date, as the case may be, provided Landlord has received copies of contracts, invoices, paid receipts and other evidence reasonably satisfactory to Landlord of the Moving Costs incurred by Tenant. To the extent any portion of the Moving Allowance remains unused following Landlord's payment of Moving Costs, Landlord shall apply the unused portion of the Moving Allowance against the next installments of rent payable by Tenant under this Lease.

**36. Notice of Sale of Building.** Should Landlord elect to sell the Building, Landlord shall endeavor to notify Tenant of Landlord's intent to sell the Building ("**Sale Notice**"). In no event shall Tenant have any claim or recourse against Landlord if the Building is sold without Landlord having delivered a Sale Notice to Tenant, and in no event shall this Section 36 be construed in any manner whatsoever to convey to Tenant any purchase option, right of offer, right of refusal or any other rights concerning the marketing or sale of the Building. Tenant expressly acknowledges that the sale and marketing of the Building, if any, shall be to such persons and/or entities and upon such terms and conditions as Landlord in its sole and absolute discretion deems acceptable.

NO FURTHER TEXT ON THIS PAGE

IN WITNESS WHEREOF, the parties have executed this Lease.

**TENANT:**

THE WILLDAN GROUP OF COMPANIES,  
a California corporation

\*By: /s/ DAN W. HEIL

Print Name: Dan W. Heil

Print Title: Chairman/President

\*By: /s/ ROY L. GILL

Print Name: Roy L. Gill

Print Title: Secretary

Date: October 18, 2004

**LANDLORD:**

SPECTRUM WAPLES STREET, LLC,  
a California limited liability company

By: /s/ PHIL A. BELLING

Print Name: Phil A. Belling

Print Title: Authorized Signatory

SPECTRUM LAMBERT PLAZA, LLC,  
a California limited liability company

By: /s/ PHIL A. BELLING

Print Name: Phil A. Belling

Print Title: Authorized Signatory

Date: October 21, 2004

**\*NOTE:**

If Tenant is a California corporation, then one of the following alternative requirements must be satisfied:

(A) This Lease must be signed by two (2) officers of such corporation: one being the chairman of the board, the president or a vice president, and the other being the secretary, an assistant secretary, the chief financial officer or an assistant treasurer. If one (1) individual is signing in two (2) of the foregoing capacities, that individual must sign twice; once as one officer and again as the other officer.

(B) If there is only one (1) individual signing in two (2) capacities, or if the two (2) signatories do not satisfy the requirements of (a) above, then Tenant shall deliver to Landlord a certified copy of a corporate resolution in a form reasonably acceptable to Landlord authorizing the signatory(ies) to execute this Lease.

***EXHIBIT "A"***  
***SITE PLAN***

[MAP]

Exhibit A-1

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***EXHIBIT B***  
***FLOOR PLAN***

Exhibit B-1

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**EXHIBIT C**  
**WORK LETTER AGREEMENT**  
**(Turnkey)**

1. **TENANT IMPROVEMENTS.** Landlord, using Building standard materials and specifications, shall construct and, except as provided below to the contrary, pay for the entire cost of constructing the tenant improvements ("**Tenant Improvements**") for Suite 300 and Suite 450 described by the plans and specifications identified in *Schedule "I"* attached hereto (the "**Plans**"). Tenant may request changes to the Plans provided that (a) the changes shall not be of a lesser quality than Landlord's standard specifications for tenant improvements for the Building, as the same may be changed from time to time by Landlord (the "**Standards**"); (b) the changes conform to applicable governmental regulations and necessary governmental permits and approvals can be secured; (c) the changes do not require building service beyond the levels normally provided to other tenants in the Building; (d) the changes do not have any adverse affect on the structural integrity or systems of the Building; (e) the changes will not, in Landlord's opinion, unreasonably delay construction of the Tenant Improvements; and (f) Landlord has determined in its sole discretion that the changes are of a nature and quality consistent with the overall objectives of Landlord for the Building. If Landlord approves a change requested by Tenant, then, as a condition to the effectiveness of Landlord's approval, Tenant shall pay to Landlord upon demand by Landlord the increased cost attributable to such change, as reasonably determined by Landlord. To the extent any such change results in a delay of completion of construction of the Tenant Improvements, then such delay shall constitute a delay caused by Tenant as described below.

2. **CONSTRUCTION OF TENANT IMPROVEMENTS.** Upon Tenant's payment to Landlord of the total amount of the cost of any changes to the Plans, if any, Landlord's contractor shall commence and diligently proceed with the construction of the Tenant Improvements, subject to Tenant Delays (as described in Section 4 below) and Force Majeure Delays (as described in Section 5 below). Promptly upon the commencement of the Tenant Improvements, Landlord shall furnish Tenant with a construction schedule letter setting forth the projected completion dates therefor and showing the deadlines for any actions required to be taken by Tenant during such construction, and Landlord may from time to time during construction of the Tenant Improvements modify such schedule.

3. **SUBSTANTIAL COMPLETION; DELIVERY OF POSSESSION.**

(a) **Substantial Completion; Punch-List.** The Tenant Improvements for Suite 300 and Suite 450 shall be deemed to be "**substantially completed**" when Landlord: (a) is able to provide Tenant reasonable access to Suite 300 or Suite 450, as the case may be, (b) has substantially completed the Tenant Improvements for Suite 300 or Suite 450, as the case may be, in accordance with the Plans, other than decoration and minor "punch-list" type items and adjustments which do not materially interfere with Tenant's access to or use of the Suite 300 or Suite 450, as the case may be; and (c) has obtained a temporary certificate of occupancy or other required equivalent approval from the local governmental authority permitting occupancy of Suite 300 or Suite 450, as the case may be. Within ten (10) days after such substantial completion, Tenant shall conduct a walk-through inspection of Suite 300 or Suite 450, as the case may be, with Landlord and provide to Landlord a written punch-list specifying those decoration and other punch-list items which require completion, which items Landlord shall thereafter diligently complete; provided, however, that Tenant shall be responsible, at Tenant's sole cost and expense, for the remediation of any items on the punch-list caused by Tenant's acts or omissions.

(b) **Delivery of Possession.** Landlord agrees to deliver possession of Suite 300 and Suite 450 to Tenant when the Tenant Improvements for the applicable portion of the Premises have been substantially completed in accordance with Section (a) above and in accordance with the space plans approved by both Landlord and Tenant. Subject to any Tenant Delays and Force Majeure Delays, Landlord shall use its commercially reasonable efforts to cause Suite 300 and Suite 410 to be substantially completed by February 15, 2005 and Suite 450 to be substantially completed by August 15,



2005. Tenant agrees that if Landlord is unable to deliver possession of Suite 300 and Suite 410 to Tenant by February 15, 2005 or Suite 450 to Tenant by August 15, 2005, the Lease shall not be void or voidable, nor shall Landlord be liable to Tenant for any loss or damage resulting therefrom. However, if Landlord is delayed in delivering possession of Suite 300 and Suite 410 to Tenant beyond February 15, 2005 or Suite 450 to Tenant beyond August 15, 2005, for reasons other than Tenant Delays or Force Majeure Delays, Tenant shall receive one day of rent abatement for each day beyond February 15, 2005 or August 15, 2005, as applicable (each a "Delivery Deadline"), that Suite 300 and Suite 410 or Suite 450 is not delivered to Tenant with the Tenant Improvements substantially completed. In no event shall Tenant be entitled to receive such rent abatement if Landlord's inability to meet a Delivery Deadline is the result of any Tenant Delays or Force Majeure Delays. Furthermore, If Landlord is delayed in delivering possession of Suite 300 and Suite 410 or Suite 450 to Tenant beyond the applicable Delivery Deadline due to Landlord's gross negligence or willful misconduct or due to any Force Majeure Delay(s), then, as Tenant's sole remedy, the Suite 300 and Suite 410 Commencement Date or the Suite 450 Commencement Date, as the case may be, and the expiration date of the Term shall be extended one (1) day for each day beyond the Suite 300 and Suite 410 Commencement Date or the Suite 420 Commencement Date, as the case may be, that Landlord is delayed in delivering possession of Suite 300 and Suite 410 or Suite 450 to Tenant. In no event shall any Term dates be extended if Landlord's inability to meet a Delivery Deadline is the result of any Tenant Delays.

4. **TENANT DELAYS.** For purposes of this Work Letter Agreement, "**Tenant Delays**" shall mean any delay in the completion of the Tenant Improvements resulting from any or all of the following: (a) Tenant's failure to timely perform any of its obligations pursuant to this Work Letter Agreement, including any failure to complete, on or before the due date therefor, any action item which is Tenant's responsibility pursuant to the Work Schedule or any schedule delivered by Landlord to Tenant pursuant to this Work Letter Agreement; (b) Tenant's changes to the Plans; (c) Tenant's request for materials, finishes, or installations which are not readily available or which are incompatible with the Standards; (d) any delay of Tenant in making payment to Landlord for Tenant's share of any costs in excess of the cost of the Tenant Improvements as described in the Plans; or (e) any other act or failure to act by Tenant, Tenant's employees, agents, architects, independent contractors, consultants and/or any other person performing or required to perform services on behalf of Tenant.

5. **FORCE MAJEURE DELAYS.** For purposes of this Work Letter, "**Force Majeure Delays**" shall mean any actual delay beyond the reasonable control of Landlord in the construction of the Tenant Improvements, which is not a Tenant Delay and which is caused by many of the causes described in Section 32.15 of the Lease.

6. **LANDLORD'S WORK.** In addition to the Tenant Improvements, Landlord, at its sole cost and expense, shall complete the following improvements to the Project prior to the Suite 300 Commencement Date:

- (a) Wash and if necessary, "de-mineralize" Building exterior glass;
- (b) Remove paint stain in north parking lot;
- (c) Replace two (2) damaged spandrel panels;
- (d) Repaint trash enclosure;
- (e) Replace mutually agreed upon exterior shrubbery plantings at the Building;
- (f) Renovate sprinkler system to properly irrigate landscaped areas at the Building entrance; and
- (g) Using mutually agreed upon Building standard materials and specifications, Landlord shall refurbish the third (3rd) floor elevator lobby, restrooms and corridors and shall refurbish the restrooms on the fourth (4th) floor.

7. **ABOVE STANDARD IMPROVEMENTS.** Schedule 1 attached hereto includes a list of optional above standard improvements ("Above Standard Improvements"), which, if selected by Tenant, shall be paid for by Tenant at its sole cost and expense. Tenant shall select the Above Standard Improvements, if any, prior to the commencement of construction by Landlord. The estimated costs of such Above Standard Improvements selected by Tenant, shall be due and payable by Tenant upon receipt of an invoice therefore from Landlord, prior to and as a condition of Landlord's commencement of the Tenant Improvements. Tenant's failure to pay the cost of any Above Standard Improvements to Landlord within ten (10) business days after receipt of an invoice therefor, shall be deemed a Tenant Delay. To the extent the actual cost of completing the Above Standard Improvements exceeds the estimated amount paid in advance by Tenant, Tenant shall pay the deficiency to Landlord within ten (10) business days after receipt of an invoice therefor.

Exhibit C-3

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***SCHEDULE "1" to EXHIBIT "C"***  
***PLANS AND SPECIFICATIONS***

The construction documents to be prepared based upon the space plan shown below dated April 24, 2004 and revised September 30, 2004 which was prepared by Robert Borders & Associates.

Schedule 1 to Exhibit C

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**EXHIBIT "D"**  
**NOTICE OF LEASE TERM DATES**

To:  
Date:

Re: Office Lease dated \_\_\_\_\_

Between \_\_\_\_\_ ("**Landlord**"),  
and \_\_\_\_\_ ("**Tenant**"),  
Concerning \_\_\_\_\_ ("**Premises**").

Gentlemen:

In accordance with the above-referenced Lease, we wish to advise and/or confirm as follows:

Tenant has accepted the Premises, as being substantially complete in accordance with the Lease, and that there is no deficiency in construction.

That Tenant has accepted and is in possession of the Premises and acknowledges the following:

- Term of the Lease:
- Commencement Date:
- Expiration Date:
- Rentable Square Feet:
- Tenant's Percentage:

That in accordance with the Lease, rental payments commenced on \_\_\_\_\_ and rent is payable in accordance with the following schedule:

Months	Monthly Basic Rent	Monthly Basic Rent Per Square Foot

If the Commencement Date of the Lease is other than the first day of the month, the first billing will contain a pro rata adjustment and the term of this Lease and rental adjustments will be measured from the first day of the month following the month in which the Commencement Date occurs. Each billing thereafter shall be for the full amount of the monthly installment as provided for in the Lease.

Rent is due and payable in advance on the first day of each and every month during the Term of the Lease.

Your rent checks should be made payable to: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

**AGREED AND ACCEPTED:**

TENANT:

LANDLORD:

By: \_\_\_\_\_  
Print Name: \_\_\_\_\_  
Print Title: \_\_\_\_\_

By: \_\_\_\_\_  
Print Name: \_\_\_\_\_  
Authorized Signatory \_\_\_\_\_

**EXHIBIT "E"**  
**RULES AND REGULATIONS**

1. No sign, advertisement, name or notice shall be installed or displayed on any part of the outside or inside of the Building without the prior written consent of Landlord. Landlord shall have the right to remove, at Tenant's expense and without notice, any sign installed or displayed in violation of this rule. All approved signs or lettering on doors and walls shall be printed, painted, affixed or inscribed at the expense of Tenant by a person approved by Landlord, using materials and in a style and format approved by Landlord.

2. Tenant shall not place anything or allow anything to be placed near the glass of any window, door, partition or wall which may appear unsightly from outside the Premises. No awnings or other projection shall be attached to the outside walls of the Building without the prior written consent of Landlord. No curtains, blinds, shades or screens shall be attached to or hung in, or used in connection with, any window or door of the Premises, other than Building standard materials, without the prior written consent of Landlord.

3. Tenant shall not obstruct any sidewalks, halls, passages, exits, entrances, elevators, escalators or stairways of the Building. The halls, passages, exits, entrances, elevators, escalators and stairways are not for the general public, and Landlord shall in all cases retain the right to control and prevent access thereto of all persons whose presence in the judgment of Landlord would be prejudicial to the safety, character, reputation and interests of the Building and its tenants; provided, that nothing herein contained shall be construed to prevent such access to persons with whom any tenant normally deals in the ordinary course of its business, unless such persons are engaged in illegal activities. Tenant and no employee, invitee, agent, licensee or contractor of Tenant shall go upon or be entitled to use any portion of the roof of the Building.

4. The directory of the Building will be provided exclusively for the display of the name and location of tenants only, and Landlord reserves the right to exclude any other names therefrom. Tenant shall be entitled to a maximum of eight (8) lines on the Building lobby directory to identify Tenant and any subtenant pursuant to a Permitted Transfer.

5. All cleaning and janitorial services for the Building and the Premises shall be provided exclusively through Landlord or Landlord's janitorial contractors in accordance with the provisions of Section 18.1(d) of the Lease. No person or persons other than those approved by Landlord shall be employed by Tenant or permitted to enter the Building for the purpose of cleaning the same. Tenant shall not cause any unnecessary labor by carelessness or indifference to the good order and cleanliness of the Premises. Landlord shall not in any way be responsible to Tenant for loss of property on the Premises, however occurring, or for any damage to Tenant's property by the janitors or any other employee or any other person.

6. Landlord will furnish Tenant, free of charge, with two keys to each door lock in the Premises. Landlord may impose a reasonable charge for any additional keys. Tenant may not make or have made additional keys, and Tenant shall not alter any lock or install a new additional lock or bolt on any door or window of its Premises. Tenant, upon termination of its tenancy, shall deliver to Landlord the keys of all doors which have been furnished to, or otherwise procured by Tenant, and, in the event of loss of any keys, shall pay Landlord the cost of replacing the same or of changing the lock or locks opened by such lost key if Landlord shall deem it necessary to make such change.

7. Electric wires, telephones, telegraphs, burglar alarms or other similar apparatus shall not be installed in the Premises except with the approval and under the direction of Landlord. The location of telephones, call boxes and any other equipment affixed to the Premises shall be subject to the approval of Landlord. Any installation of telephones, telegraphs, electric wires or other electric apparatus made without permission shall be removed by Tenant at Tenant's own expense. No machines other than

standard office machines, such as typewriters and calculators, photo copiers, personal computers and word processors, and vending machines permitted by the Lease, shall be used in the Premises without the approval of Landlord.

8. No furniture, freight, or equipment of any kind shall be brought into the Building without prior notice to Landlord and all moving of the same into or out of the Building shall be done at such time and in such manner as Landlord shall designate. No furniture, equipment or merchandise shall be received in the Building or carried up or down in the elevator, except between such hours as shall be designated by Landlord. Deliveries during normal office hours shall be limited to normal office supplies and other small items. No deliveries shall be made which impede or interfere with other tenants or the operation of the Building.

9. Tenant shall not place a load upon any floor of the Premises which exceeds the load per square foot which such floor was designed to carry and which is allowed by law. Landlord shall have the right to prescribe the weight, size and position of all equipment, materials, furniture or other property brought into the Building. Heavy objects, if such objects are considered necessary by Tenant, as determined by Landlord, shall stand on such platforms as determined by Landlord to be necessary to properly distribute the weight. Business machines and mechanical equipment which cause noise or vibration that may be transmitted to the structure of the Building or to any space therein to such a degree as to be objectionable to Landlord or to any tenants in the Building, shall be placed and maintained by Tenant, at Tenant's expense, on vibration eliminators or other devices sufficient to eliminate noise or vibration. Landlord will not be responsible for loss of, or damage to, any such equipment or other property from any cause, and all damage done to the Building by maintaining or moving such equipment or other property shall be repaired at the expense of Tenant.

10. Tenant shall not use or keep in the Premises any kerosene, gasoline or inflammable or combustible fluid or material other than those limited quantities necessary for the operation or maintenance of office equipment. Tenant shall not use or permit to be used in the Premises any foul or noxious gas or substance, or permit or allow the Premises to be occupied or used in a manner offensive or objectionable to Landlord or other occupants of the Project by reason of noise, odors or vibrations, nor shall Tenant bring into or keep in or about the Premises any birds or animals.

11. Tenant shall not use any method of heating or air-conditioning other than that supplied by Landlord, or as is contemplated within Exhibit C herein.

12. Tenant shall not waste electricity, water or air-conditioning and agrees to cooperate fully with Landlord to assure the most effective operation of the Building's heating and air-conditioning and to comply with any governmental energy-saving rules, laws or regulations of which Tenant has actual notice, and shall not adjust controls other than room thermostats installed for Tenant's use. Tenant shall keep corridor doors closed and shall close window coverings at the end of each business day.

13. Landlord reserves the right from time to time, in Landlord's sole and absolute discretion, exercisable without prior notice and without liability to Tenant, to: (a) name or change the name of the Building, Site or Project; (b) change the address of the Building or Project, and/or (c) install, replace or change any signs in, on or about the Common Areas, the Building or Site (except for Tenant's signs, if any, which are expressly permitted by the Lease).

14. Landlord reserves the right to exclude from the Building between the hours of 6:00 p.m. and 7:00 a.m., or such other hours as may be established from time to time by Landlord, and on legal holidays, any person unless that person is known to the person or employee in charge of the Building and has a pass or is properly identified. Landlord shall not be liable for damages for any error with regard to the admission to or exclusion from the Building of any person. Tenant shall be responsible for all persons for whom it requests passes and shall be liable to Landlord for all acts of such persons.

Landlord reserves the right to prevent access to the Building in case of invasion, mob, riot, public excitement or other commotion by closing the doors or by other appropriate action.

15. Tenant shall close and lock all doors of its Premises and entirely shut off all water faucets or other water apparatus, and, except with regard to Tenant's computers and other equipment which reasonably require electricity on a 24-hour basis, all electricity, gas or air outlets before Tenant and its employees leave the Premises. Tenant shall be responsible for any damage or injuries sustained by other tenants or occupants of the Building or by Landlord for noncompliance with this rule.

16. The toilet rooms, toilets, urinals, wash bowls and other apparatus shall not be used for any purpose other than that for which they were constructed, and no foreign substances of any kind whatsoever shall be thrown therein.

17. Tenant shall not sell, or permit the sale at retail, of newspapers, magazines, periodicals, theater tickets, or any other goods or merchandise to the general public in or on the Premises. Tenant shall not make any room-to-room solicitation of business from other tenants in the Project. Tenant shall not use the Premises for any business or activity other than that specifically provided for in the Lease.

18. Tenant shall not install any radio or television antenna, loudspeaker or other device on the roof or exterior walls of the Building. Tenant shall not interfere with radio or television broadcasting or reception from or in the Building or elsewhere.

19. Except for normal and customary office decorations, and except as otherwise expressly permitted in the Lease, Tenant shall not mark, drive nails, screw or drill into the partitions, window mullions, woodwork or plaster, or in any way deface the Premises or any part thereof, except to install normal wall hangings. Tenant shall repair any damage resulting from noncompliance under this rule.

20. Tenant shall not install, maintain or operate upon the Premises any vending machines without the prior written consent of Landlord, which shall not be unreasonably withheld.

21. Canvassing, soliciting and distribution of handbills or any other written material, and peddling in and around the Project or the Building are expressly prohibited, and each tenant shall cooperate to prevent same.

22. Landlord reserves the right to exclude or expel from the Project and/or the Building any person who, in Landlord's judgment, is intoxicated or under the influence of liquor or drugs or who is in violation of any of the Rules and Regulations of the Project or Building.

23. Tenant shall store all its trash and garbage within its Premises. Tenant shall not place in any trash box or receptacle any material which cannot be disposed of in the ordinary and customary manner of trash and garbage disposal. All garbage and refuse disposal shall be made in accordance with directions reasonably issued from time to time by Landlord.

24. The Premises shall not be used for the storage of merchandise held for sale to the general public, or for lodging or for manufacturing of any kind. No cooking shall be done or permitted by Tenant on the Premises, except that use by Tenant of Underwriters' Laboratory-approved equipment for brewing coffee, tea, hot chocolate and similar beverages shall be permitted and the use of a microwave shall be permitted, provided that such equipment and use is in accordance with all applicable federal, state, county and city laws, codes, ordinances, rules and regulations.

25. Tenant shall not use in any space, or in the public halls of the Building, any hand trucks except those equipped with rubber tires and side guards, or such other material-handling equipment as Landlord may approve. Tenant shall not bring any other vehicles of any kind into the Building.

26. Tenant shall not use the name of the Project or Building in connection with, or in promoting or advertising, the business of Tenant, except for Tenant's address.

27. Tenant agrees that it shall comply with all fire and security regulations that may be issued from time to time by Landlord, and Tenant also shall provide Landlord with the name of a designated responsible employee to represent Tenant in all matters pertaining to such fire or security regulations. Tenant shall cooperate fully with Landlord in all matters concerning fire and other emergency procedures.

28. Tenant assumes any and all responsibility for protecting its Premises from theft, robbery and pilferage. Such responsibility shall include keeping doors locked and other means of entry to the Premises closed.

29. Landlord may waive any one or more of these Rules and Regulations for the benefit of Tenant or any other tenant, but no such waiver by Landlord shall be construed as a waiver of such Rules and Regulations in favor of Tenant or any other such tenant, nor prevent Landlord from thereafter enforcing any such Rules and Regulations against any and all of the tenants in the Building.

30. These Rules and Regulations are in addition to, and shall not be construed to in any way modify or amend, in whole or in part, the terms, covenants, agreements and conditions of any lease of premises in the Project or Building.

31. Landlord reserves the right to make such other and reasonable Rules and Regulations as, in its judgment, may from time to time be needed for safety, security, care and cleanliness of the Project and/or Building and for the preservation of good order therein. Tenant agrees to abide by all such Rules and Regulations hereinabove stated and any additional rules and regulations which are adopted.

32. Tenant shall be responsible for the observance of all of the foregoing rules by Tenant's employees, agents, clients, customers, invitees or guests.

33. Tenant shall not lay linoleum, tile, carpet or other similar floor covering so that the same shall be affixed to the floor of the Premises in any manner except by a paste, or other material which may easily be removed with water, the use of cement or other similar adhesive materials being expressly prohibited. The method of affixing any such linoleum, tile, carpet or other similar floor covering shall be subject to the approval of Landlord. The expense of repairing any damage resulting from a violation of this rule shall be borne by Tenant.

34. Tenant shall not without Landlord's consent, which may be given or withheld in Landlord's sole and absolute discretion, receive, store, discharge, or transport firearms, ammunition, or weapons or explosives of any kind or nature at, on or from the Premises, the Building or the Project.

#### *PARKING RULES AND REGULATIONS*

In addition to the parking provisions contained in the Lease to which this *Exhibit "E"* is attached, the following rules and regulations shall apply with respect to the use of the Building's parking facilities.

1. Every parker is required to park and lock his/her own vehicle. All responsibility for damage to or loss of vehicles is assumed by the parker and Landlord shall not be responsible for any such damage or loss by water, fire, defective brakes, the act or omissions of others, theft, or for any other cause.

2. Tenant shall not park or permit its employees to park in any parking areas designated by Landlord as areas for parking by visitors to the Project. Except for two (2) company vehicles, the license plate numbers for which are provided to Landlord (the "**Company Vehicles**"), Tenant shall not leave vehicles in the parking areas overnight nor park any vehicles in the parking areas other than automobiles, motorcycles, motor driven or non-motor driven bicycles or four wheeled trucks.

3. Parking stickers or any other device or form of identification supplied by Landlord as a condition of use of the parking facilities shall remain the property of Landlord. Such parking



identification device must be displayed as requested and may not be mutilated in any manner. The serial number of the parking identification device may not be obliterated. Devices are not transferable and any device in the possession of an unauthorized holder will be void.

4. Except for the Company Vehicles, no overnight or extended term storage of vehicles shall be permitted.
5. Vehicles must be parked entirely within painted stall lines of a single parking stall.
6. All directional signs and arrows must be observed.
7. The speed limit within all parking areas shall be five (5) miles per hour.
8. Parking is prohibited: (a) in areas not striped for parking; (b) in aisles; (c) where "no parking" signs are posted; (d) on ramps; (e) in cross-hatched areas; and (f) in reserved spaces and in such other areas as may be designated by Landlord or Landlord's parking operator.
9. Loss or theft of parking identification devices must be reported to the Management Office immediately, and a lost or stolen report must be filed by the Tenant or user of such parking identification device at the time. Landlord has the right to exclude any vehicle from the parking facilities that does not have an identification device.
10. Any parking identification devices reported lost or stolen found on any unauthorized car will be confiscated and the illegal holder will be subject to prosecution.
11. Washing, waxing, cleaning or servicing of any vehicle in any area not specifically reserved for such purpose is prohibited.
12. The parking operators, managers or attendants are not authorized to make or allow any exceptions to these rules and regulations.
13. Tenant agrees to sign a parking agreement with Landlord or Landlord's parking operator within five (5) days of request, which agreement shall be consistent with the Lease and these rules and regulations.
14. Landlord reserves the right to refuse the sale or use of monthly stickers or other parking identification devices to any tenant or person who willfully refuse to comply with these rules and regulations and all city, state or federal ordinances, laws or agreements.
15. Landlord reserves the right to establish and to modify and/or adopt such other reasonable and non-discriminatory rules and regulations for the parking facilities as it deems necessary for the operation of the parking facilities. Landlord may refuse to permit any person who violates these rules to park in the parking facilities, and any violation of the rules shall subject the vehicle to removal, at such vehicle owner's expense.

**[END OF EXHIBIT]**

Exhibit E-5

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**EXHIBIT "F"**  
**SAMPLE FORM OF TENANT ESTOPPEL CERTIFICATE**

The undersigned ("**Tenant**") hereby certifies to SPECTRUM WAPLES STREET, LLC, a California limited liability company, and SPECTRUM LAMBERT PLAZA, LLC, a California limited liability company, as tenants-in-common (collectively, "**Landlord**"), and \_\_\_\_\_, as follows:

16. Attached hereto is a true, correct and complete copy of that certain Office Lease dated \_\_\_\_\_, between Landlord and Tenant (the "**Lease**"), which demises Premises which are located at \_\_\_\_\_. The Lease is now in full force and effect and has not been amended, modified or supplemented, except as set forth in Section 6 below.
17. The term of the Lease commenced on \_\_\_\_\_, .
18. The term of the Lease is currently scheduled to expire on \_\_\_\_\_, .
19. Tenant has no option to renew or extend the Term of the Lease except: \_\_\_\_\_.
20. Tenant has no preferential right to purchase the Premises or any portion of the Building or Site upon which the Premises are located, and Tenant has no rights or options to expand into other space in the Building except: \_\_\_\_\_.
21. The Lease has: (Initial One)
- not been amended, modified, supplemented, extended, renewed or assigned.
- been amended, modified, supplemented, extended, renewed or assigned by the following described agreements, copies of which are attached hereto: \_\_\_\_\_.
22. Tenant has accepted and is now in possession of the Premises and has not sublet, assigned or encumbered the Lease, the Premises or any portion thereof except as follows: \_\_\_\_\_.
23. The current Monthly Basic Rent is \$ \_\_\_\_\_; and current monthly parking charges are \$ \_\_\_\_\_.
24. Tenant's Percentage is \_\_\_\_\_%, and Tenant's Percentage of Operating Expenses, Real Property Taxes and Assessments, Insurance Costs, and Utilities Costs currently payable by Tenant is \$ \_\_\_\_\_ per month, which amount is Landlord's current estimate of Tenant's Percentage of Operating Expenses, Real Property Taxes and Assessments, Insurance Costs, and Utilities Costs in excess of:
- (Complete One) \$ \_\_\_\_\_ per year (expense stop), or
- the Operating Expenses, Real Property Taxes and Assessments, Insurance Costs, and Utilities Costs incurred in calendar year \_\_\_\_\_.
25. The amount of security deposit (if any) is \$ \_\_\_\_\_. No other security deposits have been made.
26. All rental payments payable by Tenant have been paid in full as of the date hereof. No rent under the Lease has been paid for more than thirty (30) days in advance of its due date.
27. All work required to be performed by Landlord under the Lease has been completed and has been accepted by Tenant, and all tenant improvement allowances have been paid in full.
28. To the best of Tenant's knowledge, as of the date hereof, there are no defaults on the part of Landlord or Tenant under the Lease.

29. Tenant has no defense as to its obligations under the Lease and claims no set-off or counterclaim against Landlord.

30. Tenant has no right to any concession (rental or otherwise) or similar compensation in connection with renting the space it occupies, except as expressly provided in the Lease.

31. All insurance required of Tenant under the Lease has been provided by Tenant and all premiums have been paid.

32. There has not been filed by or against Tenant a petition in bankruptcy, voluntary or otherwise, any assignment of creditors, any petition seeking reorganization or arrangement under the bankruptcy laws of the United States or any state thereof, or any other action brought pursuant to such bankruptcy laws with respect to Tenant.

33. Tenant pays rent due Landlord under the Lease to Landlord and does not have any knowledge of any other person who has any right to such rents by collateral assignment or otherwise.

The foregoing certification is made with the knowledge that is about to [fund a loan to Landlord or purchase the Building from Landlord], and that is relying upon the representations herein made in [funding such loan or purchasing the Building].

Dated: \_\_\_\_\_, \_\_\_\_\_.

"TENANT",

\_\_\_\_\_

a

By: \_\_\_\_\_

Print Name: \_\_\_\_\_

Its: \_\_\_\_\_

Exhibit F-2

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***EXHIBIT "G"***  
**LOCATION OF TENANT'S COVERED RESERVED PARKING SPACES**

Exhibit G-1

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## QuickLinks

OFFICE LEASE LANDLORD: SPECTRUM WAPLES STREET, LLC, a California limited liability company and SPECTRUM LAMBERT PLAZA, LLC, a California limited liability company, as tenants-in-common TENANT: THE WILLDAN GROUP OF COMPANIES, a California corporation

## INDEMNIFICATION AGREEMENT

This Indemnification Agreement, dated as of August , 2006, is made by and between Willdan Group, Inc., a Delaware corporation (the "Corporation") and [ ] (the "Indemnitee").

### RECITALS

A. The Corporation recognizes that competent and experienced persons are increasingly reluctant to serve or to continue to serve as directors or officers of corporations unless they are protected by comprehensive liability insurance or indemnification, or both, due to increased exposure to litigation costs and risks resulting from their service to such corporations, and due to the fact that the exposure frequently bears no reasonable relationship to the compensation of such directors and officers;

B. The statutes and judicial decisions regarding the duties of directors and officers are often difficult to apply, ambiguous, or conflicting, and therefore fail to provide such directors and officers with adequate, reliable knowledge of legal risks to which they are exposed or information regarding the proper course of action to take;

C. The Corporation and Indemnitee recognize that plaintiffs often seek damages in such large amounts and the costs of litigation may be so enormous (whether or not the case is meritorious), that the defense and/or settlement of such litigation is often beyond the personal resources of directors and officers;

D. The Corporation believes that it is unfair for its directors and officers to assume the risk of huge judgments and other expenses, which may occur in cases in which the director or officer received no personal profit and in cases where the director or officer was not culpable;

E. The Corporation, after reasonable investigation, has determined that the liability insurance coverage presently available to the Corporation may be inadequate in certain circumstances to cover all possible exposure for which Indemnitee should be protected. The Corporation believes that the interests of the Corporation and its stockholders would best be served by a combination of such insurance and the indemnification by the Corporation of the directors and officers of the Corporation;

F. The Corporation's Certificate of Incorporation and ByLaws, as amended to date, require the Corporation to indemnify its directors and officers to the fullest extent permitted by the Delaware General Corporation Law (the "DGCL"). The ByLaws expressly provide that the indemnification provisions set forth therein are not exclusive, and contemplate that contracts may be entered into between the Corporation and its directors and officers with respect to indemnification;

G. Section 145 of the DGCL ("Section 145"), under which the Corporation is organized, empowers the Corporation to indemnify its officers, directors, employees and agents by agreement and to indemnify persons who serve, at the request of the Corporation, as the directors, officers, employees or agents of other corporations or enterprises, and expressly provides that the indemnification provided by Section 145 is not exclusive;

H. Section 102(b)(7) of the DGCL allows a corporation to include in its certificate of incorporation a provision limiting or eliminating the personal liability of a director for monetary damages in respect of claims by stockholders and corporations for breach of certain fiduciary duties, and the Corporation has so provided in its Certificate of Incorporation that each Director shall be exculpated from such liability to the maximum extent permitted by law;

I. The Board of Directors has determined that contractual indemnification as set forth herein is not only reasonable and prudent but also promotes the best interests of the Corporation and its stockholders;

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J. The Corporation desires and has requested Indemnitee to serve or continue to serve as a director or officer of the Corporation free from undue concern for unwarranted claims for damages arising out of or related to such services to the Corporation; and

K. Indemnitee is willing to serve, continue to serve or to provide additional service for or on behalf of the Corporation on the condition that he is furnished the indemnity provided for herein.

#### AGREEMENT

NOW, THEREFORE, in consideration of the mutual covenants and agreements set forth below, and other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties hereto, intending to be legally bound, hereby agree as follows:

##### Section 1. *Generally.*

To the fullest extent permitted by the laws of the State of Delaware:

(a) The Corporation shall indemnify Indemnitee if Indemnitee 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, by reason of the fact that Indemnitee is or was or has agreed to serve at the request of the Corporation as a director, officer, employee or agent of the Corporation, or while serving as a director or officer of the Corporation, is or was serving or has agreed to serve at the request of the Corporation as a director, officer, employee or agent (which, for purposes hereof, shall include a trustee, partner or manager or similar capacity) of another corporation, partnership, joint venture, trust, employee benefit plan or other enterprise, or by reason of any action alleged to have been taken or omitted in such capacity. For the avoidance of doubt, the foregoing indemnification obligation includes, without limitation, claims for monetary damages against Indemnitee in respect of an alleged breach of fiduciary duties, to the fullest extent permitted under Section 102(b)(7) of the DGCL as in existence on the date hereof.

(b) The indemnification provided by this Section 1 shall be from and against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by Indemnitee or on Indemnitee's behalf in connection with such action, suit or proceeding and any appeal therefrom, but shall only be provided if Indemnitee acted in good faith and in a manner Indemnitee reasonably believed to be in or not opposed to the best interests of the Corporation, and, with respect to any criminal action, suit or proceeding, had no reasonable cause to believe Indemnitee's conduct was unlawful.

(c) Notwithstanding the foregoing provisions of this Section 1, in the case of any threatened, pending or completed action or suit by or in the right of the Corporation to procure a judgment in its favor by reason of the fact that Indemnitee is or was a director, officer, employee or agent of the Corporation, or while serving as a director or officer of the Corporation, is or was serving or has agreed to serve at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust, employee benefit plan or other enterprise, no indemnification shall be made in respect of any claim, issue or matter as to which Indemnitee shall have been adjudged to be liable to the Corporation unless, and only to the extent that, the Delaware Court of Chancery or the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, Indemnitee is fairly and reasonably entitled to indemnity for such expenses which the Delaware Court of Chancery or such other court shall deem proper.

(d) The termination of any action, suit or proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent, shall not, of itself, create a presumption that Indemnitee did not act in good faith and in a manner which Indemnitee 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 reasonable cause to believe that Indemnitee's conduct was unlawful.

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Section 2. *Successful Defense; Partial Indemnification.* To the extent that Indemnitee has been successful on the merits or otherwise in defense of any action, suit or proceeding referred to in Section 1 hereof or in defense of any claim, issue or matter therein, Indemnitee shall be indemnified against expenses (including attorneys' fees) actually and reasonably incurred in connection therewith. For purposes of this Agreement and without limiting the foregoing, if any action, suit or proceeding is disposed of, on the merits or otherwise (including a disposition without prejudice), without (i) the disposition being adverse to Indemnitee, (ii) an adjudication that Indemnitee was liable to the Corporation, (iii) a plea of guilty or nolo contendere by Indemnitee, (iv) an adjudication that Indemnitee did not act in good faith and in a manner Indemnitee reasonably believed to be in or not opposed to the best interests of the Corporation, and (v) with respect to any criminal proceeding, an adjudication that Indemnitee had reasonable cause to believe Indemnitee's conduct was unlawful, Indemnitee shall be considered for the purposes hereof to have been wholly successful with respect thereto.

If Indemnitee is entitled under any provision of this Agreement to indemnification by the Corporation for some or a portion of the expenses (including attorneys' fees), judgments, fines or amounts paid in settlement actually and reasonably incurred by Indemnitee or on Indemnitee's behalf in connection with any action, suit, proceeding or investigation, or in defense of any claim, issue or matter therein, and any appeal therefrom but not, however, for the total amount thereof, the Corporation shall nevertheless indemnify Indemnitee for the portion of such expenses (including attorneys' fees), judgments, fines or amounts paid in settlement to which Indemnitee is entitled.

Section 3. *Determination That Indemnification Is Proper.* Any indemnification hereunder shall (unless otherwise ordered by a court) be made by the Corporation unless a determination is made that indemnification of such person is not proper in the circumstances because he or she has not met the applicable standard of conduct set forth in Section 1(b) hereof. Any such determination shall be made (i) by a majority vote of the directors who are not parties to the action, suit or proceeding in question ("disinterested directors"), even if less than a quorum, (ii) by a majority vote of a committee of disinterested directors designated by majority vote of disinterested directors, even if less than a quorum, (iii) by a majority vote of a quorum of the outstanding shares of stock of all classes entitled to vote on the matter, voting as a single class, which quorum shall consist of stockholders who are not at that time parties to the action, suit or proceeding in question, (iv) by independent legal counsel, or (v) by a court of competent jurisdiction.

Section 4. *Advance Payment of Expenses; Notification and Defense of Claim.*

(a) Expenses (including attorneys' fees) incurred by Indemnitee in defending a threatened or pending civil, criminal, administrative or investigative action, suit or proceeding, or in connection with an enforcement action pursuant to Section 5(b), shall be paid by the Corporation in advance of the final disposition of such action, suit or proceeding within thirty (30) days after receipt by the Corporation of (i) a statement or statements from Indemnitee requesting such advance or advances from time to time, and (ii) an undertaking by or on behalf of Indemnitee to repay such amount or amounts, only if, and to the extent that, it shall ultimately be determined that Indemnitee is not entitled to be indemnified by the Corporation as authorized by this Agreement or otherwise. Such undertaking shall be accepted without reference to the financial ability of Indemnitee to make such repayment. Advances shall be unsecured and interest-free.

(b) Promptly after receipt by Indemnitee of notice of the commencement of any action, suit or proceeding, Indemnitee shall, if a claim thereof is to be made against the Corporation hereunder, notify the Corporation of the commencement thereof. The failure to promptly notify the Corporation of the commencement of the action, suit or proceeding, or Indemnitee's request for indemnification, will not relieve the Corporation from any liability that it may have to Indemnitee hereunder, except to the extent the Corporation is prejudiced in its defense of such action, suit or proceeding as a result of such failure.

(c) In the event the Corporation shall be obligated to pay the expenses of Indemnitee with respect to an action, suit or proceeding, as provided in this Agreement, the Corporation, if

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appropriate, shall be entitled to assume the defense of such action, suit or proceeding, with counsel reasonably acceptable to Indemnitee, upon the delivery to Indemnitee of written notice of its election to do so. After delivery of such notice, approval of such counsel by Indemnitee and the retention of such counsel by the Corporation, the Corporation will not be liable to Indemnitee under this Agreement for any fees of counsel subsequently incurred by Indemnitee with respect to the same action, suit or proceeding, provided that (1) Indemnitee shall have the right to employ Indemnitee's own counsel in such action, suit or proceeding at Indemnitee's expense and (2) if (i) the employment of counsel by Indemnitee has been previously authorized in writing by the Corporation, (ii) counsel to the Corporation or Indemnitee shall have reasonably concluded that there may be a conflict of interest or position, or reasonably believes that a conflict is likely to arise, on any significant issue between the Corporation and Indemnitee in the conduct of any such defense or (iii) the Corporation shall not, in fact, have employed counsel to assume the defense of such action, suit or proceeding, then the fees and expenses of Indemnitee's counsel shall be at the expense of the Corporation, except as otherwise expressly provided by this Agreement. The Corporation shall not be entitled, without the consent of Indemnitee, to assume the defense of any claim brought by or in the right of the Corporation or as to which counsel for the Corporation or Indemnitee shall have reasonably made the conclusion provided for in clause (ii) above.

(d) Notwithstanding any other provision of this Agreement to the contrary, to the extent that Indemnitee is, by reason of Indemnitee's corporate status with respect to the Corporation or any corporation, partnership, joint venture, trust, employee benefit plan or other enterprise which Indemnitee is or was serving or has agreed to serve at the request of the Corporation, a witness or otherwise participates in any action, suit or proceeding at a time when Indemnitee is not a party in the action, suit or proceeding, the Corporation shall indemnify Indemnitee against all expenses (including attorneys' fees) actually and reasonably incurred by Indemnitee or on Indemnitee's behalf in connection therewith.

#### Section 5. *Procedure for Indemnification*

(a) To obtain indemnification, Indemnitee shall promptly submit to the Corporation a written request, including therein or therewith such documentation and information as is reasonably available to Indemnitee and is reasonably necessary to determine whether and to what extent Indemnitee is entitled to indemnification. The Corporation shall, promptly upon receipt of such a request for indemnification, advise the Board of Directors in writing that Indemnitee has requested indemnification.

(b) The Corporation's determination whether to grant Indemnitee's indemnification request shall be made promptly and in any event within 60 days following receipt of a request for indemnification pursuant to Section 5(a). The right to indemnification as granted by Section 1 of this Agreement shall be enforceable by Indemnitee in any court of competent jurisdiction if the Corporation denies such request, in whole or in part, or fails to respond within such 60-day period. It shall be a defense to any such action (other than an action brought to enforce a claim for the advance of costs, charges and expenses under Section 4 hereof where the required undertaking, if any, has been received by the Corporation) that Indemnitee has not met the standard of conduct set forth in Section 1 hereof, but the burden of proving such defense by clear and convincing evidence shall be on the Corporation. Neither the failure of the Corporation (including its Board of Directors or one of its committees, its independent legal counsel, and its stockholders) to have made a determination prior to the commencement of such action that indemnification of Indemnitee is proper in the circumstances because Indemnitee has met the applicable standard of conduct set forth in Section 1 hereof, nor the fact that there has been an actual determination by the Corporation (including its Board of Directors or one of its committees, its independent legal counsel, and its stockholders) that Indemnitee has not met such applicable standard of conduct, shall be a defense to the action or create a presumption that Indemnitee has or has not met the applicable standard of conduct. The Indemnitee's expenses (including attorneys' fees) incurred in connection with successfully establishing Indemnitee's right to indemnification, in whole or in part, in any such proceeding or otherwise shall also be indemnified by the Corporation.

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(c) The Indemnitee shall be presumed to be entitled to indemnification under this Agreement upon submission of a request for indemnification pursuant to this Section 5, and the Corporation shall have the burden of proof in overcoming that presumption in reaching a determination contrary to that presumption. Such presumption shall be used as a basis for a determination of entitlement to indemnification unless the Corporation overcomes such presumption by clear and convincing evidence.

Section 6. *Insurance and Subrogation.*

(a) The Corporation may purchase and maintain insurance on behalf of Indemnitee who is or was or has agreed to serve at the request of the Corporation as a director or officer 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, employee benefit plan or other enterprise against any liability asserted against, and incurred by, Indemnitee or on Indemnitee's behalf in any such capacity, or arising out of Indemnitee's status as such, whether or not the Corporation would have the power to indemnify Indemnitee against such liability under the provisions of this Agreement. If the Corporation has such insurance in effect at the time the Corporation receives from Indemnitee any notice of the commencement of a proceeding, the Corporation shall give prompt notice of the commencement of such proceeding to the insurers in accordance with the procedures set forth in the policy. The Corporation shall thereafter take all necessary or desirable action to cause such insurers to pay, on behalf of the Indemnitee, all amounts payable as a result of such proceeding in accordance with the terms of such policy.

(b) In the event of any payment by the Corporation under this Agreement, the Corporation shall be subrogated to the extent of such payment to all of the rights of recovery of Indemnitee with respect to any insurance policy, who shall execute all papers required and take all action necessary to secure such rights, including execution of such documents as are necessary to enable the Corporation to bring suit to enforce such rights in accordance with the terms of such insurance policy. The Corporation shall pay or reimburse all expenses actually and reasonably incurred by Indemnitee in connection with such subrogation.

(c) The Corporation shall not be liable under this Agreement to make any payment of amounts otherwise indemnifiable hereunder (including, but not limited to, judgments, fines, ERISA excise taxes or penalties, and amounts paid in settlement) if and to the extent that Indemnitee has otherwise actually received such payment under this Agreement or any insurance policy, contract, agreement or otherwise.

Section 7. *Certain Definitions.* For purposes of this Agreement, the following definitions shall apply:

(a) The term "action, suit or proceeding" shall be broadly construed and shall include, without limitation, the investigation, preparation, prosecution, defense, settlement, arbitration and appeal of, and the giving of testimony in, any threatened, pending or completed claim, action, suit or proceeding, whether civil, criminal, administrative or investigative.

(b) The term "by reason of the fact that Indemnitee is or was a director, officer, employee or agent of the Corporation, or while serving as a director or officer of the Corporation, is or was serving or has agreed to serve at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust, employee benefit plan or other enterprise" shall be broadly construed and shall include, without limitation, any actual or alleged act or omission to act.

(c) The term "expenses" shall be broadly and reasonably construed and shall include, without limitation, all direct and indirect costs of any type or nature whatsoever (including, without limitation, all attorneys' fees and related disbursements, appeal bonds, other out-of-pocket costs and reasonable compensation for time spent by Indemnitee for which Indemnitee is not otherwise compensated by the Corporation or any third party, provided that the rate of compensation and estimated time involved is approved by the Board, which approval shall not be unreasonably

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withheld), actually and reasonably incurred by Indemnitee in connection with either the investigation, defense or appeal of a proceeding or establishing or enforcing a right to indemnification under this Agreement, Section 145 of the General Corporation Law of the State of Delaware or otherwise.

(d) The term "judgments, fines and amounts paid in settlement" shall be broadly construed and shall include, without limitation, all direct and indirect payments of any type or nature whatsoever (including, without limitation, all penalties and amounts required to be forfeited or reimbursed to the Corporation), as well as any penalties or excise taxes assessed on a person with respect to an employee benefit plan).

(e) The term "Corporation" shall include, without limitation and in addition to the resulting corporation, any constituent corporation (including any constituent of a constituent) absorbed in a consolidation or merger which, if its separate existence had continued, would have had power and authority to indemnify its directors, officers, and employees or agents, so that any person who is or was a director, officer, employee or agent of such constituent corporation, or is or was serving at the request of such constituent corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust, employee benefit plan or other enterprise, shall stand in the same position under the provisions of this Agreement with respect to the resulting or surviving corporation as he or she would have with respect to such constituent corporation if its separate existence had continued.

(f) The term "other enterprises" shall include, without limitation, employee benefit plans.

(g) The term "serving at the request of the Corporation" shall include, without limitation, any service as a director, officer, employee or agent of the Corporation which imposes duties on, or involves services by, such director, officer, employee or agent with respect to an employee benefit plan, its participants or beneficiaries.

(h) A person who acted in good faith and in a manner such person reasonably believed to be in the interest of the participants and beneficiaries of an employee benefit plan shall be deemed to have acted in a manner "not opposed to the best interests of the Corporation" as referred to in this Agreement.

Section 8. *Limitation on Indemnification.* Notwithstanding any other provision herein to the contrary, the Corporation shall not be obligated pursuant to this Agreement:

(a) *Claims Initiated by Indemnitee.* To indemnify or advance expenses to Indemnitee with respect to an action, suit or proceeding (or part thereof) initiated by Indemnitee, except with respect to an action, suit or proceeding brought to establish or enforce a right to indemnification (which shall be governed by the provisions of Section 8(b) of this Agreement), unless such action, suit or proceeding (or part thereof) was authorized or consented to by the Board of Directors of the Corporation.

(b) *Action for Indemnification.* To indemnify Indemnitee for any expenses incurred by Indemnitee with respect to any action, suit or proceeding instituted by Indemnitee to enforce or interpret this Agreement, unless Indemnitee is successful in establishing Indemnitee's right to indemnification in such action, suit or proceeding, in whole or in part, or unless and to the extent that the court in such action, suit or proceeding shall determine that, despite Indemnitee's failure to establish their right to indemnification, Indemnitee is entitled to indemnity for such expenses; provided, however, that nothing in this Section 8(b) is intended to limit the Corporation's obligation with respect to the advancement of expenses to Indemnitee in connection with any such action, suit or proceeding instituted by Indemnitee to enforce or interpret this Agreement, as provided in Section 4 hereof.

(c) *Section 16 Violations.* To indemnify Indemnitee on account of any proceeding with respect to which final judgment is rendered against Indemnitee for payment or an accounting of

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profits arising from the purchase or sale by Indemnitee of securities in violation of Section 16(b) of the Securities Exchange Act of 1934, as amended, or any similar successor statute.

(d) *Non-compete and Non-disclosure.* To indemnify Indemnitee in connection with proceedings or claims involving the enforcement of non-compete and/or non-disclosure agreements or the non-compete and/or non-disclosure provisions of employment, consulting or similar agreements the Indemnitee may be a party to with the Corporation, or any subsidiary of the Corporation or any other applicable foreign or domestic corporation, partnership, joint venture, trust or other enterprise, if any.

Section 9. *Certain Settlement Provisions.* The Corporation shall have no obligation to indemnify Indemnitee under this Agreement for amounts paid in settlement of any action, suit or proceeding without the Corporation's prior written consent, which shall not be unreasonably withheld. The Corporation shall not settle any action, suit or proceeding in any manner that would impose any fine or other obligation on Indemnitee without Indemnitee's prior written consent, which shall not be unreasonably withheld.

Section 10. *Savings Clause.* If any provision or provisions of this Agreement shall be invalidated on any ground by any court of competent jurisdiction, then the Corporation shall nevertheless indemnify Indemnitee as to costs, charges and expenses (including attorneys' fees), judgments, fines and amounts paid in settlement with respect to any action, suit or proceeding, whether civil, criminal, administrative or investigative, including an action by or in the right of the Corporation, to the full extent permitted by any applicable portion of this Agreement that shall not have been invalidated and to the full extent permitted by applicable law.

Section 11. *Contribution.* In order to provide for just and equitable contribution in circumstances in which the indemnification provided for herein is held by a court of competent jurisdiction to be unavailable to Indemnitee in whole or in part, it is agreed that, in such event, the Corporation shall, to the fullest extent permitted by law, contribute to the payment of Indemnitee's costs, charges and expenses (including attorneys' fees), judgments, fines and amounts paid in settlement with respect to any action, suit or proceeding, whether civil, criminal, administrative or investigative, in an amount that is just and equitable in the circumstances, taking into account, among other things, contributions by other directors and officers of the Corporation or others pursuant to indemnification agreements or otherwise; provided, that, without limiting the generality of the foregoing, such contribution shall not be required where such holding by the court is due to (i) the failure of Indemnitee to meet the standard of conduct set forth in Section 1 hereof, or (ii) any limitation on indemnification set forth in Section 6(c), 8 or 9 hereof.

Section 12. *Form and Delivery of Communications.* Any notice, request or other communication required or permitted to be given to the parties under this Agreement shall be in writing and either delivered in person or sent by telecopy, telex, telegram, overnight mail or courier service, or certified or registered mail, return receipt requested, postage prepaid, to the parties at the following addresses (or at such other addresses for a party as shall be specified by like notice):

If to the Corporation:  
Willdan Group, Inc.  
2401 East Katella Avenue  
Suite 300  
Anaheim, California 92806  
Attn:  
Facsimile:

If to Indemnitee:

Section 13. *Subsequent Legislation.* If the General Corporation Law of Delaware is amended after adoption of this Agreement to expand further the indemnification permitted to directors or officers, then the Corporation shall indemnify Indemnitee to the fullest extent permitted by the General Corporation Law of Delaware, as so amended.

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Section 14. *Nonexclusivity.* The provisions for indemnification and advancement of expenses set forth in this Agreement shall not be deemed exclusive of any other rights which Indemnitee may have under any provision of law, the Corporation's Certificate of Incorporation or ByLaws, in any court in which a proceeding is brought, the vote of the Corporation's stockholders or disinterested directors, other agreements or otherwise, and Indemnitee's rights hereunder shall continue after Indemnitee has ceased acting as an agent of the Corporation and shall inure to the benefit of the heirs, executors and administrators of Indemnitee. However, no amendment or alteration of the Corporation's Certificate of Incorporation or ByLaws or any other agreement shall adversely affect the rights provided to Indemnitee under this Agreement

Section 15. *Enforcement.* The Corporation shall be precluded from asserting in any judicial proceeding that the procedures and presumptions of this Agreement are not valid, binding and enforceable. The Corporation agrees that its execution of this Agreement shall constitute a stipulation by which it shall be irrevocably bound in any court of competent jurisdiction in which a proceeding by Indemnitee for enforcement of his rights hereunder shall have been commenced, continued or appealed, that its obligations set forth in this Agreement are unique and special, and that failure of the Corporation to comply with the provisions of this Agreement will cause irreparable and irremediable injury to Indemnitee, for which a remedy at law will be inadequate. As a result, in addition to any other right or remedy Indemnitee may have at law or in equity with respect to breach of this Agreement, Indemnitee shall be entitled to injunctive or mandatory relief directing specific performance by the Corporation of its obligations under this Agreement.

Section 16. *Interpretation of Agreement.* It is understood that the parties hereto intend this Agreement to be interpreted and enforced so as to provide indemnification to Indemnitee to the fullest extent now or hereafter permitted by law.

Section 17. *Entire Agreement.* This Agreement and the documents expressly referred to herein constitute the entire agreement between the parties hereto with respect to the matters covered hereby, and any other prior or contemporaneous oral or written understandings or agreements with respect to the matters covered hereby are expressly superceded by this Agreement.

Section 18. *Modification and Waiver.* No supplement, modification or amendment of this Agreement shall be binding unless executed in writing by both of the parties hereto. No waiver of any of the provisions of this Agreement shall be deemed or shall constitute a waiver of any other provision hereof (whether or not similar) nor shall such waiver constitute a continuing waiver.

Section 19. *Successor and Assigns.* All of the terms and provisions of this Agreement shall be binding upon, shall inure to the benefit of and shall be enforceable by the parties hereto and their respective successors, assigns, heirs, executors, administrators and legal representatives. The Corporation shall require and cause any direct or indirect successor (whether by purchase, merger, consolidation or otherwise) to all or substantially all of the business or assets of the Corporation, by written agreement in form and substance reasonably satisfactory to Indemnitee, expressly to assume and agree to perform this Agreement in the same manner and to the same extent that the Corporation would be required to perform if no such succession had taken place.

Section 20. *Service of Process and Venue.* For purposes of any claims or proceedings to enforce this agreement, the Corporation consents to the jurisdiction and venue of any federal or state court of competent jurisdiction in the states of Delaware and Missouri, and waives and agrees not to raise any defense that any such court is an inconvenient forum or any similar claim.

Section 21. *Supercedes Prior Agreement.* This Agreement supercedes any prior indemnification agreement between Indemnitee and the Corporation or its predecessors.

Section 22. *Governing Law.* This Agreement shall be governed exclusively by and construed according to the laws of the State of Delaware, as applied to contracts between Delaware residents entered into and to be performed entirely within Delaware. If a court of competent jurisdiction shall make a final determination that the provisions of the law of any state other than Delaware govern indemnification by the Corporation of its officers and directors, then the indemnification provided

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under this Agreement shall in all instances be enforceable to the fullest extent permitted under such law, notwithstanding any provision of this Agreement to the contrary.

Section 23. *Employment Rights.* Nothing in this Agreement is intended to create in Indemnitee any right to employment or continued employment.

Section 24. *Counterparts.* This Agreement may be executed in two or more counterparts, each of which shall be deemed to be an original and all of which together shall be deemed to be one and the same instrument, notwithstanding that both parties are not signatories to the original or same counterpart.

Section 25. *Headings.* The section and subsection headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement.

IN WITNESS WHEREOF, this Agreement has been duly executed and delivered to be effective as of the date first above written.

Willdan Group, Inc., a Delaware corporation

By \_\_\_\_\_

Name:

Title:

INDEMNITEE:

By \_\_\_\_\_

Name:

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QuickLinks

[Exhibit 10.15](#)

[INDEMNIFICATION AGREEMENT](#)  
[RECITALS](#)  
[AGREEMENT](#)

**FIRST AMENDMENT TO LEASE**

THE FIRST AMENDMENT TO LEASE ("**Amendment**") is made and entered into as of the 27<sup>th</sup> day of February, 2006, by and between 2401 KATELLA, LLC, a Delaware limited liability company ("**Landlord**"), and THE WILLDAN GROUP OF COMPANIES, a California corporation ("**Tenant**").

*R E C I T A L S:*

A. Spectrum Waples Street, LLC, a California limited liability company, and Spectrum Lambert Plaza, LLC, a California limited liability company, as tenants-in-common (collectively, "**Original Landlord**"), and Tenant entered into that certain Office Lease, dated as of October 15, 2004 (the "**Lease**"), whereby Tenant leased certain office space in the building located at 2401 East Katella Avenue, Anaheim, California. Landlord is successor-in-interest to Original Landlord.

B. By this Amendment, Landlord and Tenant desire to expand the Existing Premises (as defined below) and to otherwise modify the Lease as provided herein,

C. Unless otherwise defined herein, capitalized terms as used herein shall have the same meanings as given thereto in the Lease.

NOW, THEREFORE, in consideration of the foregoing recitals and the mutual covenants contained herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

*A G R E E M E N T:*

1. *The Existing Premises.* Landlord currently leases to Tenant that certain office space in the Building containing 31,136 rentable square feet located on the third (3<sup>rd</sup>) and fourth (4<sup>th</sup>) floors of the Building and known as Suites 300 and 450 (the "**Existing Premises**").

2. *Expansion of the Existing Premises.* That certain space located on the second (2<sup>nd</sup>) floor of the Building and known as Suite 220 outlined on the floor plan attached hereto as Exhibit "A" and made a part hereof, is referred herein as the "**First Expansion Space**." Landlord and Tenant stipulate that the First Expansion Space contains 2,827 rentable square feet. Effective as of the date ("**First Expansion Commencement Date**") that is the later of (i) the date Landlord obtains possession of the First Expansion Space from the Current Tenant (as defined in Section 15 below), and (ii) March 1, 2006, Tenant shall lease the First Expansion Space; provided, however, if the First Expansion Commencement Date has not occurred by June 1, 2006, Tenant shall have the right, upon written notice to Landlord delivered any time after June 1, 2006 until the date Landlord delivers the First Expansion Space to Tenant, to terminate the Lease with respect to the First Expansion Space only. Accordingly, effective upon the First Expansion Space. Such addition of the First Expansion Space to the Existing Premises shall, effective as of the First Expansion Commencement Date, increase the number of rentable square feet leased by Tenant in the Building to a total of 33,963 rentable square feet. Effective as of the First Expansion Commencement Date, all references to the "Premises" shall mean and refer to the Existing Premises as expanded by the First Expansion Space.

3. *Term and Monthly Basic Rent for the First Expansion Space.* The term for Tenant's lease of the First Expansion Space ("**First Expansion Space Term**") shall commence on the First Expansion Commencement Date and shall expire co-terminously with Tenant's lease of the Existing Premises on

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August 31, 2012 ("**Expiration Date**"). During the First Expansion Space Term, Tenant shall pay Monthly Basic Rent for the First Expansion Space as follows:

<u>Months of First Expansion Space Term</u>	<u>Monthly Basic Rent</u>	<u>Monthly Basic Rent per Rentable Square Foot</u>
1-12*	\$ 6,643.45	\$ 2.35
13-24	\$ 6,841.34	\$ 2.42
25-36	\$ 7,039.23	\$ 2.49
37-48	\$ 7,265.39	\$ 2.57
49-60	\$ 7,463.28	\$ 2.64
61-72	\$ 7,689.44	\$ 2.72
73-Expiration Date	\$ 7,943.87	\$ 2.81

\* Plus any partial month if the First Expansion Commencement Date is not the first day of the month.

Monthly Basic Rent for Existing Premises shall continue to be payable in accordance with the provisions of the Lease. Although Monthly Basic Rent for the Existing Premises shall be calculated separately from the Monthly Basic Rent for the First Expansion Space, Monthly Basic Rent for the entire Premises shall be a single, non-severable obligation.

4. *Tenant's Percentage and Base Year.* During the First Expansion Space Term, Tenant's Percentage of any increase in Operating Expenses, Real Property Taxes and Assessments, Insurance Costs and Utilities Costs for the First Expansion Space only shall be two point sixty-nine percent (2.69%). The Base Year for the First Expansion Space only shall be the calendar year 2006.

5. *Tenant Improvements.* Except as specifically set forth in this Section 5, Tenant acknowledges that Landlord shall not be obligated to provide or pay any improvement work or services related to the improvement of the first Expansion Space or the Existing Premises. Tenant also acknowledges that Landlord has made no representation or warranty regarding the condition of the First Expansion Space or the Existing Premises. Within sixty (60) days after the expiration of the thirty-sixth (36<sup>th</sup>) full month of the First Expansion Space Term, Tenant shall have the right to deliver written notice to Landlord requiring Landlord to, at a mutually convenient time to be agreed upon by Landlord and Tenant, at Landlord's sole cost and expense and using Building-standard materials only, (i) repaint all painted walls within the First Expansion Space, and (ii) recarpet all carpeted areas within the First Expansion Space (the "**First Expansion Space Work**"). If Tenant fails to deliver such notice within such sixty (60) day period, Landlord shall have no obligation to perform the First Expansion Space Work. If Tenant timely delivers such notice, Tenant hereby acknowledges that Landlord will be performing the First Expansion Space Work during the First Expansion Space Term, and Landlord's performance of the First Expansion Space Work shall not be deemed a constructive eviction of Tenant, nor shall Tenant be entitled to any abatement of rent connection therewith, nor liable for any injury or damage to person, property or business.

6. *Early Entry.* Tenant shall have the right to enter the First Expansion Space at any time during normal business hours no earlier than fifteen (15) days prior to the First Expansion Commencement Date solely for the purpose of installing furniture, fixtures and equipment, and all terms and conditions of the Lease shall apply to such entry other than the payment of Monthly Basic Rent.

7. *Parking.* During the First Space Expansion Term, Tenant shall have the right to an additional ten (10) unreserved parking spaces for use in the Building's parking facility, which shall be free of charge during the First Expansion Space Term only. Notwithstanding the foregoing, Tenant shall have the right to convert up to two (2) of such additional unreserved parking spaces to covered reserved

parking spaces on a month to month basis at a cost of \$12.50 per covered reserved space per month. Within sixty (60) days of the First Expansion Commencement Date, Tenant shall notify Landlord in writing of the number of such additional unreserved parking spaces that Tenant desires to convert to covered reserved parking spaces. If Landlord has not received notice of the number of reserved spaces which Tenant will lease by the expiration of such sixty (60) day period, or if Tenant elects to convert less than two (2) of such additional unreserved parking spaces to covered, reserved parking spaces, Landlord, at its discretion, shall have the right to lease such covered, reserved parking spaces to any party Landlord desires. Tenant's rental and use of such additional parking spaces shall be in accordance with, and subject to, all provisions of Section 6.2 of the Lease including, without limitation, payment of the monthly parking rate specified therein.

8. *Security Deposit.* Tenant has previously deposited with Landlord Seventy Thousand Two Hundred Eleven and 68/100 Dollars (\$70,211.68) as a Security Deposit under the Lease. Concurrently with Tenant's execution of this Amendment, Tenant shall deposit with Landlord an additional Seven Thousand Nine Hundred Forty-Three and 87/100 Dollars (\$7,943.87), for a total Security Deposit under the Lease, of Seventy-Eight Thousand One Hundred Fifty-Five and 55/100 Dollars (\$78,155.55). Landlord shall continue to hold the Security Deposit as increased herein in accordance with the terms and conditions of Section 5 of the Lease.

9. *Directory Signage.* Effective as of the First Expansion Commencement Date, Tenant shall have the right, at Tenant's sole cost and expense, to one (1) additional line on the Building's directory sign.

10. *Brokers.* Each party represents and warrants to the other that no broker, agent or finder other than Tiarna Real Estate Services, Inc. and Studley (collectively, the "**Brokers**") negotiated or was instrumental in negotiating or consummating this Amendment. Each party further agrees to defend, indemnify and hold harmless the other party from and against any claim for commission or finder's fee by any person or entity, other than Brokers, who claims or alleges that they were retained or engaged by the indemnifying party or at the request of such party in connection with this Amendment.

11. *Defaults.* Tenant hereby represents and warrants to Landlord that, as of the date of this Amendment, Tenant is in full compliance with all terms, covenants and conditions of the Lease and that there are no breaches or defaults under the Lease by Landlord or Tenant, and that Tenant knows of no events or circumstances which, given the passage of time, would constitute a default under the Lease by either Landlord or Tenant.

12. *Signing Authority.* Each person executing this Lease on behalf of Tenant represents and warrants that he/she is authorized to do so.

13. *No Further Modification.* Except as set forth in this Amendment, all of the terms and provisions of the Lease shall apply with respect to the First Expansion Space and shall remain unmodified and in full force and effect. Effective as of the date hereof, all references to the "Lease" shall refer to the Lease as amended by this Amendment.

14. *Counterparts and Fax Signatures.* This Amendment may be executed in counterparts, each of which shall be deemed an original, but such counterparts, when taken together, shall constitute one agreement. This Amendment may be executed by a party's signature transmitted by facsimile ("**fax**"), and copies of this Amendment executed and delivered by means of faxed signatures shall have the same force and effect as copies hereof executed and delivered with original signatures. All parties hereto may rely upon faxed signatures as if such signatures were originals. Any party executing and delivering this Amendment by fax shall promptly thereafter deliver a counterpart signature page of this Amendment containing said party's original signature. All parties hereto agree that a faxed signature page may be introduced into evidence in any proceeding arising out of or related to this Amendment as if it were an original signature page.

15. *Contingency.* Notwithstanding anything in this Amendment to the contrary, Tenant acknowledges and agrees that the rights and obligations of Landlord under this Amendment are expressly conditioned upon Landlord and the tenant that currently leases the First Expansion Space as of the date hereof (the "**Current Tenant**"), entering into a termination agreement upon terms acceptable to Landlord in its sole but good faith discretion and the Current Tenant vacating the First Expansion Space when and as required by Landlord in accordance with such termination agreement (collectively, the "**Contingency**"). If the Contingency is not satisfied then this Amendment shall, at Landlord's option and upon written notice, be null and void and of no force or effect.

"Landlord:"

2401 KATELLA, LLC,  
a Delaware limited liability company

By: Principal Life Insurance Company, an Iowa corporation, for its Principal U.S. Property Separate Account, its sole Member

By: Principal Real Estate Investors, LLC, a Delaware limited liability company, its authorized signatory

By: /s/ Douglas A. Kintzie

Name: Douglas A. Kintzie

Title: Assistant Managing Director Asset Management

By:

Name:

Title:

"Tenant"\*:

THE WILLDAN GROUP OF COMPANIES,  
a California corporation

By: /s/ Roy L. Gill

Print Name: Roy L. Gill

Title: VP Controller

By: /s/ Mallory McCamant

Print Name: Mallory McCamant

Title: Chief Financial Officer

**\*NOTE:**

**If Tenant is a California corporation**, then one of the following alternative requirements must be satisfied:

- (A) This Amendment must be signed by two (2) officers of such corporation: one being the chairman of the board, the president or a vice president, *and* the other being the secretary, an assistant secretary, the chief financial officer or an assistant treasurer. If one (1) individual is signing in two (2) of the foregoing capacities, that individual must identify the two (2) capacities.
- (B) If the requirements of (A) above are not satisfied, then Tenant shall deliver to Landlord evidence in a form reasonably acceptable to Landlord that the signatory(ies) is (are) authorized to execute this Amendment. **If Tenant is a corporation incorporated in a state other than California**, then Tenant shall deliver to Landlord evidence in a form reasonably acceptable to Landlord that the signatory(ies) is (are) authorized to execute this Amendment.

*EXHIBIT "A"*

*OUTLINE OF FIRST EXPANSION SPACE*

**\*\*GRAPHIC\*\***

QuickLinks

[Exhibit 10.16](#)

[FIRST AMENDMENT TO LEASE](#)  
[EXHIBIT "A" OUTLINE OF FIRST EXPANSION SPACE](#)

**SECOND AMENDMENT TO LEASE**

THIS SECOND AMENDMENT TO LEASE ("**Amendment**") is made and entered into as of the 6<sup>th</sup> day of March, 2006, by and between 2401 KATELLA, LLC, a Delaware limited liability company ("**Landlord**"), and THE WILLDAN GROUP OF COMPANIES, a California corporation ("**Tenant**").

*R E C I T A L S:*

A. Spectrum Waples Street, LLC, a California limited liability company, and Spectrum Lambert Plaza, LLC, a California limited liability company, as tenants-in-common (collectively, "**Original Landlord**"), and Tenant entered into that certain Office Lease, dated as of October 15, 2004 (the "**Original Lease**"), as amended by that certain First Amendment to Lease dated February 27, 2006 ("**First Amendment**"), whereby Tenant leased certain office space in the building located at 2401 East Katella Avenue, Anaheim, California. The Original Lease, as amended by the First Amendment, is referred to herein as the "**Lease**." Landlord is successor-in-interest to Original Landlord.

B. By this Amendment, Landlord and Tenant desire to expand the Existing Premises (as defined below) and to otherwise modify the Lease as provided herein.

C. Unless otherwise defined herein, capitalized terms as used herein shall have the same meanings as given thereto in the Lease.

NOW, THEREFORE, in consideration of the foregoing recitals and the mutual covenants contained herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

*A G R E E M E N T:*

1. *The Existing Premises.* Landlord currently leases to Tenant that certain office space in the Building containing 31,136 rentable square feet located on the third (3<sup>rd</sup>) and fourth (4<sup>th</sup>) floors of the Building and known as Suites 300 and 450 (the "**Existing Premises**"). Additionally, effective as of April 1, 2006, Landlord shall lease to Tenant that certain office space in the Building containing 2,827 rentable square feet located on the second (2<sup>nd</sup>) floor of the Building and known as Suite 220 ("**First Expansion Space**").

2. *Expansion of the Existing Premises and First Expansion Space.* That certain space located on the second (2<sup>nd</sup>) floor of the Building and known as Suite 265 outlined on the floor plan attached hereto as Exhibit "A" and made a part hereof, is referred to herein as the "**Second Expansion Space**." Landlord and Tenant stipulate that the Second Expansion Space contains 3,056 rentable square feet. Effective as of June 15, 2006 ("**Second Expansion Commencement Date**"), Tenant shall lease the Second Expansion Space. Accordingly, effective upon the Second Expansion Commencement Date, the Existing Premises and the First Expansion Space shall be increased to include the Second Expansion Space. Such addition of the Second Expansion Space to the Existing Premises and the First Expansion Space shall, effective as of the Second Expansion Commencement Date, increase the number of rentable square feet leased by Tenant in the Building to a total of 37,019 rentable square feet. If Landlord is unable to deliver possession of the Second Expansion Space to Tenant on or before the Second Expansion Commencement Date, Landlord shall not be subject to any liability for its failure to do so and such failure shall not affect the validity of this Amendment nor the obligations of Tenant hereunder, other than the obligation to pay Monthly Basic Rent for the Second Expansion Space prior to Landlord's delivery of the Second Expansion Space; provided, however, if Landlord has not delivered the Second Expansion Space to Tenant on or before August 15, 2006, Tenant shall have the right, upon written notice to Landlord delivered any time after August 15, 2006 until the date Landlord delivers the Second Expansion Space to Tenant, to terminate the Lease with respect to the Second Expansion Space only. Effective as of the Second Expansion Commencement Date, all references to the "Premises" shall mean and refer to the Existing Premises and the First Expansion Space as expanded by the Second Expansion Space.

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3. *Term and Monthly Basic Rent.* The Term for Tenant's lease of the Second Expansion Space ("**Second Expansion Space Term**") shall commence on the Second Expansion Commencement Date and shall expire co-terminously with Tenant's lease of the Existing Premises on August 31, 2012 ("**Expiration Date**"). During the Second Expansion Space Term, Tenant shall pay Monthly Basic rent for the Second Expansion Space as follows:

Period	Monthly Basic Rent	Monthly Basic Rent Per Rentable Square Foot
1-12*	\$ 7,181.60	\$ 2.35
13-24	\$ 7,395.52	\$ 2.42
25-36	\$ 7,609.44	\$ 2.49
37-48	\$ 7,853.92	\$ 2.57
49-60	\$ 8,067.84	\$ 2.64
61-72	\$ 8,312.32	\$ 2.72
73-Expiration Date	\$ 8,587.36	\$ 2.81

\* Plus any partial month if the Second Expansion Commencement Date is not the first day of the month.

Monthly Basic Rent for the Existing Premises and First Expansion Space shall continue to be payable in accordance with the provisions of the Lease. Although Monthly Basic Rent for the Existing Premises and First Expansion Space shall be calculated separately from the Monthly Basic Rent for the Second Expansion Space, Monthly Basic Rent for the entire Premises shall be a single, non-severable obligation.

4. *Tenant's Percentage and Base Year.* During the Second Expansion Space Term, Tenant's Percentage of any increase in Operating Expenses, Real Property Taxes and Assessments, Insurance Costs and Utilities Costs for the Second Expansion Space only shall be two point ninety-one-percent (2.91%). The Base Year for the Second Expansion Space only shall be the calendar year 2006.

5. *Tenant Improvements.* Except as specifically set forth in this Section 5, Tenant acknowledges that Landlord shall not be obligated to provide or pay for any improvement work or services related to the improvement of the Existing premises, the First Expansion Space or the Second Expansion Space. Tenant also acknowledges that Landlord has made no representation or warranty regarding the condition of the Existing Premises, the First Expansion Space or the Second Expansion Space. Prior to the Second Expansion Commencement Date, Landlord shall, at Landlord's sole cost and expense and using Building-standard materials only, (i) repaint all painted walls in the Second Expansion Space, and (ii) recarpet all carpeted areas within the Second Expansion Space.

6. *Early Entry.* Tenant shall have the right to enter the Second Expansion Space at any time during normal business hours, no earlier than fifteen (15) days prior to the Second Expansion Commencement Date, solely for the purpose of installing furniture, fixtures and equipment, and all terms and conditions of the Lease shall apply to such entry other than the payment of Monthly Basic Rent.

7. *Parking.* During the Second Expansion Space Term, Tenant shall have the right to an additional eleven (11) unreserved parking spaces for use in the Building's parking facility, which shall be free of charge during the Second Expansion Space Term only. Notwithstanding the foregoing, Tenant shall have the right to convert up to two (2) of such additional unreserved parking spaces to covered reserved parking spaces on a month to month basis at a cost of \$12.50 per covered reserved space per month. Within sixty (60) days of the Second Expansion Commencement Date, Tenant shall notify Landlord in writing of the number of such additional unreserved parking spaces that Tenant desires to convert to covered reserved parking spaces. If Landlord has not received notice of the number of



reserved spaces which Tenant will lease by the expiration of such sixty (60) day period, or if Tenant elects to convert less than two (2) of such additional unreserved parking spaces to covered, reserved parking spaces, Landlord, at its discretion, shall have the right to lease such covered, reserved parking spaces to any party Landlord desires. Tenant's rental and use of such additional parking spaces shall be in accordance with, and subject to, all provisions of Section 6.2 of the Original Lease including, without limitation, payment of the monthly parking rate specified therein.

8. *Security Deposit.* Tenant has previously deposited with Landlord Seventy-Eight Thousand One Hundred Fifty-Five and 55/100 Dollars (\$78,155.55) as a Security Deposit under the Lease. Concurrently with Tenant's execution of this Amendment, Tenant shall deposit with Landlord an additional Eight Thousand Five Hundred Eighty-Seven and 36/100 Dollars (\$8,587.36), for a total Security Deposit under the Lease of Eighty-Six Thousand Seven Hundred Forty-Two and 91/100 Dollars (\$86,742.91). Landlord shall continue to hold the Security Deposit as increased herein in accordance with the terms and conditions of Section 5 of the Original Lease.

9. *Directory Signage.* Effective as of the Second Expansion Commencement Date, Tenant shall have the right, at Tenant's sole cost and expense, to one (1) additional line on the Building's directory sign.

10. *Brokers.* Each party represents and warrants to the other that no broker, agent or finder, other than Tiarna Real Estate Services, Inc. and Studley (collectively, the "**Brokers**"), negotiated or was instrumental in negotiating or consummating this Amendment. Each party further agrees to defend, indemnify and hold harmless the other party from and against any claim for commission on finder's fee by any person or entity, other than Brokers, who claims or alleges that they were retained or engaged by the indemnifying party or at the request of such party in connection with this Amendment.

11. *Defaults.* Tenant hereby represents and warrants to Landlord that, as of the date of this Amendment, Tenant is in full compliance with all terms, covenants and conditions of the Lease and that there are no breaches or defaults under the Lease by Landlord or Tenant, and that Tenant knows of no events or circumstances which, given the passage of time, would constitute a default under the Lease by either Landlord or Tenant.

12. *Signing Authority.* Each person executing this Lease on behalf of Tenant represents and warrants that he/she is authorized to do so.

13. *No Further Modification.* Except as set forth in this Amendment, all of the terms and provisions of the Lease shall apply with respect to the Second Expansion Space and shall remain unmodified and in full force and effect. Effective as of the date hereof, all references to the "Lease" shall refer to the Lease as amended by this Amendment.

14. *Counterparts and Fax Signatures.* This Amendment may be executed in counterparts, each of which shall be deemed an original, but such counterparts, when taken together, shall constitute one agreement. This Amendment may be executed by a party's signature transmitted by facsimile ("**fax**"), and copies of this Amendment executed and delivered by means of faxed signatures, shall have the same force and effect as copies hereof executed and delivered with original signatures. All parties hereto may rely upon faxed signatures as if such signatures were originals. Any party executing and delivering this Amendment by fax shall promptly thereafter deliver a counterpart signature page of this Amendment containing said party's original signature. All parties hereto agree that a faxed signature page may be introduced into evidence in any proceeding arising out of or related to this Amendment as if it were an original signature page.

"Landlord:"

2401 KATELLA, LLC,  
a Delaware limited liability company

By: Principal Life Insurance Company, an Iowa corporation, for its Principal U.S. Property Separate Account, its sole Member

By: Principal Real Estate Investors, LLC, a Delaware limited liability company, its authorized signatory

By: [ILLEGIBLE]

Name: \_\_\_\_\_

Title: \_\_\_\_\_

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

"Tenant" \*:

THE WILLDAN GROUP OF COMPANIES,  
a California corporation

By: /s/ Roy L. Gill

Print Name: Roy L. Gill

Title: V P Controller

By: /s/ Mallory McCamant

Print Name: Mallory McCamant

Title: Sr. VP/CFO

**\*NOTE:**

**If Tenant is a California corporation,** then one of the following alternative requirements must be satisfied;

- (A) This Amendment must be signed by two (2) officers of such corporation: one being the chairman of the board, the president or a vice president, *and* the other being the secretary, an assistant secretary, the chief financial officer or an assistant treasurer. If one (1) individual is signing in two (2) of the foregoing capacities, that individual must identify the two (2) capacities.
- (B) If the requirements of (A) above are not satisfied, then Tenant shall deliver to Landlord evidence in a form reasonably acceptable to Landlord that the signatory(ies) is (are) authorized to execute this Amendment. **If Tenant is a corporation incorporated in a state other than California,** then Tenant shall deliver to Landlord evidence in a form reasonably acceptable to Landlord that the signatory(ies) is (are) authorized to execute this Amendment.

*EXHIBIT "A"*

*OUTLINE OF SECOND EXPANSION SPACE*

**\*\*GRAPHIC\*\***

## QuickLinks

[Exhibit 10.17](#)

[SECOND AMENDMENT TO LEASE  
EXHIBIT "A" OUTLINE OF SECOND EXPANSION SPACE](#)

**EMPLOYMENT AGREEMENT**  
(Restated)

This Employment Agreement, between Willdan Group, Inc., a Delaware corporation, formerly The Willdan Group of Companies, a California corporation, ("Company") and L. Mallory McCamant ("Employee") is effective August 1, 2006.

1. For good consideration, Company employs Employee on the following terms and conditions.
2. **Term of Employment.** Subject to the provisions for termination set forth below in Section 9 of this agreement, the term of this Employment Agreement began on January 1, 2006 and will continue until terminated by either party in accordance with the provisions of Section 9.
3. **Compensation.** Company shall compensate Employee, as follows:
  - A. Base annual salary, payable bi-weekly: \$185,000.
  - B. Incentive Bonus: Employee shall be eligible for all standard Company bonus programs.
  - C. Automobile allowance in the amount of \$910 per month plus a gas card.
  - D. Medical and dental benefits in accordance with those generally afforded Company employees.
  - E. Annual Paid Leave shall be in accordance with those generally afforded Company employees which shall include all previous service with Company for accrual purposes.
  - F. Catastrophic Illness in accordance with the Company's employment policies.
  - G. Paid holidays in accordance with the Company's normal holiday policy.
  - H. Employee shall be eligible for any and all company stock option programs established by the Company's Board of Directors and made available to top officers of the Company, if any, during the period of Employee's employment. Employee's eligibility shall be of a type and in an amount consistent with that afforded to the top officers of the Company.
4. **Travel, Entertainment, and Other Expenses.** (a) It is recognized and agreed by the parties to this agreement that in connection with the services to be performed for Company, Employee will be obliged to expend money for travel, entertainment of customers, gifts, and similar business expenses. Employee is authorized to incur reasonable business expenses for promoting the business of Company. Company shall reimburse Employee from time to time for all reasonable business expenses incurred by Employee provided that Employee presents adequate contemporaneous documentation to Company.
5. **Duties and Position.** Employee shall be employed in the capacity of Chief Financial Officer of the Company. Employee shall have all of the authority, which such positions generally entail. Company shall not modify Employee's position without the prior written consent of Employee, which consent may be subject to conditions, including, but not limited to, title, authority, compensation and other issues.
6. **Employee to Devote Full Time to Company.** Employee will devote full time, attention, and energies to the business of the Company.
7. **Confidentiality of Proprietary Information.** Employee agrees, during the term of this employment, not to reveal confidential information, or trade secrets to any person, firm, corporation, or entity. Should Employee reveal or threaten to reveal this information, the Company shall be entitled to an injunction restraining the Employee from disclosing same, or from rendering any services to any

entity to whom said information has been or is threatened to be disclosed, the right to secure an injunction is not exclusive, and the Company may pursue any other remedies it has against the Employee for a breach or threatened breach of this condition, including the recovery of damages from the Employee. Employee shall execute a separate confidentiality agreement in the standard form used by Company for officers of the Company.

8. **Disability.** In the event that the Employee cannot perform the duties because of illness or incapacity for a period of more than thirty days, the Company may appoint a replacement for Employee to fill Employee's position until Employee is able to return to work. Employee's compensation shall be paid during any period of disability in accordance with the disability policies applicable to Company's employees generally.
9. **Termination of Agreement.** Employee's employment is "at will." Accordingly, Employee's employment may be terminated by Company at any time, with or without cause; and Employee may terminate Employee's employment at any time. In the event that Company terminates Employee's employment: a) at any time prior to December 31, 2006, without cause, Employee shall be entitled to full pay and benefits through June 30, 2007; b) at any time after December 31, 2006, without cause, Employee shall be entitled to severance benefit in the amount of six months pay plus the cash equivalent of six months benefits, which shall be payable in a lump sum on the effective date of termination; or c) in the first three months of 2007, Employee shall, in addition, be paid such bonus as she would have been paid had she been employed through that period (i.e. consistent with other top Company management receiving bonuses at that time;

In the event of termination without cause by Company, the foregoing shall constitute the only compensation to be paid by Company to Employee.

If Employee voluntarily terminates employment, or if Company terminates Employee's employment with Cause, Employee shall not be entitled to any severance compensation. For the purpose of this Section 9, the term "Cause" shall mean and include:

- (a) The willful breach by Employee of any material term of this Agreement;
- (b) Intentional conduct by Employee intended to place Company in violation of any law relating to the protection of Company's employees, including, without limitation the Civil Rights Act and similar State and Federal legislation;
- (c) Gross insubordination, including but not limited to compliance with the directives of the President;
- (d) Employee's commission of a felony."

10. **Death Benefit.** Should Employee die during the term of employment, Employee shall be entitled to the same death benefits as are generally provided to employees of the Company generally.
11. **Limited Effect of Waiver.** Should either Company or Employee waive breach of any provision of this agreement by the other, that waiver will not operate or be construed as a waiver of further breach.
12. **Severability.** If, for any reason, any provision of this agreement is held invalid, all other provisions of this agreement shall remain in effect. If this agreement is held invalid or cannot be enforced, then to the full extent permitted by law any prior agreement between the Company (and any predecessor thereof) and the Employee shall be deemed reinstated as if this agreement had not been executed.
13. **Oral Modifications Not Binding/Amendment.** This instrument is the entire agreement of the Company and the Employee. Oral changes shall have no effect. This Agreement may be altered only by a written agreement signed by both parties.

14. **Interpretation.** This agreement shall be interpreted as though prepared by both parties.
15. **Governing Law.** This agreement has been negotiated and entered into in the State of California and shall be governed by, construed and enforced in accordance with the internal laws of the State of California, applied to contracts made in California by California domiciliaries to be wholly performed in California.
16. **Assignability.** Neither this Agreement or any rights or obligations hereunder shall be assigned, pledged, hypothecated or otherwise transferred by any party hereto without the written consent of the Board of Directors or the Company and the Employee. Any assignment, pledge, hypothecation or other transfer, without such prior written consent, shall be void.
17. **Representation by Legal Counsel.** The parties hereto acknowledge that Robert L. Lavoie of Lavoie, McCain & Jarman has been retained by Company to represent Company in this transaction. Employee consents to such representation and waives any conflict of interest as may be presented by such representation. Employee has been advised to have this Agreement reviewed by independent legal counsel of Employee's choosing. Company may assume that Employee has sought such consultation and that Employee's agreement with the terms and conditions hereof are with the benefit of such independent legal advice.
18. **Restated Employment Agreement.** It is intended that this Agreement is a full restatement of the employment agreement between Employer and Employee and that it replaces in full all prior agreements and amendments thereto. There are no agreements, oral or written between Employer and Employee other than this Employment Agreement (Restated).

Executed effective this 1st day of August, 2006, in Anaheim, California.

**Company:**

**Employee:**

Willdan Group, Inc.

By: /s/ WIN WESTFALL

/s/ L. MALLORY MCCAMANT

\_\_\_\_\_  
Win Westfall, President & CEO

\_\_\_\_\_  
L. Mallory McCamant

## QuickLinks

[Exhibit 10.18](#)

[EMPLOYMENT AGREEMENT \(Restated\)](#)



**WILLDAN GROUP, INC.**

**LIST OF SUBSIDIARIES**

	<b>Name of Entity</b>	<b>Jurisdiction of Organization</b>	<b>Ownership Interest</b>
1.	American Homeland Solutions	California	100% Willdan Group, Inc.
2.	Arroyo Geotechnical	California	100% Willdan Group, Inc.
3.	MuniFinacial	California	100% Willdan Group, Inc.
4.	Public Agency Resources	California	100% Willdan Group, Inc.
5.	Willdan	California	100% Willdan Group, Inc.

QuickLinks

[EXHIBIT 21.1](#)

[WILLDAN GROUP, INC. LIST OF SUBSIDIARIES](#)

**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 heading 'Experts' in the prospectus.

/s/ KPMG LLP

Los Angeles, California  
August 8, 2006

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## QuickLinks

[Exhibit 23.2](#)

[Consent of Independent Registered Public Accounting Firm](#)