

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer
(Do not check if a
smaller reporting company)

Smaller reporting company

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, as reported on the NASDAQ Global Market, as of the last business day of the registrant's most recently completed second fiscal quarter was \$22.1 million.

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

On March 24, 2014, 7,401,784 shares of the registrant's common stock were issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Part III of this Form 10-K incorporates information by reference from the registrant's definitive proxy statement for the 2014 Annual Meeting to be filed on or prior to 120 days after the end of our fiscal year.

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PART I

ITEM 1. BUSINESS

Overview

We are a provider of professional technical and consulting services to public agencies at all levels of government, public and private utilities, and commercial and industrial firms. We enable these entities to provide a wide range of specialized services, without having to incur and maintain the overhead necessary to develop staffing in-house. We assist our clients with a broad range of complementary services relating to:

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

We operate our business through a network of offices located primarily in California and New York. We also have operations in Arizona, Florida, Texas, Illinois, Washington and Washington, DC. As of December 27, 2013, we had a staff of 534 which includes licensed engineers and other professionals. Historically, our clients have been public agencies in communities with populations ranging from 10,000 to 300,000 people. We believe communities of this size are underserved by large outsourcing companies that tend to focus on securing large federal and state projects, as well as projects for the private sector. We also provide services to public and private utilities that service major metropolitan communities and commercial and industrial firms, particularly in connection with our energy efficiency and sustainability services. We seek to establish close working relationships with our clients and expand the breadth and depth of the services we provide to them over time.

While we currently serve communities throughout the country, our business with public agencies is concentrated in California and Arizona. We provide services to approximately 57% of the 482 cities and approximately 76% of the 58 counties in California. We also serve special districts, school districts, a range of public agencies and private industry. Our business with public and private utilities is concentrated in California and New York.

We were profitable in fiscal years 2013 and 2011 but our profitability in fiscal year 2012 was severely impacted by a goodwill impairment charge related to our Energy Efficiency Services segment. See "Management's Discussion and Analysis of Financial Condition and Results of Operation."

We were founded in 1964 and Willdan Group, Inc., a Delaware corporation, was formed in 2006 to serve as our holding company. We 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 operations of our subsidiaries, Willdan Engineering, Willdan Infrastructure and Public Agency Resources ("PARs"). Willdan Engineering provides civil engineering-related and city planning services, geotechnical and other engineering consulting services to our clients. Willdan Infrastructure, which was launched in fiscal year 2013, provides engineering services to larger rail, port, water, mining and other civil engineering projects. PARs primarily provides staffing to Willdan Engineering. Contract revenue for the Engineering Services segment represented approximately 41% and 36% of our overall consolidated contract revenue for fiscal years 2013 and 2012, respectively.

Energy Efficiency Services. Our Energy Efficiency Services segment consists of the business of our subsidiary, Willdan Energy Solutions, which offers energy efficiency and sustainability consulting services to utilities, public agencies and private industry. This segment is currently our largest segment

based on contract revenue, representing approximately 42% and 49% of our consolidated contract revenue for fiscal years 2013 and 2012, respectively.

Public Finance Services. Our Public Finance Services segment consists of the business of our subsidiary, Willdan Financial Services, which offers economic and financial consulting services to public agencies. Contract revenue for the Public Finance Services segment represented approximately 12% and 11% of our consolidated contract revenue for fiscal years 2013 and 2012, respectively.

Homeland Security Services. Our Homeland Security Services segment consists of the business of our subsidiary, Willdan Homeland Solutions, which offers national preparedness and interoperability services and communications and technology solutions. Contract revenue for our Homeland Security Services segment represented approximately 5% and 4% of our consolidated contract revenue for fiscal years 2013 and 2012, respectively.

Our Markets

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

- Population growth, which leads to a need for increased capacity in government services and infrastructure;
- Demand by constituents for a wider variety of services;
- Increased demand for services and solutions that provide energy efficiency, sustainability, water conservation and renewable energy in the public and private sectors;
- 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.

Engineering and Planning Services

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

Energy Efficiency and Sustainability Services

In response to an increased awareness of global warming and climate change issues, private industry and public agencies are increasingly seeking out cost-effective, turn-key solutions that provide innovative energy efficiency, renewable energy, water conservation and sustainability services. State and local governments are frequently turning to specialized resource conservation firms to strike the balance between environmental responsibility and economic competitiveness. Consultants have the expertise to develop efficient and cost effective solutions. The use of energy efficiency services,

including audits, program design, benchmark analysis, metering and partnerships provides government agencies, utilities and private firms with the ability to realize long-term savings.

Economic and Financial Consulting

Public agencies must raise the necessary funding to build, improve and maintain infrastructure and to provide services to their local communities. While tax 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 districts in California); the implementation of development impact fee programs that require developers to bear the cost of the impact of development on local infrastructure; user fee programs that pass costs along to the actual users of services; optimization of utility rates; and special taxes enacted by voters for specific purposes.

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

Homeland Security, National Preparedness and Interoperability Services

After September 11, 2001, the need to protect civil infrastructure and implement additional security measures became a priority at all levels of government. In addition to the threat of terrorism, Hurricanes Katrina and Rita and Superstorm Sandy highlighted the vulnerability of our country's infrastructure to natural disasters, while the Deepwater Horizon oil spill along the Louisiana Gulf Coast emphasized the need for disaster preparedness. 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 2013, under the Department of Homeland Security Grant Program ("HSGP"), the federal government provided approximately \$968 million to the states, which in turn disbursed these funds to local law enforcement and other agencies. The federal Department of Homeland Security ("DHS"), designated 25 metropolitan areas throughout the country to receive almost half of the HSGP funds through a program called the DHS Urban Areas Security Initiative, or UASI. Designated UASI metropolitan areas include five metropolitan areas in California and the Phoenix, Arizona metropolitan area.

Our Services

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

We are organized to profitably manage numerous small to mid-size contracts at the same time. Our contracts can range from \$1,000 to over \$5,000,000 in contract revenue. Our project contracts typically have a duration of less than 12 months, although we have city services contracts that have been in effect for over 30 years. At December 27, 2013, we had approximately 1,782 open projects.

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

	Fiscal Year		
	2013	2012	2011
Engineering Services	41%	36%	32%
Energy Efficiency Services	42%	49%	54%
Public Finance Services	12%	11%	9%
Homeland Security Services	5%	4%	5%

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

Engineering Services

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

Our engineering-related services are described individually below:

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

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

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

Development Review. We offer development plan review and inspection service to clients throughout California and the Southwest. Our experience in plan review and inspection includes Americans with Disabilities Act compliance, preliminary and final plats (maps), grading and drainage, complete infrastructure improvements for residential site plans, commercial site plans, industrial developments, subdivision, and major master planned developments. Our development review services include grading plans, street lighting and traffic signal plans, erosion control plans, storm drain plans, street improvement plans, sewer water and utility plans.

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

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

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

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

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

Program and Construction Management. We provide comprehensive program and construction management services to our public-sector clients. These services include construction administration, inspection, observation, labor compliance, and community relations, depending on the client's needs

and the scope of the specific project. Our construction management experience encompasses projects such as streets, bridges, sewers and storm drains, water systems, parks, pools, public buildings, and utilities.

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

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

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

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

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

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

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

- *County of Mariposa, California.* We were selected by the County of Mariposa, a community of more than 17,000 people located just south of Sacramento, California, to improve traffic safety on county roadways by replacing and widening certain bridges to ensure compliance with current

federal guidelines. The County secured approximately \$6 million in federal funding for the replacement of the three bridges for which we were awarded contracts—Indian Gulch Road Bridge; Old Toll Road Bridge; White Rock Road Bridge—and will be providing a range of services, including land surveying and mapping, assistance with right-of-way appraisal and acquisition, and optional construction management.

- *County of Riverside, California.* We continue to provide a range of on-call city engineering and associated public works observation services to the County of Riverside, California. Over the past 12 years, we have been selected to provide a variety of services, including the inspection of various types of public works projects throughout the county, and the execution of projects such as storm drain construction and installation, tract housing, cash contracts, traffic signal installation, and storm damage assessment. Current projects include the Harrison and 66th Street improvement projects, the \$15 million Highway 79 widening project and various other capital improvement projects.
- *County of Glenn, California.* We were selected by the County of Glenn to provide professional services for a number of bridge projects, including the bridge over Walker Creek. As part of the County's toll credit program, we developed a replacement concept for the existing low water crossing: a multi-span, slab bridge on pile extensions that will provide a crossing that is accessible year round and will pass standard design for a 100-year storm event without overtopping the bridge or roadway. We successfully lobbied Caltrans Local Assistance to include an additional 1,000-ft of roadway approach work beyond what is typically funded through the Local Highway Bridge Program. We are currently developing the final Plan, Specifications and Estimates ("PS&E") package and are scheduled to deliver the final submittal in early 2014. Additionally, we are preparing an advanced planning study and developing a final PS&E package for the replacement of the existing structurally deficient, one lane, eight-span, 500-ft long bridge over Stony Creek.
- *City of Norwalk, California.* We have been retained by the City of Norwalk to provide professional traffic engineering services that include planning, organizing, supervising, and performing a variety of field and office professional civil and traffic engineering work; planning, designing, and reviewing construction of community development projects; supervising or performing technical studies; serving as project engineer for major capital traffic and transportation improvement projects; coordinating traffic signal timing and maintenance with Public Services staff; overseeing operation of the city's traffic management center; and performing related duties as required.
- *City of Long Beach, California.* For over ten years, we have provided a range of on-call services to the City of Long Beach. These on-call services involve the inspection of capital improvement projects, permitting, and other projects that include inspecting asphalt overlays, sidewalks, curbs and gutters, traffic signals, bike lanes, water lines, and other public works projects throughout the City. Each year, we manage and inspect \$20 million to \$40 million worth of publicly funded projects in the City. In addition, we currently provide construction management services to the City for a range of projects, including the construction of a temporary Olympic-caliber, above-ground swimming pool being built in the parking lot of the city of Long Beach's Belmont pool complex. The City recently closed the indoor Belmont pool complex due to building deficiencies and has begun planning and designing a replacement complex. For the next few years, while the new, permanent complex is being designed and constructed, the above-ground pool that we construct will be used to accommodate the City's large public swimming program. Additionally, we are renovating the City's athletic facilities located within the County of Los Angeles' Hamilton Bowl storm water retention basin. The renovated facility will include a new underground low-flow drain system connected to a new low-flow pump station. A state-of-the-art, lighted, synthetic surface track and field facility is also being constructed. In

addition to our construction management and inspection services, we have provided public outreach services for many of the city's high profile public works projects such as the city's recent award winning Downtown Bike Lane Project, Long Beach Boulevard Reconstruction Project, and Atlantic Boulevard through Bixby Knolls.

- *Compton Creek and Dominguez Channel, California.* For over ten years, we have provided services to the L.A. County Department of Public Works. Most recently, as a result of increased flood risks identified by the Los Angeles County Flood Control District ("LACFCD"), we are preparing a study analyzing flood risk mitigation alternatives along Compton Creek and Dominguez Channel. The study will identify, analyze, and rank alternative solutions to address the hydraulic deficiencies discovered by the LACFCD. In addition, the study will also analyze how such mitigation alternatives can incorporate multi-use benefit components that improve water conservation address the needs of LACFCD and other watershed stakeholders. In addition to the flood risk mitigation study, we were also contracted to provide engineering services related to a potential sediment placement site in La Tuna Canyon. The project's ultimate goal is to provide storage for approximately nine million cubic yards of fill material. The conceptual grading phase, will determine the feasibility of the site and identifying any major constraints to completing the grading for the project.
- *City of Newport Beach, California.* We were retained by the City of Newport Beach to provide geotechnical and material testing, and inspection services for the Corona Del Mar transmission main pipeline improvement project. This project calls for the installation of 5,300 linear feet of a steel pipe transmission main extending from the existing main in Pacific View Drive to the existing main at the intersection of East Coast Highway and MacArthur Blvd. We are providing geotechnical engineering and field testing during trench excavation, pipe bedding placement, trench backfill, street reconstruction, inspection of steel assembly, review and inspection of welding procedure and welding operation, review and inspection of reinforced concrete construction, and inspection of pipe mortar joints for cracks and photo documentation of all joints, inside and out. We have provided similar services for the City since 2010.
- *Town of Tusayan, Arizona.* We were selected to provide a full range of development services for the town of Tusayan, Arizona, a gateway community that was incorporated in 2010, including building and safety, planning and town engineering. As the gateway to the Grand Canyon, Tusayan has focused on providing housing and associated services for the service industry and to develop additional attractions and accommodations for the approximately two million people that visit the Grand Canyon each year. Municipal construction projects over the last three years have included construction of multiple apartment buildings for staff housing, community parks, road way improvements for the entry into the community, new homes for property owners, improvements to the communities utilities, water and wastewater systems, remodeling of many of the 1,300 hotel rooms, proposing and adopting the communities first building code, preparing a general development plan for the community and working with the town to develop engineering standards.

Energy Efficiency Services

In fiscal year 2008, we acquired our subsidiary, Willdan Energy Solutions ("WES"), formerly known as Intergy. WES is an energy efficiency and sustainability consulting firm that provides specialized, innovative services in energy, water, and resource management to businesses, utilities, state agencies, municipalities, and non-profit organizations. Our experienced engineers and staff develop efficient and cost-effective approaches within all phases of projects. WES energy efficiency services include comprehensive surveys, program design, benchmarking analysis, and metering.

Our range of energy efficiency services are described below:

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

Sustainability. We assist clients (including utilities, schools and private companies) in developing and managing facilities and infrastructures through a holistic, practical approach to sustainability. Our services in the area of sustainability cover renewable energy, master plans, Leadership in Energy and Environmental Design (LEED) certification for buildings, and Green House Gas ("GHG") reduction strategies.

Climate Action Plans. We assist governmental clients with the development and implementation of climate action plans. These plans include energy efficiency, water conservation, land development, renewable, and GHG reduction strategies.

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

- *Consolidated Edison Company of New York.* We serve as Consolidated Edison's program manager and implementer for its Small Business Direct Install ("SBDI") Program in New York City. The Program helps small businesses achieve energy efficiency and financial savings, offering both free and cost-shared energy efficiency retrofits, including installation of high-efficiency lighting; heating, ventilation, and air conditioning; and refrigeration energy conservation measures. As the program implementer, we are responsible for moving a high volume of projects from survey to retrofit; tracking, analyzing, and reporting on project status and program data; and completing installation through self-performance or in cooperation with small group of contractors. We operate the program in Bronx, Brooklyn, and Queens, with the goal of 146 million kilowatt hours ("kWh") in energy savings.
- *New York State Energy Research & Development Authority ("NYSERDA").* Under the State of New York's Industrial and Process Efficiency ("IPE") Program and its Existing Facilities Program ("EFP"), we serve as the exclusive energy efficiency contractor for data centers, and are one of two selected providers for the Buildings Outreach contract, respectively. Under the IPE Program, we are tasked with managing NYSERDA's entire program process, from customer outreach to application to post-installation review, and stimulating energy efficiency investment in the data center sector. We have completed the first year of a three year contract, with savings goals for data centers of 540,000 megawatt hours ("MWh"). Under the Buildings Outreach project, our collective savings goal (in partnership with another contractor) is 174,000 MWh and 116,700 dekatherms ("Dth").
- *Pacific Gas & Electric (PG&E), Southern California Edison ("SCE"), and San Diego Gas & Electric ("SDG&E")—Hospital Energy Efficiency Program ("HEEP").* We serve as program administrator for HEEP, which offers turn-key energy efficiency services for hospitals and medical office buildings in the territories of PG&E, SCE, and SDG&E, including acute hospitals (ambulatory surgery centers licensed under acute hospitals and acute hospital outpatient services); acute psychiatric hospitals; medical or healthcare-related office buildings; chemical dependency recovery hospitals; skilled nursing facilities; free-standing trauma centers; community clinics; convalescent hospitals; and extended care facilities. These three programs are scheduled to deliver total approximate energy savings of 39.8 million kWh, 3,364 kW demand, and 220,000 therms (1 Therm equals 100,000 BTU) through the end of 2014.

- *Southern California Edison ("SCE") and San Diego Gas & Electric ("SDG&E")—Lodging Energy Efficiency Program ("LEEP").* We serve as program administrator for LEEP, which provides customized energy-saving solutions for lodging customers, including full-service development, management, and implementation of energy-savings projects. The program is scheduled to deliver total approximate energy savings of 25.8 million kWh, 150,000 therms, and 5,000 kW demand through the end of 2014.
- *Puget Sound Energy ("PSE") Direct Install Program.* We serve as program administrator for PSE Direct Install Program, which offers incentives for small-sized businesses to make energy efficiency upgrades. Typical upgrades include lighting, refrigeration, electric water heating, occupancy sensors, and LED signs. We completed the initial contract in December 2013, producing energy savings of 11 million kWh and 30,000 therms, exceeding contract goals. A new contract began in January 2014 with the goal of delivering total approximate energy savings of 16 million kWh and 20,000 therms.

Public Finance Services

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

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

Our services in this segment include the following:

District Administration. We administer special districts on behalf of public agencies. The types of special districts administered include community facilities districts (in California, Mello-Roos districts), assessment districts, landscape and lighting districts, school facilities improvement districts, 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.

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

- Fee and rate studies, such as cost allocation studies and user fee analysis;
- Utility rate analysis for water, wastewater and stormwater;

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

Federal Compliance. We offer federal compliance services to issuers of municipal securities, which can be cities, towns, school districts, housing authorities and other entities that are eligible to issue tax-exempt securities. Specifically, we provide arbitrage rebate calculations and municipal disclosure services that help issuers remain in compliance with federal regulations. We provide these reports, together with related compliance services such as bond elections, temporary period yield restriction, escrow fund monitoring, rebate payments and refund requests. In terms of continuing disclosure services, we both produce the required annual reports and disseminate those reports on behalf of the issuers. We provide federal compliance services to approximately 650 issuers in 40 states and the District of Columbia on more than 2,500 bond issues totaling over \$60 billion in municipal debt.

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

- *Lancaster, California.* We were hired, along with another consulting firm, to provide evaluate the operational and financial feasibility of becoming a Community Choice Aggregator ("CCA"), to identify and understand the impacts of becoming a CCA, and to advise and guide the City through the required implementation process. Becoming a CCA will allow the City to become the electric power provider for customers within its jurisdiction, utilizing traditional sources of electricity, along with renewable generation resources such as wind and solar, to supply electric power to its constituents and to also sell excess power, as a wholesale electricity market participant. The project is in line with the City's objective of aggressively promoting alternative energy policies and programs that promote the development of green energy related business and economic activity in the City. The feasibility study encompassed a comprehensive analysis of the load requirements for city electric customers, development of projections for future electricity demand and the cost of electricity, and the completion of a financial analysis that demonstrates the business case feasibility for becoming a CCA. We completed the initial feasibility analysis in the fall of 2013, and work on the implementation strategy is ongoing.
- *County of San Diego.* For the past five years, we have served the County of San Diego as a special tax consultant, providing Community Facilities District ("CFD") formation and administration services. In this respect, we have also provided policy and technical guidance. We began working on the formation of the Horse Creek Ridge CFD 2013-01 in the unincorporated area of Pala, near Fallbrook, in early 2013. The purpose of this district is to create a revenue stream for the maintenance of open space areas, public trails, pathways and equestrian staging areas, landscaped areas, and park and recreation facilities, as well as the operation and maintenance of storm drain facilities, and provision of fire services. We are working with the

County, the County's Flood Control Agency, the North County Fire Protection District, the developer and the developer's consultant to understand the needs of each key stakeholder, and create a CFD that addresses those needs.

- *Port of Hueneme, Oxnard Harbor District, California.* We were selected to provide technical assistance and coordinate with district staff for the Port Side Power New Markets' transaction. In this capacity, we assisted in the solicitation of the New Markets Tax Credit ("NMTC") allocation from qualified Community Development Entities ("CDEs") facilitated the transaction and acted as point of contact for the district with respect to the Port of Hueneme Shore-Side Power Project ("the Project"); prepared and delivered all required and requested documentation to ensure the closing of the NMTC transaction. CDEs are financial institutions that have a primary mission of community development for a target market. The Port Renovation, Inc. completed the Project, a ground-up construction of 1,400 linear feet of a wharf electrification system that provides shore-side power for fresh-fruit cargo vessels. The Project will result in a reduction of mono-nitrogen oxides vessel emissions from 263 tons per year to 53 tons per year and particulate matter emissions from 43 tons per year to 9 tons per year. The Port of Hueneme serves a niche market of importing fresh fruit and produce into Southern California. We served as the Port Renovation's New Markets Tax Credit Financial Advisor, and secured allocation from Wells Fargo Community Development and The Clearinghouse Community Development Financial Institution. In total, the Project benefited from over \$3.4 million in NMTC equity.
- *New Haven, Connecticut.* We provided the City of New Haven with an economic impact analysis for the redevelopment of the site of the former New Haven Coliseum. The project involved building an economic impact model which included an estimate of the direct, indirect and induced impacts (employment and economic activity) of the projects construction and ongoing operations. Our report documented the estimated impacts of the project, along with an explanation of all calculations and assumptions. We estimated the hotel, property and sales tax expected to be generated and calculated the amount that could be financed given a range of assumptions about the availability of funding. We presented our final report at a meeting with the Board of Aldermen.
- *Fort Lauderdale, Florida.* We were contracted by the City of Fort Lauderdale to develop a Citywide Economic Development Strategic Plan. The City's goal is to sustain, expand and diversify its economic base in order to provide for a high quality of life for all residents. As the consultant, we are developing an implementation plan and funding strategy to promote targeted industries that could be potential key economic generators, increase the City's tax base and create higher paying jobs.
- *Sarasota County, Florida.* We are working with Sarasota County, as a subcontractor, in the development of a solid waste master plan. Our tasks include providing a baseline understanding of the current solid waste system, its facilities, programs and financial condition. This information will then be compared to established goals and objectives as well as industry best management practices to identify necessary infrastructure improvements and potential new policies and programs. Additionally, we are involved in visioning workshops with a selection of key stakeholders. These workshops are used to develop and refine goals, objectives and performance criteria and to review findings from earlier tasks and seek feedback and consensus. In working with the county, we will develop five long-range land use, development, and operational scenarios for the county. Each scenario will be evaluated on its ability to meet established goals and objectives as well as on their respective financial return on investment, or cost/benefits, to the program.

Homeland Security Services

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

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

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

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

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

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

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

- *New York Mass Transit Authority Training Program ("NY MTA").* In 2012, we were contracted to develop and deliver NY MTA's Phase III Advanced Security and Emergency Response training courses for NY MTA employees. The NY MTA is the largest public transportation provider in the western hemisphere, serving approximately 14.4 million people. The program covers several NY MTA agencies and course development will include topical material focused on like Behavioral Recognition, Counter Terrorism, Evacuation, Emergency Command and Control, Critical Incident Management, Crisis Communications and Leadership. To date, over 65% of the 36,000 NY MTA students have completed Phase III training and planning is underway for Phase IV.
- *Amtrak Security Exercise Program.* In 2013, we were awarded a one year contract to design, develop, and deliver preparedness exercises for Amtrak stations across the United States. The purpose of the Amtrak Security Exercise Program is to evaluate the plans, policies, and procedures Amtrak will use to respond to a natural or man-caused event involving Amtrak stations, trains, or property. This contract adds to our expanding portfolio of professional transportation security services, which now includes work at the national level.
- *Alameda County-Bay Area UASI Training Services.* We were selected to provide the Alameda County-Bay Area Urban Area Security Initiative ("Bay Area UASI") with a wide range of training courses taught by subject matter experts and/or recognized professionals in the fields of law enforcement, fire, emergency medical services, emergency management, and public health. The Bay Area UASI consists of 12 counties, including three major cities, with a total population of seven and a half million residents. During 2013, we provided instruction to participants from all 12 Bay Area counties on a range of topics, including, underwater hazard devices, improvised explosive device electronics, maritime interdiction, and situational awareness for Emergency Operations Centers. Certain courses were specifically designed to prepare local law enforcement personnel for participation in security operations relating to the 2013 America's Cup held in San Francisco Bay.

Competitive Strengths

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

Quality of service. We pride ourselves on the quality of service that we provide to our clients. The work for which we compete is awarded primarily based on the company's qualifications, rather than the fees proposed. We believe that our service levels, experience and expertise satisfy even the most rigorous qualification standards. We have developed a strong reputation for quality, based upon our depth of experience, ability to attract quality professionals, customized technology and software that support our services, local knowledge and the expertise we possess across multiple disciplines. We believe we are well-positioned to serve public sector clients due to our knowledge of the unique reporting processes and operating procedures of public agencies, which differ substantially from the private sector. We believe our high quality of service is a significant reason we currently provide services to approximately 62% of the cities and approximately 76% of the counties in California.

Broad range of services. Our focus on customer service has led us to continually broaden the scope of the services we provide. At different stages in our history, as the needs of our clients have evolved, we have developed service capabilities complementary to our core engineering business, including building and safety services, financial and economic services, planning services, geotechnical

services, code enforcement services, disaster planning and homeland security services, and most recently, energy efficiency and sustainability. Further, because we recognize that local public sector projects and issues often cross departmental lines, we have developed the ability to deliver multiple services in a cohesive manner to better serve our client communities as a whole.

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

Strong, long-term client relationships. We have developed strong relationships with our public agency clients, some of whom we have worked with for over 40 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 35 years of experience in the engineering and consulting industry, and an average of 8 years with our company.

Clients

Our clients primarily consist of public and governmental agencies including cities, counties, redevelopment agencies, water districts, school districts and universities, state agencies, federal agencies, a variety of other special districts and agencies, tribal governments and public utilities. We also provide services to private utilities and private industry. Our primary clients are public agencies serving communities of 10,000 to 300,000 people and public and private utilities. In fiscal year 2013, we served over 839 distinct clients. For fiscal year 2013, we had two clients, the Consolidated Edison Company of New York and the City of Elk Grove that accounted for 16% and 12%, respectively, of our consolidated contract revenue. None of our other clients accounted for over 10% of our consolidated contract revenue. Our clients are primarily based in California and New York, as well as Arizona, Florida, Texas, Washington and Washington, DC. In fiscal year 2013, services provided to clients in California accounted for approximately 68% of our contract revenue and services provided to clients in New York accounted for approximately 22% of our contract revenue.

Consolidated Edison SBDI Program. In July 2012, Willdan Energy Solutions entered into an Agreement for a Small Business Direct Install Program with Consolidated Edison Company of New York. The agreement continues our partnership with Consolidated Edison to develop Consolidated Edison's Small Business Direct Install Program, which began in 2009. The initial term of this agreement extends through June 2014. The maximum amount we can receive under the agreement is approximately \$39 million through 2015 and we are not guaranteed to receive any minimum amount of 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 can vary substantially.

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

	Fiscal Year	
	2013	2012
Time and materials	29%	33%
Unit based	39%	48%
Fixed price	31%	17%
Monthly retainer	1%	1%
Total	<u>100%</u>	<u>100%</u>

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

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

Competition

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

Doing business with governmental agencies is complex and requires the ability to comply with intricate regulations and satisfy periodic audits. We have been serving cities, counties, special districts and other public agencies for over 49 years. We believe that the ability to understand these requirements and to successfully conduct business with governmental entities and agencies is a barrier to entry for potential competitors.

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

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

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

Insurance

We currently maintain 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 \$10.0 million for general, automobile and employer's liability claims. We are liable to pay these claims from our assets if and when the aggregate settlement or judgment amount exceeds our policy limits.

Employees

At December 27, 2013, we had approximately 371 full-time employees and 163 part-time employees. All Public Agency Resources' 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		
	2013	2012	2011
Engineering Services	294	282	292
Energy Efficiency Services	142	135	132
Public Finance Services	53	51	51
Homeland Security Services	10	10	19
Holding Company Employees (Willdan Group, Inc.)	35	56	68
Total	<u>534</u>	<u>534</u>	<u>562</u>

At December 27, 2013, we contracted with approximately 150 former and current public safety officers to conduct homeland security services training courses. These instructors are classified as subcontractors and not employees.

Intellectual Property

The Willdan, Willdan Group, Inc., Willdan Engineering, Willdan Infrastructure, Willdan Financial Services, Willdan Energy Solutions and Willdan Homeland Services names are service marks of ours, and we have obtained a service mark for the Willdan logo. We have also obtained federal trademark registration with the United States Patent and Trademark Office for the "Willdan" name and the "extending your reach" tagline. We believe we have strong name recognition in the western United States and New York, and that this provides us a competitive advantage in obtaining new business. Consequently, we believe it is important to protect our brand identity through trademark registrations. The name and logo of our proprietary software, MuniMagic®, are registered trademarks of Willdan Financial Services, and we have registered a federal copyright for the source code for the MuniMagic® software. We license the MuniMagic® software to existing clients pursuant to licensing agreements that allow varying levels of access to data. This technology allows clients to view their own data and is a form of deliverable to our clients. The use of licensing provides us protection for this proprietary technology. MuniMagic® is not a commercial product offered for sale.

Available Information

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

ITEM 1A. RISK FACTORS

Risks Relating to Our Business and Industry

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

A further downturn in construction activity in our geographic service areas may affect demand for our services, which could have a material adverse effect on our results of operations and our financial condition. During fiscal year 2013, a portion of our contract revenue was generated by services rendered to public agencies in connection with private and public sector construction projects.

Since 2008, general economic conditions declined due to a number of factors including slower economic activity, a lack of available credit, decreased consumer confidence and reduced corporate profits and capital spending, leading to a slowdown in construction, particularly residential housing construction, in the western United States. As a result of this slowdown, both our engineering services segment and public finance services segment suffered declines in revenue and operating margin compression and we made several reductions in workforce and facility leases. While economic conditions began to improve from fiscal year 2010 through fiscal year 2013, the recovery has been slow with regard to our traditional engineering and public finance services segments. If the economy declines again, we will need to evaluate whether further reductions in headcount and facilities in geographic areas that are underperforming are again needed.

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

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

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

Changes in the local and regional economies of California 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 2013, approximately 68% of our contract revenue was derived from services rendered to public agencies, utilities, and private industry in

California. California experienced an economic downturn in fiscal year 2009, which negatively impacted our revenue and profitability and continues to negatively impact revenues in our Engineering Services and Public Finance Services segments. Any future downturns could have similar significant adverse impacts on our results of operations.

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

We anticipate that our current cash, cash equivalents, cash provided by operating activities and borrowing ability under our revolving line of credit will be sufficient to meet our current and anticipated needs for general corporate purposes during the next 12 months. It is possible, however, that we may not generate sufficient cash flow from operations or otherwise have the capital resources to meet our future capital needs. In addition, we may not have access to the funds available under our revolving line of credit if we breach any of the covenants under the credit agreement. We have breached certain covenants under our credit facility with Wells Fargo in recent years and were required to obtain the consent of Wells Fargo in order to borrow under that facility. If we breach covenants under our new revolving credit agreement, BMO Harris, as lender, could increase our interest rate, make the loans outstanding under the credit agreement immediately due and payable and/or terminate its commitments to us under the agreement. Additionally, in the event that we need to seek a waiver for a covenant breach, such waiver could also result in modifications to the terms of the credit agreement that are not favorable to us.

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

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

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

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

Our largest client, Consolidated Edison Company of New York, accounted for approximately 16% of our consolidated contract revenue in fiscal year 2013 and 21% in fiscal year 2012. Prior to July 2012, this revenue primarily related to a contract we entered into in fiscal year 2009 with Consolidated

Edison, which has terminated. We entered into a new contract with Consolidated Edison in July 2012, but this contract is for fewer services than the 2009 contract with Consolidated Edison. Our top five customers collectively accounted for approximately 41% of our revenue in fiscal year 2013. The loss of, or reduction in orders from, these clients could have a material adverse effect on our business, financial condition and results of operations.

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

Legislation is proposed periodically, particularly in the state of California, that attempts to limit the ability of governmental agencies to contract with private consultants to provide services. Should such legislation pass and be upheld, demand for our services may be materially adversely affected. During fiscal year 2013, approximately 71% of our contract revenue was derived from services rendered to public agencies, including public utilities, in California. While attempts at such legislation have failed in the past, such measures could be adopted in the future.

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

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

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

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

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

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

In fiscal year 2013, approximately 31% 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, public utilities and other public agencies, we are more susceptible to the unique risks associated with government contracts.

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

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

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

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

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

Our success is highly dependent upon the efforts, talents, abilities, marketing skills and operational execution of our key executives and managers. Any future losses of our management team or key employees could have a material adverse effect on our business, including the ability to secure or complete contracts and to attract and retain additional employees.

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

A critical factor to our business is our ability to attract and retain qualified employees. We are continually at risk of losing current employees or being unable to hire additional employees 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, including as a result of our former employees competing against us for contracts.

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

The market for engineering and planning, energy efficiency, economic and financial consulting and national preparedness and interoperability services is competitive and highly fragmented. Contract awards are based primarily on quality of service, relevant experience, staffing capabilities, reputation, geographic presence, stability and price. Some of our competitors in certain service areas have more personnel and greater financial, technical and marketing resources than us. In particular, our competitors for engineering related services, which represented approximately 41% and 36% of our contract revenue for fiscal years 2013 and 2012, respectively, include many larger consulting firms such as Charles Abbott & Associates, Inc., Bureau Veritas, Harris & Associates, Psomas, RBF Consulting, Tetra Tech, Inc., Stantec, Inc., Michael Baker Corporation, TRC Companies, Inc., AECOM Technology Corporation, CH2M Hill and Jacobs Engineering Group, Inc. Our energy efficiency and sustainability consulting services, which represented approximately 42% and 49% of our contract revenue for fiscal years 2013 and 2012, respectively, competes with larger energy efficiency consulting firms such as Lockheed-Martin, EnerPath, KEMA (a division of the DNV Group) and Nexant, Inc. In certain public finance consulting services, we may compete with large accounting firms. We can offer no assurance that we will be able to compete successfully in the future with these or other competitors.

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

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

We currently maintain 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 \$10.0 million for general, automobile and employer's liability claims. Claims may be made against us that exceed these limits. We are liable to pay claims from our assets if and when the aggregate settlement or judgment amount exceeds our policy limits. 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.

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

Under some of our contracts, we rely on the efforts and skills of subcontractors for the performance of some of the tasks. Subcontractor services and other direct costs comprised approximately 29% of our contract revenue in fiscal year 2013. Our use of subcontractors has decreased in recent years primarily because our subsidiary Willdan Energy Solutions has reduced its utilization of subcontractors. Our subsidiary Willdan Energy Solutions generally utilizes a higher percentage of subcontractors than our other subsidiaries. The absence of qualified subcontractors with whom we have a satisfactory relationship could adversely affect the quality of our service offerings and therefore our financial results. Additionally, we may have disputes with our subcontractors arising from, among other things, the quality and timeliness of work performed by the subcontractor or client concerns about the subcontractor.

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. For example, during fiscal year 2012, we recorded an impairment charge of \$15.2 million related to goodwill associated with our acquisition of Intergy Corp in 2008. 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.

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

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

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

The price of our common stock is volatile and may fluctuate significantly. For example, during our fiscal year ended December 27, 2013, the price of our stock ranged from a high of \$5.50 per share to a low of \$2.01 per share. We cannot assure you as to the prices at which our common stock will trade or that an active trading market in our common stock will be sustained in the future. In addition to the matters discussed in other risk factors included herein, some of the reasons for fluctuations in our stock price could include:

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

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

The concentration of ownership of our stock may delay or prevent a change of control of our company or changes in our management, and as a result may hinder the ability of our stockholders to take advantage of a premium offer.

The concentration of ownership of our stock may have the effect of delaying or preventing a change in control of the company or a change in our management and may adversely affect the voting or other rights of other holders of our common stock. As of March 17, 2014, our directors and executive officers beneficially own 976,792 shares of common stock, or approximately 13.2% of our outstanding common stock. In addition, Jeremy Zhu, individually and as managing director of Wedbush Opportunity Capital LLC, Edward Wedbush, individually and as the Chairman and a stockholder of Wedbush Inc., beneficially own 1,084,730 and 1,052,184 shares of common stock, respectively, or approximately 14.7% and 14.2%, respectively, of our outstanding common stock.

Cautionary Statement Regarding Forward-Looking Information

In addition to current and historical information, this report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements relate to our future operations, prospects, potential products, services, developments and business strategies. These statements can, in some cases, be identified by the use of words like "may," "will," "should," "could," "would," "intend," "expect," "plan," "anticipate," "believe," "estimate," "predict," "project," "potential," or "continue" or the negative of such terms or other comparable terminology. This report includes, among others, forward-looking statements regarding our:

- Expectations about future customers;
- Expectations about expanded service offerings;
- Expectations about our ability to cross-sell additional services to existing clients;
- Expectations about our intended geographical expansion;
- Expectations about our ability to attract executive officers and key employees;
- Evaluation of the materiality of our current legal proceedings; and
- Expectations about positive cash flow generation and existing cash and cash equivalents being sufficient to meet normal operating requirements.

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our corporate headquarters are located in approximately 31,000 square feet of office space that we lease at 2401 East Katella Avenue, Anaheim, California. In addition, we lease office space in 24 other locations nationwide, principally in California and New York. In total, our facilities contain approximately 130,000 square feet of office space and are subject to leases that expire through October 2016. We rent a small portion of this space on a month-to-month basis. We believe that our existing facilities are adequate to meet current requirements and that suitable additional or substitute space will be available as needed to accommodate any expansion of operations and for additional offices.

ITEM 3. LEGAL PROCEEDINGS

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

In accordance with accounting standards regarding loss contingencies, we accrue an undiscounted liability for those contingencies where the incurrence of a loss is probable and the amount can be reasonably estimated, and we disclose the amount accrued and an estimate of any reasonably possible loss in excess of the amount accrued, if such disclosure is necessary for our financial statements not to

be misleading. We do not accrue liabilities when the likelihood that the liability has been incurred is probable but the amount cannot be reasonably estimated, or when the liability is believed to be only reasonably possible or remote.

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

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II**ITEM 5. MARKET FOR THE REGISTRANT'S COMMON STOCK, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES*****Market Information for Common Stock***

Since November 21, 2006, the common stock of Willdan Group, Inc. has been listed and traded on the Nasdaq Global Market under the symbol "WLDN". The following table sets out the high and low daily closing sale prices as reported on the NASDAQ Global Market for fiscal years 2013 and 2012. These reported prices reflect inter-dealer prices without adjustments for retail markups, markdowns, or commissions.

	2013		2012	
	High	Low	High	Low
1st Quarter	\$ 2.30	\$ 2.01	\$ 4.10	\$ 3.51
2nd Quarter	\$ 3.70	\$ 2.18	\$ 3.70	\$ 1.42
3rd Quarter	\$ 3.75	\$ 2.76	\$ 1.79	\$ 1.16
4th Quarter	\$ 5.50	\$ 3.53	\$ 2.25	\$ 1.49

On March 17, 2014, the closing sales price per share of our common stock, as reported on the Nasdaq Global Market, was \$4.50.

Stockholders

As of March 17, 2014, there were 134 stockholders of record of our common stock.

Dividends

We did not declare or pay cash dividends on our common stock in fiscal years 2013 and 2012. Our revolving credit agreement prohibits the payment of any dividend or distribution on our common stock either in cash, stock or any other property without the lender's consent.

Recent Sales of Unregistered Securities

In the three years preceding the filing of this report, we have not issued any securities in transactions that were not registered under the Securities Act.

Issuer Purchases of Equity Securities

None.

ITEM 6. SELECTED FINANCIAL DATA

The financial data set forth below should be read in conjunction with our corresponding consolidated financial statements and notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this annual report.

	Fiscal Year				
	2013	2012	2011	2010	2009
(in thousands except per share amounts)					
Consolidated Statement of Operations Data:					
Contract revenue	\$ 85,510	\$ 93,443	\$ 107,165	\$ 77,896	\$ 61,605
Direct costs of contract revenue (exclusive of depreciation and amortization shown separately below):					
Salaries and wages	24,098	23,218	25,714	21,607	18,130
Subcontractor services and other direct costs	24,831	35,741	39,013	20,415	10,712
Total direct costs of contract revenue	48,929	58,959	64,727	42,022	28,842
General and administrative expenses:					
Salaries and wages, payroll taxes, employee benefits	20,555	22,421	22,594	17,582	20,325
Facilities and facility related	4,654	4,871	4,875	4,290	4,430
Stock-based compensation	150	227	201	235	272
Depreciation and amortization	517	671	877	1,042	1,814
Lease abandonment (recovery), net	30	26	2	(68)	707
Impairment of goodwill	—	15,208	—	—	2,763
Litigation accrual (reversal)	—	—	—	—	(1,125)
Other	8,067	10,315	10,488	9,719	11,070
Total general and administrative expenses	33,973	53,739	39,037	32,800	40,256
Income (loss) from operations	2,608	(19,255)	3,401	3,074	(7,493)
Other income (expense):					
Interest income	10	6	5	12	30
Interest expense	(94)	(106)	(77)	(54)	(38)
Other, net	238	(28)	1	32	(5)
Total other income (expense), net	154	(128)	(71)	(10)	(13)
Income (loss) before income tax expense	2,762	(19,383)	3,330	3,064	(7,506)
Income tax expense (benefit)	132	(2,083)	1,500	344	(1,931)
Net income (loss)	\$ 2,630	\$ (17,300)	\$ 1,830	\$ 2,720	\$ (5,575)
Earnings (loss) per common share:					
Basic	\$ 0.36	\$ (2.37)	\$ 0.25	\$ 0.38	\$ (0.78)
Diluted	\$ 0.35	\$ (2.37)	\$ 0.24	\$ 0.37	\$ (0.78)
Weighted average common shares outstanding: Basic	7,355	7,310	7,262	7,233	7,192
Diluted	7,495	7,310	7,485	7,311	7,192
Other Operating Data (unaudited):					
Adjusted EBITDA (1)	\$ 3,455	\$ (3,294)	\$ 4,350	\$ 4,074	\$ (3,333)
Employee headcount at period end (2)	534	534	562	540	466

	Fiscal Year Ended				
	December 27, 2013	December 28, 2012	December 30, 2011	December 31, 2010	January 1, 2010
Consolidated Balance Sheet Data:					
Cash and cash equivalents, including restricted cash	\$ 8,134	\$ 10,006	\$ 3,001	\$ 6,642	\$ 8,445
Working capital	15,706	13,099	13,083	18,060	16,704
Total assets	38,237	41,977	64,311	49,454	40,332
Total indebtedness	731	3,904	1,232	1,490	1,230
Total stockholders' equity	20,213	17,351	34,293	32,162	29,117

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

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

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

	Fiscal Year				
	2013	2012	2011	2010	2009
Net income (loss)	\$ 2,630	\$ (17,300)	\$ 1,830	\$ 2,720	\$ (5,575)
Interest income	(10)	(6)	(5)	(12)	(30)
Interest expense	94	106	77	54	38
Income tax expense (benefit)	132	(2,083)	1,500	344	(1,931)
Lease abandonment expense (recovery)	30	26	2	(68)	707
Impairment of goodwill	—	15,208	—	—	2,763
Depreciation and amortization	585	737	944	1,053	1,814
(Gain) loss on sale of assets	(6)	18	2	(17)	6
Litigation reversal	—	—	—	—	(1,125)
Adjusted EBITDA	<u>\$ 3,455</u>	<u>\$ (3,294)</u>	<u>\$ 4,350</u>	<u>\$ 4,074</u>	<u>\$ (3,333)</u>

- (2) Includes full-time and part-time employees.

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

Overview

We are a provider of professional technical and consulting services to public agencies at all levels of government, public and private utilities, and commercial and industrial firms. We enable these entities to provide a wide range of specialized services without having to incur and maintain the overhead necessary to develop staffing in-house. We assist our clients with a broad range of complementary services relating to:

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

We operate our business through a network of offices located primarily in California and New York. We also have operations in Arizona, Florida, Texas, Washington and Washington, DC. As of December 27, 2013, we had a staff of 534 which includes licensed engineers and other professionals. Historically, our clients have primarily been public agencies in communities with populations ranging from 10,000 to 300,000 people. We believe communities of this size are underserved by large outsourcing companies that tend to focus on securing large federal and state projects, as well as projects for the private sector. Since fiscal 2008, we have begun to provide increased services to public and private utilities that service major metropolitan communities and commercial and industrial firms, particularly in connection with the growth of our energy efficiency and sustainability services. We seek to establish close working relationships with our clients and expand the breadth and depth of the services we provide to them over time.

While we currently serve communities throughout the country, our business with public agencies is concentrated in California and Arizona. We provide services to approximately 62% of the 482 cities and approximately 76% of the 58 counties in California. We also serve special districts, school districts, a range of public agencies and private industry. Our business with public and private utilities is concentrated in California and New York.

We were founded in 1964 and Willdan Group, Inc., a Delaware corporation, was formed in 2006 to serve as our holding company. We 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 operations of our subsidiaries, Willdan Engineering, Willdan Infrastructure and Public Agency Resources ("PARs"). Willdan Engineering provides civil engineering-related and city planning services to our clients. PARs primarily provides staffing to Willdan Engineering. Contract revenue for the Engineering Services segment represented approximately 41% and 36% of our overall consolidated contract revenue for fiscal years 2013 and 2012, respectively.
- *Energy Efficiency Services.* Our Energy Efficiency Services segment consists of the business of our subsidiary, Willdan Energy Solutions, which offers energy efficiency and sustainability consulting services to utilities, public agencies and private industry. This segment is currently our largest segment based on contract revenue, representing approximately 42% and 49% of our consolidated contract revenue for fiscal years 2013 and 2012, respectively.
- *Public Finance Services.* Our Public Finance Services segment consists of the business of our subsidiary, Willdan Financial Services, which offers economic and financial consulting services to public agencies. Contract revenue for the Public Finance Services segment represented

approximately 12% and 11% of our consolidated contract revenue for fiscal years 2013 and 2012, respectively.

- *Homeland Security Services.* Our Homeland Security Services segment consists of the business of our subsidiary, Willdan Homeland Solutions, which offers national preparedness and interoperability services and communications and technology solutions. Contract revenue for our Homeland Security Services segment represented approximately 5% and 4% of our consolidated contract revenue for fiscal years 2013 and 2012, respectively.

While we were profitable in fiscal year 2013 and fiscal year 2011, our profitability in fiscal year 2012 was severely impacted by a goodwill impairment charge related to our Energy Efficiency Services segment.

Recent Developments

We amended our revolving line of credit with Wells Fargo on March 20, 2014. The Wells Fargo credit facility was scheduled to mature on April 1, 2014. On March 20, 2014, we amended the facility by reducing the revolving line of credit from \$5.0 million to \$75,905 and extending its maturity to June 1, 2014. We amended the Wells Fargo credit facility in connection with entering into a new \$7.5 million revolving credit facility with BMO Harris Bank, N.A. on March 24, 2014. The new BMO Harris revolving credit facility matures on March 24, 2016. For further information on our new revolving credit facility, see "—Liquidity and Capital Resources—Outstanding Indebtedness" elsewhere in this report.

Components of Income and Expense

Contract Revenue

We provide our services under contracts, purchase orders or retainer letters. The contracts we enter into with our clients contain three principal types of pricing provisions: time and materials, unit based, and fixed price. Revenue on our time and materials and unit based contracts are recognized as the work is performed in accordance with specific terms of the contract. Approximately 29% of our contracts are based on contractual rates per hour plus costs incurred. Some of these contracts include maximum contract prices, but the majority of these contracts are not expected to exceed the maximum. Contract revenue on our fixed price contracts is determined on the percentage of completion method based generally on the ratio of direct costs incurred to date to estimated total direct costs at completion. Many of our fixed price contracts are relatively short in duration, thereby lowering the risks of not properly estimating the percent complete.

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

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

Direct Costs of Contract Revenue

Direct costs of contract revenue consist primarily of subcontractor services and that portion of technical and nontechnical salaries and wages that have been incurred in connection with revenue producing projects. Direct costs of contract revenue also include production expenses and other expenses that are incurred in connection with revenue producing projects. Direct costs of contract revenue generally exclude depreciation and amortization, that portion of technical and nontechnical salaries and wages related to marketing efforts, vacations, holidays and other time not spent directly generating revenue under existing contracts. Such costs are included in general and administrative expenses. Additionally, payroll taxes, bonuses and employee benefit costs for all of our personnel are included in general and administrative expenses since no allocation of these costs is made to direct costs of contract revenue. No allocation of facilities costs is made to direct costs of contract revenue nor is depreciation and amortization allocated to direct costs. We expense direct costs of contract revenue when incurred.

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

General and Administrative Expenses

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

Critical Accounting Policies

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

Contract Accounting

We enter into contracts with clients that contain three principal types of pricing provisions: fixed price, time-and-materials, and unit-based. Revenue on fixed price contracts is recognized on the

percentage-of-completion method based generally on the ratio of direct costs (primarily exclusive of depreciation and amortization costs) incurred to date to estimated total direct costs at completion. Revenue on time-and-materials and unit-based contracts is recognized as the work is performed in accordance with the specific terms of the contract. Contracts that provide for multiple services or deliverables are evaluated as multiple element arrangements to determine the appropriate unit of accounting, allocation of contract value, and method of revenue recognition for each element. Revenue for amounts that have been billed but not earned is deferred and such deferred revenue is referred to as billings in excess of costs and estimated earnings on uncompleted contracts in the accompanying consolidated balance sheets. Service-related contracts, including operations and maintenance services and a variety of technical assistance services, are accounted for over the period of performance, in proportion to the costs of performance.

Applying the percentage-of-completion method of recognizing revenue requires us to estimate the outcome of our long-term contracts. We forecast such outcomes to the best of our knowledge and belief of current and expected conditions and our expected course of action. Differences between our estimates and actual results often occur resulting in changes to reported revenue and earnings. Such changes could have a material effect on our future consolidated financial statements.

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

Goodwill

We test our goodwill at least annually for possible impairment. We complete our annual testing of goodwill as of the last day of the first month of our fourth fiscal quarter each year to determine whether there is impairment. In addition to our annual test, we regularly evaluate whether events and circumstances have occurred that may indicate a potential impairment of goodwill. We recognized a goodwill impairment charge of \$15.2 million related to our Energy Solutions reporting unit during fiscal year 2012. Following this impairment charge, none of our reporting units had any goodwill remaining. We did not recognize any goodwill impairment charges in fiscal years 2013 or 2011.

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

Once the fair value is determined, we then compare the fair value of the reporting unit to its carrying value, including goodwill. If the fair value of the reporting unit is determined to be less than the carrying value, we perform an additional assessment to determine the extent of the impairment

based on the implied fair value of goodwill compared with the carrying amount of the goodwill. In the event that the current implied fair value of the goodwill is less than the carrying value, an impairment charge is recognized.

Inherent in such fair value determinations are significant judgments and estimates, including but not limited to assumptions about our future revenue, profitability and cash flows, our operational plans and our interpretation of current economic indicators and market valuations. To the extent these assumptions are incorrect or economic conditions that would impact the future operations of our reporting units change, any goodwill may be deemed to be impaired, and an impairment charge could result in a material adverse effect on our financial position or results of operation. During the second quarter of 2012, we determined that a quantitative assessment of our goodwill was warranted for the Energy Solutions reporting unit. This assessment indicated that the estimated fair value of such reporting unit was less than its carrying value. For this testing, we weighted the income approach and the market approach at 80% and 20%, respectively. The income approach was given a higher weight because it has a more direct correlation to the specific economics of the reporting units than the market approach, which is based on multiples of public companies that, although comparable, may not provide the same mix of services as our reporting units. We determined that all of the remaining goodwill for the Energy Solutions reporting unit was impaired and recognized an impairment charge of \$15.2 million in fiscal year 2012.

Accounting for Claims Against the Company

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

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

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences of temporary differences between the financial reporting basis and tax basis of our assets and liabilities, subject to a judgmental assessment of recoverability of deferred tax assets. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is recorded when it is more likely than not that some of the deferred tax assets may not be realized.

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

Results of Operations

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

	Fiscal Year		
	2013	2012	2011
Statement of Operations Data:			
Contract revenue	100.0%	100.0%	100.0%
Direct costs of contract revenue (exclusive of depreciation and amortization shown separately below)			
Salaries and wages	28.2	24.8	24.0
Subcontractor services and other direct costs	29.0	38.2	36.4
Total direct costs of contract revenue	57.2	63.1	60.4
General and administrative expenses:			
Salaries and wages, payroll taxes, employee benefits	24.0	24.0	21.1
Facilities and facility related	5.4	5.2	4.5
Stock-based compensation	0.2	0.2	0.2
Depreciation and amortization	0.6	0.7	0.8
Impairment of goodwill	—	16.3	—
Other	9.4	11.0	9.8
Total general and administrative expenses	39.7	57.5	36.4
Income (loss) from operations	3.0	(20.6)	3.2
Other income (expense):			
Interest income	—	—	—
Interest expense	0.1	(0.1)	(0.1)
Other, net	0.3	—	—
Total other income (expense), net	0.4	(0.1)	(0.1)
Income (loss) before income taxes	3.2	(20.7)	3.1
Income tax expense (benefit)	0.1	(2.2)	1.4
Net income (loss)	3.1%	(18.5)%	1.7%

Fiscal Year 2013 Compared to Fiscal Year 2012

Contract revenue. Our contract revenue was \$85.5 million for fiscal year 2013, with \$35.2 million attributable to the Engineering Services segment, \$36.0 million attributable to the Energy Efficiency Services segment, \$9.8 million attributable to the Public Finance Services segment, and \$4.4 million attributable to the Homeland Security Services segment. Consolidated contract revenue decreased \$7.9 million, or 8.5%, to \$85.5 million for fiscal year 2013 from \$93.4 million for fiscal year 2012. This decrease was due primarily to a decrease of \$9.5 million, or 20.9%, in contract revenue for the Energy Efficiency Services segment. Contract revenue for the Energy Efficiency Services segment decreased primarily because of decreased energy efficiency services in the state of New York, where we are providing fewer services than we did in the prior year period. Contract revenue for the Engineering Services segment increased by \$1.2 million, or 3.5%, to \$35.2 million for fiscal year 2013 from \$34.0 million for fiscal year 2012. Contract revenue for the Engineering Services segment increased primarily due to greater demand for our city engineering services in California and our building and safety, construction management and geotechnical services. Contract revenue in the Homeland Security Services segment increased by \$0.3 million, or 7.8%, to \$4.4 million for fiscal year 2013 from \$4.1 million for fiscal year 2012. Revenue in the Homeland Security Services segment increased due to

higher levels of activity in the traditional planning, training and exercise consulting services business. Contract revenue for our Public Finance Services segment remained flat at \$9.8 million for fiscal year 2013, as compared to fiscal year 2012.

Direct costs of contract revenue. Direct costs of contract revenue were \$48.9 million for fiscal year 2013, with \$19.0 million attributable to the Engineering Services segment, \$23.1 million attributable to the Energy Efficiency Services segment, \$4.0 million attributable to the Public Finance Services segment, and \$2.8 million attributable to the Homeland Security Services segment. Overall, direct costs of contract revenue decreased by \$10.0 million, or 17.0%, to \$48.9 million for fiscal year 2013 from \$59.0 million for fiscal year 2012. This decrease is primarily attributable to a decrease in direct costs within our Energy Efficiency Services segment of \$11.5 million, or 33.2%. This decrease was partially offset by increases of \$0.6 million, or 18.7%, \$0.6 million or 25.3% and \$0.3 million or 1.5%, respectively, in our Public Finance Services, Homeland Security Services and Engineering Services segments. Direct costs of contract revenue as a percentage of contract revenue for fiscal year 2013 decreased to 57.2% from 63.1% for fiscal year 2012.

Direct costs decreased primarily as a result of a decrease in subcontractor services (used primarily by our Energy Efficiency Services segment) and other direct costs of \$10.9 million, partially offset by an increase in salaries and wages of \$0.9 million. Salaries and wages increased to 28.2% of contract revenue for fiscal year 2013 from 24.8% for fiscal year 2012 and subcontractor services and other direct costs decreased to 29.0% of contract revenue for fiscal year 2013 from 38.2% of contract revenue for fiscal year 2012. Salaries and wages categorized as direct costs of contract revenue increased as a result of increased chargeability of labor. Subcontractor services decreased primarily because of decreased use of subcontractor services to perform certain energy efficiency, sustainability and renewable energy services of our subsidiary Willdan Energy Solutions, which generally utilizes a higher percentage of subcontractors than our other subsidiaries.

General and administrative expenses. General and administrative expenses decreased by \$19.8 million, or 36.6%, to \$34.0 million for fiscal year 2013 from \$53.7 million for fiscal year 2012. This decrease resulted from, in part, decreases of \$17.6 million and \$1.0 million in the general and administrative expenses of the Energy Efficiency Services and the Engineering Services segments, respectively. General and administrative expenses for our Public Finance Services and Homeland Security Services segments also decreased by \$0.2 million and \$0.9 million, respectively. General and administrative expenses as a percentage of contract revenue decreased to 39.7% for fiscal year 2013 from 57.5% for fiscal year 2012.

Of the \$19.8 million decrease in general and administrative expenses, approximately \$15.2 million was related to a goodwill impairment charge we recognized relating to our Energy Efficiency Services segment in fiscal year 2012 and we had no impairment charges in fiscal year 2013. See "Note. 4—Goodwill and Other Intangible Assets." Salaries and wages, payroll taxes and employee benefits also decreased by \$1.9 million, primarily as a result of increased chargeability of labor. As discussed above under "—Components of Income and Expense—Direct Costs of Contract Revenue," we only allocate that portion of salaries and wages related to time spent directly generating revenue to direct costs of contract revenue. Other general and administrative expenses decreased by \$2.3 million this decrease is primarily attributable to decreases in other expenses, marketing expenses, professional service fees, and accounting, legal and recruiting expenses. The remaining \$0.4 million decrease relates to decreases in facilities and facility related expenses, and depreciation and amortization expenses each of \$0.2 million.

Income (loss) from operations. As a result of the above factors, our operating income was \$2.6 million for fiscal year 2013 as compared to an operating loss of \$19.3 million for fiscal year 2012. Income from operations, as a percentage of contract revenue, was 3.0% for fiscal year 2013, while loss from operations, as a percentage of contract revenue, was 20.6% for fiscal year 2012.

Other income (expense). Other income was \$154,000 for fiscal year 2013 as compared to other expense of \$128,000 for fiscal year 2012. The increase is primarily the result of income from the sale of a subsidiary asset and lower interest expense due to decreased borrowings under the Wells Fargo line of credit.

Income tax expense (benefit). We recorded an income tax expense of \$132,000 for fiscal year 2013, as compared to an income tax benefit of \$2.1 million for fiscal year 2012. The income tax expense is attributable to higher pre-tax income in fiscal year 2013. For further discussion of our income tax provision, see Note 12 "—Income Taxes" of notes to our consolidated financial statements.

Net (loss) income. As a result of the above factors, our net income was \$2.6 million for fiscal year 2013, as compared to a net loss of \$17.3 million for fiscal year 2012.

Fiscal Year 2012 Compared to Fiscal Year 2011

Contract revenue. Our contract revenue was \$93.4 million for fiscal year 2012, with \$34.0 million attributable to the Engineering Services segment, \$45.5 million attributable to the Energy Efficiency Services segment, \$9.8 million attributable to the Public Finance Services segment, and \$4.1 million attributable to the Homeland Security Services segment. Consolidated contract revenue decreased \$13.7 million, or 12.8%, to \$93.4 million for fiscal year 2012 from \$107.2 million in the fiscal year ended December 30, 2011. This decrease was due primarily to a decrease of \$12.2 million, or 21.1%, in contract revenue for the Energy Efficiency Services segment. Contract revenue for the Engineering Services segment increased by \$0.2 million, or 0.5%, to \$34.0 million for fiscal year 2012 from \$33.9 million for the fiscal year ended December 30, 2011. Contract revenue in the Homeland Security Services segment decreased by \$1.8 million, or 30.7%, to \$4.1 million for fiscal year 2012 from \$5.9 million for the fiscal year ended December 30, 2011. Contract revenue for our Public Finance Services segment increased by \$0.1 million, or 1.0%, to \$9.8 million for fiscal year 2012 from \$9.7 million for the fiscal year ended December 30, 2011.

Contract revenue for the Energy Efficiency Services segment decreased primarily as a result of a decrease in the direct installation of energy efficiency measures from the energy efficiency audits in New York and California and delays in the renewal of contracts for such services in those states. Revenue in the Homeland Security Services segment decreased due to lower levels of activity in the traditional planning, training and exercise consulting services business. Contract revenue for the Engineering Services segment continues to be impacted by the decline in the California residential housing market and state and local government budget cuts.

Direct costs of contract revenue. Direct costs of contract revenue were \$59.0 million for fiscal year 2012, with \$18.8 million attributable to the Engineering Services segment, \$34.6 million attributable to the Energy Efficiency Services segment, \$3.4 million attributable to the Public Finance Services segment, and \$2.2 million attributable to the Homeland Security Services segment. Overall, direct costs of contract revenue decreased by \$5.8 million, or 8.9%, to \$59.0 million for fiscal year 2012 from \$64.7 million for the fiscal year ended December 30, 2011. This decrease is primarily attributable to a decrease in direct costs within our Energy Efficiency Services segment of \$6.4 million, or 15.7%, as a result of delays in the renewal of contracts for the provision of these services. Direct costs of contract revenue also decreased by \$0.8 million, or 26.3%, in our Homeland Solutions Services segment. These decreases were partially offset by increases of \$1.1 million, or 6.0%, and \$0.4 million, or 12.8%, respectively, in our Engineering Services and Public Finance Services segments. Direct costs of contract revenue as a percentage of contract revenue for fiscal year 2012 increased to 63.1% from 60.4% for the fiscal year ended December 30, 2011.

Direct costs decreased primarily as a result of decreases in salaries and wages and subcontractor services and other direct costs of \$2.5 million and \$3.3 million, respectively. Salaries and wages

categorized as direct costs of contract revenue decreased as a result of decreased chargeability of labor and decreased headcount. Salaries and wages as a percentage of contract revenue remained relatively constant in the 2012 period as compared to the 2011 period. Subcontractor services and other direct costs increased to 38.2% of contract revenue for fiscal year 2012 from 36.4% of contract revenue for the fiscal year ended December 30, 2011. Subcontractor costs declined because of a reduction in activity within our Energy Efficiency Services segment as a result of delays in the renewal of contracts for the provision of energy efficiency related projects.

General and administrative expenses. General and administrative expenses increased by \$14.7 million, or 37.7%, to \$53.7 million for fiscal year 2012 from \$39.0 million for the fiscal year ended December 30, 2011. This was due primarily to an increase of \$16.8 million in the general and administrative expenses of the Energy Efficiency Services segment, partially offset by decreases of \$0.3 million, \$0.1 million and \$1.0 million in the general and administrative expenses of the Engineering Services, Public Finance Services and Homeland Security Services segments, respectively. Unallocated corporate expenses decreased by \$0.7 million. General and administrative expenses as a percentage of contract revenue increased to 57.5% for fiscal year 2012 from 36.4% for the fiscal year ended December 30, 2011.

The increase in general and administrative expenses primarily resulted from a \$15.2 million goodwill impairment charge we recognized relating to our Energy Efficiency Services segment. See "—Components of Income and Expense—Goodwill." General and administrative expenses for fiscal year 2012 also included decreases of \$0.2 million from salaries and wages, payroll taxes and employee benefits, \$0.2 million as a result of a decrease in depreciation and amortization charges, and \$0.1 million from other general and administrative expenses.

(Loss) income from operations. As a result of the above factors, our operating loss was \$19.3 million for fiscal year 2012 as compared to operating income of \$3.4 million for the fiscal year ended December 30, 2011. Loss from operations, as a percentage of contract revenue, was 20.6% for fiscal year 2012, while income from operations, as a percentage of contract revenue, was 3.2% for the fiscal year ended December 30, 2011.

Other (expense) income. Other expense was \$128,000 for fiscal year 2012 as compared to other expense of \$71,000 for the fiscal year ended December 30, 2011. The increase is primarily the result of higher interest expense due to increased borrowings under our line of credit.

Income tax (benefit) expense. We recorded an income tax benefit of \$2.1 million for fiscal year 2012, as compared to an income tax expense of \$1.5 million for the fiscal year ended December 30, 2011. The income tax benefit is attributable to the \$15.2 million of goodwill impairment included in our pretax loss for fiscal year 2012, offset by a valuation allowance of \$5.5 million due to the uncertainty of realization of net deferred tax assets after the reduction of deferred tax liabilities associated with the goodwill impairment. The effective tax rates for fiscal year 2012 differ from the U.S. tax statutory rate of 35% primarily due to state income tax rates, permanent items that are not deductible for U.S. tax purposes, and the establishment of the valuation allowance during fiscal year 2012. For further discussion of our income tax provision, see Note 12 "—Income Taxes" of notes to our consolidated financial statements.

Net (loss) income. As a result of the above factors, our net loss was \$17.3 million for fiscal year 2012, compared to net income of \$1.8 million for the fiscal year ended December 30, 2011.

Liquidity and Capital Resources

As of December 27, 2013, we had \$8.1 million of cash and cash equivalents, including restricted cash. Our primary source of liquidity is cash generated from operations. We also have a revolving line of credit with BMO Harris Bank, N.A., which matures on March 24, 2016. While we believe that our

cash and cash equivalents on hand, cash generated by operating activities and available borrowings under our revolving line of credit will be sufficient to finance our operating activities for at least the next 12 months, if we do experience a cash flow shortage, we may have difficulty obtaining additional funds on favorable terms, if at all, in order to meet obligations as they come due in the normal course of business.

Cash Flows from Operating Activities

Cash flows provided by operating activities were \$1.2 million for fiscal year 2013, as compared to cash flows provided by operating activities of \$5.3 million in fiscal year 2012 and cash flows used in operating activities of \$0.7 million for fiscal year 2011. Our cash flows provided by operating activities for fiscal year 2013 resulted from a decrease in accounts payable and an increase in costs and estimated earnings in excess of billing on uncompleted contracts, partially offset by a decrease in accounts receivable and an increase in accrued liabilities. Our cash flows provided by operating activities for fiscal year 2012 were higher than for fiscal year 2011 despite lower contract revenue due primarily to decreases in costs and estimated earnings in excess of billings on uncompleted contracts and accounts receivable, and an increase in billings in excess of costs and estimated earnings on uncompleted contracts. In fiscal year 2012, these items were partially offset by decreases in accrued liabilities and accounts payable. Our cash flows used in operating activities for fiscal year 2011 primarily resulted from increases in accounts receivable and costs and estimated earnings in excess of billings on uncompleted contracts, partially offset by increases in accounts payable and accrued liabilities. Our cash flows from operating activities were also reduced by non-cash revenue of \$0.9 million from a subcontractor settlement for fiscal year 2011.

Cash Flows from Investing Activities

Cash flows used in investing activities were \$0.3 million for each of fiscal years 2013 and 2012. Cash flows used in investing activities were \$3.1 million for fiscal year 2011. There were no payments related to business acquisitions in fiscal years 2013 or 2012, compared to \$2.7 million for fiscal year 2011. These payments were made in accordance with the provisions of the stock purchase agreement for the 2008 purchase of Willdan Energy Solutions. Aside from payments for business acquisitions, our cash used in investing activities primarily related to the purchase of equipment and leasehold improvements.

Cash Flows from Financing Activities

Cash flows used in financing activities were \$2.8 million for fiscal year 2013, as compared to cash flows provided by financing activities of \$2.1 million and \$0.2 million for fiscal years 2012 and 2011, respectively. The net cash flows used in financing activities for fiscal year 2013 increased by \$4.9 million from fiscal year 2012 primarily due to a decrease in net borrowings under our line of credit during fiscal year 2013. The net cash flows provided by financing activities in fiscal year 2012 were primarily attributable to borrowings under our revolving line of credit, partially offset by repayments of our revolving line of credit and changes in the excess of outstanding checks over bank balance. The net cash flows provided by financing activities in fiscal 2011 were primarily attributable to changes in the excess of outstanding checks over bank balance and proceeds from notes payable, partially offset by repayments of our revolving line of credit.

Outstanding Indebtedness

On March 20, 2014, we amended our credit agreement with Wells Fargo Bank N.A. to reduce the size of the facility from \$5.0 million to \$75,905 and extended its maturity from April 1, 2014 to June 1, 2014. There were no outstanding borrowings under this agreement as of December 27, 2013 and we were in compliance with each of our covenants under the Wells Fargo credit agreement as of

December 27, 2013. We amended the Wells Fargo credit facility in connection with entering into a new credit facility with BMO Harris Bank, N.A. ("BMO"). We have financed, from time to time, insurance premiums by entering into unsecured notes payable with insurance companies. During our annual insurance renewals in the fourth quarter of our fiscal year ended December 27, 2013, we elected to finance our insurance premiums for the upcoming fiscal year.

We currently have a revolving credit agreement with BMO Harris Bank, N.A. ("BMO"), which was entered into on March 24, 2014 and became effective as of March 24, 2014. Our credit agreement with BMO provides for a \$7.5 million revolving line of credit, including a \$5.0 million standby letter of credit sub-facility and a \$2.5 million secured term loan, and matures on March 24, 2016. Loans made under the revolving line of credit will accrue interest at either (i) a floating rate equal to 0.75% above the base rate in effect from time to time or (ii) a floating rate equal to 1.75% above LIBOR, with the interest rate to be selected by us.

Borrowings under the revolving line of credit are guaranteed by all of our subsidiaries (the "Guarantors") and secured by all of our and the Guarantors' accounts receivable and other rights to payment, general intangibles, inventory and equipment. Pursuant to the credit agreement, we also must pay a fee of up to 0.3% on unused commitments and customary fees on any letters of credit drawn under the facility.

The credit agreement contains customary representations and affirmative covenants, including financial covenants that require us to maintain (i) a maximum total leverage ratio, measured as total funded debt (measured as the sum of all obligations for borrowed money, including subordinated debt, plus all capital lease obligations) plus capital leases plus financial letters of credit divided by a trailing twelve month EBITDA (as defined in the credit agreement) measured on a rolling basis) of not more than 2.00; (ii) a minimum fixed charge coverage ratio (measured as the sum of EBITDA plus rent expense less unfinanced capital expenditures divided by the sum of rent expense plus principal payments plus cash taxes plus cash interest plus restricted payments plus distributions) of not less than 1.25; and (iii) a minimum tangible net worth of at least 85% of actual tangible net worth for the last financial statements received prior to the closing date of the agreement, with step ups in an amount equal to 50% of net income (if positive) for each fiscal quarter ending thereafter (no add-back for losses).

The credit agreement also includes customary negative covenants, including (i) restrictions on the incurrence of additional indebtedness by us or the Guarantors other than indebtedness existing on the date of the credit agreement, (ii) restrictions on the total consideration for all permitted acquisitions (including potential future earn-out obligations) shall not exceed \$2.5 million during the term of the agreement and the total consideration for any individual permitted acquisition shall not exceed \$750,000 without BMO's consent, and (iii) limitations on asset sales, mergers and acquisitions. In addition, the credit agreement includes customary events of default. Upon the occurrence of an event of default, the interest rate may be increased by 2.0%, BMO has the option to make any loans then outstanding under the credit agreement immediately due and payable, and BMO is no longer obligated to extend further credit to us under the credit agreement.

Loans made under the Wells Fargo credit facility during fiscal year 2013 accrued interest at a floating rate of LIBOR plus 2.25%. We also were required to pay a 0.25% fee on unused commitments and customary fees on any letters of credit drawn under the facility. There were no outstanding borrowings under the Wells Fargo credit facility as of December 27, 2013 and we were in compliance with each of our covenants under the Wells Fargo credit agreement as of December 27, 2013.

Contractual Obligations

We have certain cash obligations and other commitments which will impact our short- and long-term liquidity. At December 27, 2013, 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 27, 2013:

<u>Contractual Obligations</u>	<u>Total</u>	<u>Less than 1 Year</u>	<u>1 - 3 Years</u>	<u>3 - 5 Years</u>	<u>More than 5 Years</u>
Long term debt(1)	\$ 517,000	\$ 517,000	\$ —	\$ —	\$ —
Operating leases	3,989,000	2,848,000	1,141,000	—	—
Capital leases	269,000	159,000	110,000	—	—
Total contractual cash obligations	<u>\$ 4,775,000</u>	<u>\$ 3,524,000</u>	<u>\$ 1,251,000</u>	<u>\$ —</u>	<u>\$ —</u>

- (1) Long-term debt includes principal and interest payments under our debt agreements assuming no additional borrowings or principal payments and includes borrowings under our line of credit.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

New Accounting Pronouncements

In July 2013, the FASB issued guidance that requires entities to present an unrecognized tax benefit, or a portion of an unrecognized tax benefit, as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward when settlement in this manner is available under the tax law and we intend to use the deferred tax asset for that purpose. The amendments in this update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 2013. We are currently evaluating the impact the adoption of this standard will have on our consolidated financial statements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

We had cash and cash equivalents of \$8.1 million as of December 27, 2013. This amount includes \$5.0 million invested in the Wells Fargo Collateral Investment account, \$1.1 million invested in the Wells Fargo Stage Coach Sweep Investment Account and \$1.0 million invested in the Wells Fargo Money Market Mutual Fund. The balance of \$1.0 million represents cash on hand in business checking accounts. Although these investments are subject to variable interest rates, we do not believe we are subject to significant market risk for these short-term investments.

We do not engage in trading activities and do not participate in foreign currency transactions or utilize derivative financial instruments. As of December 27, 2013, we had no outstanding debt under the Wells Fargo revolving credit facility.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

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

There were no changes in and/or disagreements with accountants on accounting and financial disclosure during the year ended December 27, 2013.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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

In connection with the preparation of this Annual Report, an evaluation was performed under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures as of December 27, 2013. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective, at a reasonable assurance level, as of December 27, 2013. No change in our internal control over financial reporting occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended). Internal control over financial reporting is a process to provide reasonable assurance regarding the reliability of our financial reporting for external purposes in accordance with accounting principles generally accepted in the United States. Because of its inherent limitations, internal control over financial reporting is not intended to provide absolute assurance that a misstatement of our financial statements would be prevented or detected. Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, assessed the effectiveness of our internal control over financial reporting as of December 27, 2013. In making this assessment, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control—Integrated Framework (1992 Framework). Our management has concluded that, as of December 27, 2013, our internal control over financial reporting was effective based on these criteria.

Report of Independent Registered Public Accounting Firm

This annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to the rules of the Securities and Exchange Commission that permit the company to provide only management's report in this annual report.

Changes in Internal Controls

Based on our evaluation carried out in accordance with SEC Rule 15d-15(b) under the supervision and with the participation of our management, including our President and Chief Executive Officer and our Chief Financial Officer, we concluded that there were no changes during the fourth fiscal quarter of 2013 of our internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by this item is incorporated by reference to Willdan Group, Inc.'s Proxy Statement for its 2014 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the Company's 2013 fiscal year.

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

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item is incorporated by reference to Willdan Group, Inc.'s Proxy Statement for its 2014 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the Company's 2013 fiscal year.

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

The information required by this item is incorporated by reference to Willdan Group, Inc.'s Proxy Statement for its 2014 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the Company's 2013 fiscal year.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this item is incorporated by reference to Willdan Group, Inc.'s Proxy Statement for its 2014 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the Company's 2013 fiscal year.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this item is incorporated by reference to Willdan Group, Inc.'s Proxy Statement for its 2014 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the Company's 2013 fiscal year.

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

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

1. Financial Statements

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

	<u>Page</u>
Report of Independent Registered Public Accounting Firm	F-1
Consolidated Balance Sheets as of December 27, 2013 and December 28, 2012	F-2
Consolidated Statements of Operations for each of the fiscal years in the three-year period ended December 27, 2013	F-3
Consolidated Statements of Stockholders' Equity for each of the fiscal years in the three-year period ended December 27, 2013	F-4
Consolidated Statements of Cash Flows for each of the fiscal years in the three-year period ended December 27, 2013	F-5
Notes to Consolidated Financial Statements	F-6

2. Financial Statements Schedules

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

3. Exhibits

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

(b) Exhibits.

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

<u>Exhibit Number</u>	<u>Exhibit Description</u>
3.1	Articles of Incorporation of Willdan Group, Inc., including amendments thereto(1)
3.2	Amended and Restated Bylaws of Willdan Group, Inc.(2)
4.1	Specimen Stock Certificate for shares of the Registrant's Common Stock(1)
4.2	The Company agrees to furnish to the Securities and Exchange Commission upon request a copy of each instrument with respect to issues of long-term debt of Willdan Group, Inc. and its subsidiaries, the authorized principal amount of which does not exceed 10% of the consolidated assets of Willdan Group, Inc. and its subsidiaries.
10.1*	Credit Agreement, dated March 24, 2014, between Willdan Group, Inc. and BMO Harris Bank, National Association
10.2*	Form of Delayed Draw Term Note for \$2,500,000, dated as of March 24, 2014, by Willdan Group, Inc. in favor of BMO Harris Bank, N.A. (included as Exhibit C-1 to the Credit Agreement with BMO Harris Bank, N.A., filed as Exhibit 10.1)
10.3*	Revolving Line of Credit Note for \$7,500,000, dated as of March 24, 2014, by Willdan Group, Inc. in favor of BMO Harris Bank, National Association (included as Exhibit C-2 to the Credit Agreement with BMO Harris Bank, N.A., filed as Exhibit 10.1)

<u>Exhibit Number</u>	<u>Exhibit Description</u>
10.4*^	Security Agreement, dated as of March 24, 2014, between Willdan Group, Inc. and BMO Harris Bank, National Association
10.5†	Willdan Group, Inc. 2006 Stock Incentive Plan(1)
10.6†	Form of Incentive Stock Option Agreement(1)
10.7†	Form of Non-Qualified Stock Option Agreement(1)
10.8†	Amended and Restated Willdan Group, Inc. 2006 Employee Stock Purchase Plan(4)
10.9†	Form of Indemnification Agreement between Willdan Group, Inc. and its Directors and Officers(1)
10.10†	Offer Letter from Willdan Group, Inc. to Daniel Chow dated October 29, 2008 and accepted November 9, 2008(5)
10.11	Employment Agreement, dated as of May 3, 2011 by and between Willdan Group, Inc. and Thomas D. Brisbin(6)
10.12	Employment Agreement, dated as of May 3, 2011 by and between Willdan Group, Inc. and Marc Tipermas(6)
10.13†	Willdan Group, Inc. 2008 Performance Incentive Plan(7)
10.14	Agreement for Small Business Direct Install Program, dated July 2, 2012, between Consolidated Edison Company of New York, Inc. and Willdan Energy Solutions (portions of this exhibit have been omitted pursuant to a request for confidential treatment)(8)
14.1	Code of Ethical Conduct of Willdan Group, Inc.(4)
21.1*	Subsidiaries of Willdan Group, Inc.
23.1*	Consent of Independent Registered Public Accounting Firm
24.1*	Power of Attorney (included on signature page hereto)
31.1*	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to § 302 of the Sarbanes-Oxley Act of 2002
31.2*	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to § 302 of the Sarbanes-Oxley Act of 2002
32.1*	Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002
101	Interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Consolidated Balance Sheets as of December 27, 2013 and December 28, 2012; (ii) the Consolidated Statements of Operations for each of the fiscal years in the three-year period ended December 27, 2013; (iii) the Consolidated Statements of Stockholders' Equity for each of the fiscal years in the three-year period ended December 27, 2013; (iv) the Consolidated Statement of Cash Flows for each of the fiscal years in the three-year period ended December 27, 2013; and (v) the Notes to the Consolidated Financial Statements.

* Filed herewith.

- ^ Indicates that certain information contained herein has been omitted and confidentially submitted separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.
- † Indicates a management contract or compensating plan or arrangement.
- (1) Incorporated by reference to Willdan Group, Inc.'s Registration Statement on Form S-1, filed with the Securities and Exchange Commission on August 9, 2006, as amended (File No. 333-136444).
 - (2) Incorporated by reference to Willdan Group, Inc.'s Quarterly Report on Form 10-Q, filed with the Securities and Exchange Commission on August 13, 2009.
 - (3) Incorporated by reference to Willdan Group, Inc.'s Current Report on Form 8-K, filed with the Securities and Exchange Commission on December 27, 2011.
 - (4) Incorporated by reference to Willdan Group, Inc.'s Annual Report on Form 10-K, filed with the Securities and Exchange Commission on March 27, 2007.
 - (5) Incorporated by reference to Willdan Group, Inc.'s Current Report on Form 8-K, filed with the Securities and Exchange Commission on December 17, 2008.
 - (6) Incorporated by reference to Willdan Group, Inc.'s Current Report on Form 8-K, filed with the Securities and Exchange Commission on May 4, 2011.
 - (7) Incorporated by reference to Willdan Group, Inc.'s Proxy Statement for its 2012 Annual Meeting of Stockholders, filed with the Securities and Exchange Commission on April 18, 2012.
 - (8) Incorporated by reference to Willdan Group, Inc.'s Quarterly Report on Form 10-Q, filed with the Securities and Exchange Commission on November 8, 2011.

SIGNATURES AND CERTIFICATIONS

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Anaheim, State of California, on March 25, 2014.

WILLDAN GROUP, INC.

/s/ STACY B. MCLAUGHLIN

Stacy B. McLaughlin
Chief Financial Officer and Vice President

Date: March 25, 2014

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

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

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ THOMAS D. BRISBIN</u> Thomas D. Brisbin	Director, President and Chief Executive Officer (chief executive officer)	March 25, 2014
<u>/s/ STACY B. MCLAUGHLIN</u> Stacy B. McLaughlin	Chief Financial Officer and Vice President (chief financial officer and chief accounting officer)	March 25, 2014
<u>/s/ WIN WESTFALL</u> Win Westfall	Director	March 25, 2014
<u>/s/ KEITH W. RENKEN</u> Keith W. Renken	Director	March 25, 2014
<u>/s/ JOHN M. TOUPS</u> John M. Toups	Director	March 25, 2014
<u>/s/ RAYMOND W. HOLDSWORTH</u> Raymond W. Holdsworth	Director	March 25, 2014
<u>/s/ DOUGLAS J. MCEACHERN</u> Douglas J. McEachern	Director	March 25, 2014

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
Willdan Group, Inc.

We have audited the accompanying consolidated balance sheets of Willdan Group, Inc. and subsidiaries (the "Company") as of December 27, 2013 and December 28, 2012, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 27, 2013. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Willdan Group, Inc. and subsidiaries as of December 27, 2013 and December 28, 2012, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 27, 2013, in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young LLP

Los Angeles, California
March 25, 2014

WILLDAN GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	December 27, 2013	December 28, 2012
Assets		
Current assets:		
Cash and cash equivalents, including restricted cash of \$5,000,000 at December 27, 2013	\$ 8,134,000	\$ 10,006,000
Accounts receivable, net of allowance for doubtful accounts of \$385,000 and \$303,000 at December 27, 2013 and December 28, 2012, respectively	13,167,000	15,484,000
Costs and estimated earnings in excess of billings on uncompleted contracts	9,635,000	9,860,000
Other receivables	212,000	95,000
Prepaid expenses and other current assets	2,377,000	1,782,000
Total current assets	<u>33,525,000</u>	<u>37,227,000</u>
Equipment and leasehold improvements, net	691,000	979,000
Other intangible assets, net	—	12,000
Other assets	333,000	307,000
Deferred income taxes, net of current portion	3,688,000	3,452,000
Total assets	<u>\$ 38,237,000</u>	<u>\$ 41,977,000</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Excess of outstanding checks over bank balance	\$ 1,473,000	\$ 1,188,000
Borrowings under line of credit	—	3,000,000
Accounts payable	3,957,000	6,983,000
Accrued liabilities	5,808,000	5,306,000
Billings in excess of costs and estimated earnings on uncompleted contracts	2,247,000	3,419,000
Current portion of notes payable	517,000	628,000
Current portion of capital lease obligations	129,000	152,000
Current portion of deferred income taxes	3,688,000	3,452,000
Total current liabilities	<u>17,819,000</u>	<u>24,128,000</u>
Capital lease obligations, less current portion	85,000	124,000
Deferred lease obligations	120,000	374,000
Total liabilities	<u>18,024,000</u>	<u>24,626,000</u>
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$0.01 par value, 10,000,000 shares authorized, no shares issued and outstanding	—	—
Common stock, \$0.01 par value, 40,000,000 shares authorized; 7,375,000 and 7,335,000 shares issued and outstanding at December 27, 2013 and December 28, 2012, respectively	74,000	73,000
Additional paid-in capital	34,654,000	34,423,000
Accumulated deficit	(14,515,000)	(17,145,000)
Total stockholders' equity	<u>20,213,000</u>	<u>17,351,000</u>
Total liabilities and stockholders' equity	<u>\$ 38,237,000</u>	<u>\$ 41,977,000</u>

See accompanying notes to consolidated financial statements.

WILLDAN GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	Fiscal Year		
	2013	2012	2011
Contract revenue	\$ 85,510,000	\$ 93,443,000	\$ 107,165,000
Direct costs of contract revenue (exclusive of depreciation and amortization shown separately below):			
Salaries and wages	24,098,000	23,218,000	25,714,000
Subcontractor services and other direct costs	24,831,000	35,741,000	39,013,000
Total direct costs of contract revenue	48,929,000	58,959,000	64,727,000
General and administrative expenses:			
Salaries and wages, payroll taxes and employee benefits	20,555,000	22,421,000	22,594,000
Facilities and facility related	4,654,000	4,871,000	4,875,000
Stock-based compensation	150,000	227,000	201,000
Depreciation and amortization	517,000	671,000	877,000
Lease abandonment, net	30,000	26,000	2,000
Impairment of goodwill	—	15,208,000	—
Other	8,067,000	10,315,000	10,488,000
Total general and administrative expenses	33,973,000	53,739,000	39,037,000
Income (loss) from operations	2,608,000	(19,255,000)	3,401,000
Other income (expense):			
Interest income	10,000	6,000	5,000
Interest expense	(94,000)	(106,000)	(77,000)
Other, net	238,000	(28,000)	1,000
Total other income (expense), net	154,000	(128,000)	(71,000)
Income (loss) before income taxes	2,762,000	(19,383,000)	3,330,000
Income tax expense (benefit)	132,000	(2,083,000)	1,500,000
Net income (loss)	\$ 2,630,000	\$ (17,300,000)	\$ 1,830,000
Earnings (loss) per share:			
Basic	\$ 0.36	\$ (2.37)	\$ 0.25
Diluted	\$ 0.35	\$ (2.37)	\$ 0.24
Weighted-average shares outstanding:			
Basic	7,355,000	7,310,000	7,262,000
Diluted	7,495,000	7,310,000	7,485,000

See accompanying notes to consolidated financial statements.

WILLDAN GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Common Stock		Additional Paid-in Capital	Retained Earnings/ (Accumulated Deficit)	Total
	Shares	Amount			
Balances at December 31, 2010	7,246,000	\$ 72,000	\$ 33,765,000	\$ (1,675,000)	\$ 32,162,000
Shares of common stock issued in connection with employee stock purchase plan	25,000	1,000	92,000	—	93,000
Shares of common stock issued in connection with employee stock option exercise	3,000	—	7,000	—	7,000
Stock-based compensation	—	—	201,000	—	201,000
Net income	—	—	—	1,830,000	1,830,000
Balances at December 30, 2011	7,274,000	73,000	34,065,000	155,000	34,293,000
Shares of common stock issued in connection with employee stock purchase plan	56,000	—	120,000	—	120,000
Shares of common stock issued in connection with employee stock option exercise	5,000	—	11,000	—	11,000
Stock-based compensation	—	—	227,000	—	227,000
Net loss	—	—	—	(17,300,000)	(17,300,000)
Balances at December 28, 2012	7,335,000	73,000	34,423,000	(17,145,000)	17,351,000
Shares of common stock issued in connection with employee stock purchase plan	31,000	1,000	72,000	—	73,000
Shares of common stock issued in connection with employee stock option exercise	9,000	—	9,000	—	9,000
Stock-based compensation	—	—	150,000	—	150,000
Net income	—	—	—	2,630,000	2,630,000
Balances at December 27, 2013	<u>7,375,000</u>	<u>\$ 74,000</u>	<u>\$ 34,654,000</u>	<u>\$ (14,515,000)</u>	<u>\$ 20,213,000</u>

See accompanying notes to consolidated financial statements.

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

	Fiscal Year		
	2013	2012	2011
Cash flows from operating activities:			
Net income (loss)	\$ 2,630,000	\$(17,300,000)	\$ 1,830,000
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Non-cash revenue from subcontractor settlement	—	—	(902,000)
Depreciation and amortization	585,000	737,000	944,000
Deferred income taxes	—	(2,249,000)	1,465,000
Goodwill impairment	—	15,208,000	—
Lease abandonment expense, net	30,000	26,000	2,000
(Gain) loss on sale of equipment	(6,000)	18,000	2,000
Provision for doubtful accounts	101,000	673,000	209,000
Stock-based compensation	150,000	227,000	201,000
Changes in operating assets and liabilities:			
Accounts receivable	2,216,000	625,000	(2,507,000)
Costs and estimated earnings in excess of billings on uncompleted contracts	225,000	10,812,000	(8,427,000)
Other receivables	(117,000)	80,000	1,000
Prepaid expenses and other current assets	(595,000)	(58,000)	(10,000)
Other assets	(26,000)	76,000	24,000
Accounts payable	(3,026,000)	(1,199,000)	2,802,000
Accrued liabilities	502,000	(4,886,000)	4,206,000
Billings in excess of costs and estimated earnings on uncompleted contracts	(1,172,000)	2,667,000	(289,000)
Deferred lease obligations	(284,000)	(186,000)	(234,000)
Net cash provided by (used in) operating activities	<u>1,213,000</u>	<u>5,271,000</u>	<u>(683,000)</u>
Cash flows from investing activities:			
Purchase of equipment and leasehold improvements	(306,000)	(359,000)	(395,000)
Proceeds from sale of equipment	27,000	20,000	6,000
Payments related to business acquisitions	—	—	(2,733,000)
Net cash used in investing activities	<u>(279,000)</u>	<u>(339,000)</u>	<u>(3,122,000)</u>
Cash flows from financing activities:			
Changes in excess of outstanding checks over bank balance	285,000	(589,000)	554,000
Payments on notes payable	(621,000)	(663,000)	(211,000)
Proceeds from notes payable	510,000	614,000	667,000
Borrowings under line of credit	—	11,663,000	33,965,000
Repayments of line of credit	(3,000,000)	(8,919,000)	(34,709,000)
Principal payments on capital leases	(62,000)	(164,000)	(202,000)
Proceeds from stock option exercise	9,000	11,000	7,000
Proceeds from sales of common stock under employee stock purchase plan	73,000	120,000	93,000
Net cash (used in) provided by financing activities	<u>(2,806,000)</u>	<u>2,073,000</u>	<u>164,000</u>
Net (decrease) increase in cash and cash equivalents	(1,872,000)	7,005,000	(3,641,000)
Cash and cash equivalents, including restricted cash, at beginning of the year	10,006,000	3,001,000	6,642,000
Cash and cash equivalents, including restricted cash, at end of the year	<u>\$ 8,134,000</u>	<u>\$ 10,006,000</u>	<u>\$ 3,001,000</u>
Supplemental disclosures of cash flow information:			
Cash paid during the period for:			
Interest	\$ 100,000	\$ 106,000	\$ 77,000
Income taxes	324,000	139,000	139,000
Supplemental disclosures of noncash investing and financing activities:			
Equipment acquired under capital leases	\$ 87,000	\$ 151,000	\$ 247,000

See accompanying notes to consolidated financial statements

WILLDAN GROUP, INC. AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****Fiscal Years 2013, 2012 and 2011****1. ORGANIZATION AND OPERATIONS OF THE COMPANY***Nature of Business*

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

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

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

Fiscal Years

The Company operates and reports financial results on a fiscal year of 52 or 53 weeks ending on the Friday closest to December 31, with consideration of business days. Our fiscal year ended December 27, 2013 contained 52 weeks. Fiscal years 2012 and 2011 contained 52 weeks. All references to years in the notes to consolidated financial statements represent fiscal years.

Cash, Cash Equivalents and Liquid Investments

All highly liquid investments purchased with a remaining maturity of three months or less are considered to be cash equivalents. Outstanding checks in excess of cash on deposit have been classified as current liabilities. Cash and cash equivalents, including restricted cash consisted of the following:

	December 27, 2013	December 28, 2012
Wells Fargo Stage Coach Sweep Investment Account	\$ 1,103,000	\$ 8,484,000
Wells Fargo Money Market Mutual Fund	1,002,000	1,001,000
Wells Fargo Advantage Heritage Fund	48,000	48,000
Wells Fargo Collateral Investment Account	5,003,000	—
Cash on hand in business checking accounts	978,000	473,000
	<u>\$ 8,134,000</u>	<u>\$ 10,006,000</u>

The Company's balance of \$5.0 million in the Wells Fargo Collateral Investment Account represents restricted cash. The Company from time to time may be exposed to credit risk with its bank

WILLDAN GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Fiscal Years 2013, 2012 and 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Fair Value of Financial Instruments

As of December 27, 2013 and December 28, 2012, the carrying amounts of the Company's cash, cash equivalents, including restricted cash, accounts receivable, costs and estimated earnings in excess of billings on uncompleted contracts, other receivables, prepaid expenses and other current assets, excess of outstanding checks over bank balance, accounts payable, accrued liabilities and billings in excess of costs and estimated earnings on uncompleted contracts, approximate their fair values because of the relatively short period of time between the origination of these instruments and their expected realization or payment. The carrying amounts of debt obligations approximate their fair values since the terms are comparable to terms currently offered by local lending institutions for loans of similar terms to companies with comparable credit risk.

Segment Information

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

Off-Balance Sheet Financings and Liabilities

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

Accounting for Contracts

The Company enters into contracts with its clients that contain three principal types of pricing provisions: fixed price, time-and-materials, and unit-based. Revenue on fixed price contracts is recognized on the percentage-of-completion method based generally on the ratio of direct costs (primarily exclusive of depreciation and amortization costs) incurred to date to estimated total direct costs at completion. Revenue on time-and-materials and unit-based contracts is recognized as the work is performed in accordance with the specific terms of the contract. Contracts that provide for multiple

WILLDAN GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Fiscal Years 2013, 2012 and 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

services or deliverables are evaluated as multiple element arrangements to determine the appropriate unit of accounting, allocation of contract value, and method of revenue recognition for each element. Revenue for amounts that have been billed but not earned is deferred and such deferred revenue is referred to as billings in excess of costs and estimated earnings on uncompleted contracts in the accompanying consolidated balance sheets. Service-related contracts, including operations and maintenance services and a variety of technical assistance services, are accounted for over the period of performance, in proportion to the costs of performance.

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

Applying the percentage-of-completion method of recognizing revenue requires the Company to estimate the outcome of its long-term contracts. The Company forecasts such outcomes to the best of its knowledge and belief of current and expected conditions and its expected course of action. Differences between the Company's estimates and actual results often occur resulting in changes to reported revenue and earnings. Such changes could have a material effect on future consolidated financial statements.

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

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

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

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

WILLDAN GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Fiscal Years 2013, 2012 and 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

General and Administrative Expenses

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

Leases

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

Equipment and Leasehold Improvements

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

WILLDAN GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Fiscal Years 2013, 2012 and 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

Goodwill

Goodwill represents the excess of costs over fair value of the assets acquired. Goodwill, which has an indefinite useful life, is not amortized, but instead tested for impairment at least annually or more frequently if events and circumstances indicate that the asset might be impaired. Impairment losses for reporting units are recognized to the extent that a reporting unit's carrying amount exceeds its fair value.

Accounting for Claims Against the Company

The Company 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.

Stock Options

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

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences of temporary differences between the financial reporting basis and tax basis of the Company's assets and liabilities. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is recorded when it is more likely than not that all or a portion of the deferred tax assets may not be realized.

WILLDAN GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Fiscal Years 2013, 2012 and 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Operating Cycle

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

Use of Estimates

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

New Accounting Pronouncements

In July 2013, the FASB issued guidance that requires entities to present an unrecognized tax benefit, or a portion of an unrecognized tax benefit, as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward when settlement in this manner is available under the tax law and the Company intends to use the deferred tax asset for that purpose. The amendments in this update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 2013. The Company is currently evaluating the impact the adoption of this standard will have on its consolidated financial statements.

3. BUSINESS COMBINATION

On June 9, 2008, the Company acquired all of the outstanding stock of Willdan Energy Solutions, formerly known as Intergy Corporation, a California-based consulting company that assists companies, institutions and agencies with planning and implementing their energy efficiency, water conservation and renewable energy strategies. The acquisition cost recorded by the Company as of December 27, 2013 was \$17.9 million, consisting of \$9.9 million in cash paid at closing, a \$0.2 million net asset value adjustment, a guaranteed payment of \$1.0 million in cash paid in June 2009, an earn-out payment of \$1.3 million paid in August 2009, an earn-out payment of \$2.1 million paid in September 2010, an earn-out payment of \$2.7 million paid in August 2011 and \$0.7 million in transaction costs. The earn-out payments were required because Willdan Energy Solutions achieved certain financial targets over the relevant periods. The Company recorded \$15.2 million of goodwill in connection with the acquisition, and as of December 28, 2012, this entire goodwill amount has been written off (See Note 4).

WILLDAN GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Fiscal Years 2013, 2012 and 2011

4. GOODWILL AND OTHER INTANGIBLE ASSETS

As of December 27, 2013, the Company had no goodwill.

The changes in the carrying value of goodwill by reporting unit for the fiscal years ended December 28, 2012 were as follows:

	Fiscal Year 2012			
	Balance at Beginning of Year	Goodwill Additions	Impairment	Balance at End of Year
Reporting Unit:				
Energy Solutions	\$ 15,208,000	\$ —	\$ (15,208,000)	\$ —
Financial Services	—	—	—	—
Homeland Security Services	—	—	—	—
	<u>\$ 15,208,000</u>	<u>\$ —</u>	<u>\$ (15,208,000)</u>	<u>\$ —</u>

	Fiscal Year 2011			
	Balance at Beginning of Year	Goodwill Additions	Impairment	Balance at End of Year
Reporting Unit:				
Energy Solutions	\$ 12,475,000	\$ 2,733,000	\$ —	\$ 15,208,000
Financial Services	—	—	—	—
Homeland Security Services	—	—	—	—
	<u>\$ 12,475,000</u>	<u>\$ 2,733,000</u>	<u>\$ —</u>	<u>\$ 15,208,000</u>

The additions to goodwill in fiscal 2011 for Energy Solutions related to the \$2.7 million earn-out payment in August 2011. As of December 30, 2011, the Company had \$15.2 million of goodwill, all of which related to the Energy Solutions reporting unit, which comprises the Energy Efficiency Services reporting segment. In fiscal 2012, the Company had \$15.2 million of goodwill, all of which related to the Energy Solutions reporting unit, which comprises the Energy Efficiency Services reporting segment. During the second quarter of 2012, the Company determined that a quantitative assessment of its goodwill was warranted for the Energy Solutions reporting unit. This assessment indicated that the estimated fair value of the Energy Solutions reporting unit was less than its carrying value. The Company further determined that all of the remaining goodwill for the Energy Solutions reporting unit was impaired and recognized an impairment charge of \$15.2 million. The income approach was based on the present value of projected cash flows during the holding period and disposition of the reporting unit at the end of the final year of the assumed holding period. The market approach was based on a multiple of earnings before interest, taxes, depreciation and amortization ("EBITDA") utilizing publicly available EBITDA multiples for similar companies. The terminal sales value computed in the income approach was also based on a multiple of projected EBITDA for the last year of the assumed holding period.

WILLDAN GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Fiscal Years 2013, 2012 and 2011

4. GOODWILL AND OTHER INTANGIBLE ASSETS (Continued)

The goodwill balances included in the accompanying consolidated balance sheets consist of the following:

	Reporting Units			Total
	Energy Solutions	Financial Services	Homeland Security Services	
December 28, 2012:				
Goodwill	\$ 15,208,000	\$ 2,763,000	\$ 148,000	\$ 18,119,000
Accumulated impairment	(15,208,000)	(2,763,000)	(148,000)	(18,119,000)
	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
December 30, 2011:				
Goodwill	\$ 15,208,000	\$ 2,763,000	\$ 148,000	\$ 18,119,000
Accumulated impairment	—	(2,763,000)	(148,000)	(2,911,000)
	<u>\$ 15,208,000</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 15,208,000</u>

The gross amounts and accumulated amortization of the Company's acquired identifiable intangible assets with finite useful lives as of December 27, 2013 and December 28, 2012, included in intangible assets, net in the accompanying consolidated balance sheets, were as follows:

	December 27, 2013		December 28, 2012		Amortization Period (yrs)
	Gross Amount	Accumulated Amortization	Gross Amount	Accumulated Amortization	
Backlog	\$ 920,000	\$ 920,000	\$ 920,000	\$ 920,000	1
Training materials/courses	282,000	282,000	282,000	270,000	5
Non-compete agreements	30,000	30,000	30,000	30,000	3
	<u>\$ 1,232,000</u>	<u>\$ 1,232,000</u>	<u>\$ 1,232,000</u>	<u>\$ 1,220,000</u>	

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

For the years ended December 27, 2013, December 28, 2012 and December 30, 2011, the Company's amortization expense for acquired identifiable intangible assets with finite useful lives was \$12,000, \$37,000 and \$46,000, respectively. There is no estimated future amortization expense for acquired identifiable intangible assets.

5. EARNINGS PER SHARE ("EPS")

Basic EPS is computed by dividing net income (loss) available to common stockholders by the weighted-average number of common shares outstanding. Diluted EPS is computed by dividing net income (loss) by the weighted-average number of common shares outstanding and dilutive potential

WILLDAN GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Fiscal Years 2013, 2012 and 2011

5. EARNINGS PER SHARE ("EPS") (Continued)

common shares for the period. Potential common shares include the weighted-average dilutive effects of outstanding stock options using the treasury stock method.

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

	Fiscal Year		
	2013	2012	2011
Net income (loss)	\$ 2,630,000	\$ (17,300,000)	\$ 1,830,000
Weighted-average common shares outstanding	7,355,000	7,310,000	7,262,000
Effect of dilutive stock options and unvested restricted stock	140,000	—	223,000
Weighted-average common stock outstanding-diluted	7,495,000	7,310,000	7,485,000
Earnings (loss) per share:			
Basic	\$ 0.36	\$ (2.37)	\$ 0.25
Diluted	\$ 0.35	\$ (2.37)	\$ 0.24

For the fiscal year ended December 27, 2013, 459,000 options were excluded from the calculation of dilutive potential common shares, compared to 654,000 and 304,000 options, for fiscal 2012 and fiscal 2011, respectively. These options were not included in the computation of dilutive potential common shares because the assumed proceeds per share exceeded the average market price per share for the 2013 period. Accordingly, the inclusion of these options would have been anti-dilutive. For periods in which the Company incurs net losses, dilutive potential common shares are excluded as they would be anti-dilutive.

6. ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following at December 27, 2013 and December 28, 2012:

	December 27, 2013	December 28, 2012
Billed	\$ 12,879,000	\$ 15,145,000
Unbilled	9,635,000	9,860,000
Contract retentions	673,000	642,000
	23,187,000	25,647,000
Allowance for doubtful accounts	(385,000)	(303,000)
	\$ 22,802,000	\$ 25,344,000

WILLDAN GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Fiscal Years 2013, 2012 and 2011

6. ACCOUNTS RECEIVABLE (Continued)

The movements in the allowance for doubtful accounts consisted of the following for fiscal years 2013, 2012 and 2011:

	Fiscal Year		
	2013	2012	2011
Balance as of the beginning of the year	\$ 303,000	\$ 421,000	\$ 959,000
Provision for doubtful accounts	189,000	220,000	219,000
Write-offs of uncollectible accounts	(107,000)	(341,000)	(765,000)
Recoveries of accounts written off	—	3,000	8,000
Balance as of the end of the year	<u>\$ 385,000</u>	<u>\$ 303,000</u>	<u>\$ 421,000</u>

Billed accounts receivable represent amounts billed to clients that have yet to be collected. Unbilled accounts receivable represent revenue recognized but not yet billed pursuant to contract terms or accounts billed after the period end. Substantially all unbilled receivables as of December 27, 2013 and December 28, 2012 are or were expected to be billed and collected within twelve months of such date. Contract retentions represent amounts invoiced to clients where payments have been withheld pending the completion of certain milestones, other contractual conditions or upon the completion of the project. These retention agreements vary from project to project and could be outstanding for several months.

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

As of December 27, 2013, one client accounted for 26% of outstanding receivables, as compared to 34% of the Company's outstanding receivables as of December 28, 2012.

7. EQUIPMENT AND LEASEHOLD IMPROVEMENTS

Equipment and leasehold improvements consisted of the following at December 27, 2013 and December 28, 2012:

	December 27, 2013	December 28, 2012
Furniture and fixtures	\$ 3,039,000	\$ 3,163,000
Computer hardware and software	6,338,000	6,299,000
Leasehold improvements	776,000	769,000
Equipment under capital leases	831,000	808,000
Automobiles, trucks, and field equipment	533,000	495,000
	<u>11,517,000</u>	<u>11,534,000</u>
Accumulated depreciation and amortization	(10,826,000)	(10,555,000)
Equipment and leasehold improvements, net	<u>\$ 691,000</u>	<u>\$ 979,000</u>

WILLDAN GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Fiscal Years 2013, 2012 and 2011

7. EQUIPMENT AND LEASEHOLD IMPROVEMENTS (Continued)

Included in accumulated depreciation and amortization is \$152,000 and \$172,000 of amortization expense related to equipment held under capital leases in fiscal years 2013 and 2012, respectively.

8. ACCRUED LIABILITIES

Accrued liabilities consisted of the following at December 27, 2013 and December 28, 2012:

	December 27, 2013	December 28, 2012
Accrued bonuses	\$ 31,000	\$ 52,000
Paid leave bank	1,243,000	1,288,000
Compensation and payroll taxes	749,000	729,000
Accrued legal	356,000	338,000
Accrued workers' compensation insurance	141,000	209,000
Accrued rent	367,000	356,000
Employee withholdings	343,000	215,000
Client deposits	232,000	88,000
Unvouchered accounts payable	2,282,000	1,800,000
Other	64,000	231,000
Total accrued liabilities	<u>\$ 5,808,000</u>	<u>\$ 5,306,000</u>

9. EQUITY PLANS

As of December 28, 2012, the Company had two share-based compensation plans, which are described below. The Company may no longer grant awards under the 2006 Stock Incentive Plan. The compensation expense that has been recognized for stock options issued under these plans was \$150,000, \$227,000 and \$201,000 for fiscal years 2013, 2012 and 2011, respectively.

2006 STOCK INCENTIVE PLAN

In June 2006, the Company's board of directors adopted the 2006 Stock Incentive Plan ("2006 Plan") and it received stockholder approval. The Company re-submitted the 2006 Plan to its stockholders for post-IPO approval at the 2007 annual meeting of the stockholders and it was approved. The 2006 Plan will terminate ten years after the board of directors approved it and no additional awards were or will be granted under the 2006 Plan after the Company's shareholders approved the 2008 Plan (as defined below) in June 2008. The 2006 Plan had 300,000 shares of common stock reserved for issuance to the Company's directors, executives, officers, employees, consultants and advisors and currently has 193,500 shares of common stock reserved for issuance. Approximately 70,333 shares that were available for award grant purposes under the 2006 Plan have become available for grant under the 2008 Plan following shareholder approval of the 2008 Plan. Options granted under the 2006 Plan could be "non-statutory stock options" which expire no more than ten years from the date of grant or "incentive stock options" as defined in Section 422 of the Internal Revenue Code of 1986, as amended. Upon exercise of non-statutory stock options, the Company is generally entitled to a tax deduction on the exercise of the option for an amount equal to the excess over the exercise price of the fair market value of the shares at the date of exercise. The Company is generally not entitled to

WILLDAN GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Fiscal Years 2013, 2012 and 2011

9. EQUITY PLANS (Continued)

any tax deduction on the exercise of an incentive stock option. Option awards provide for accelerated vesting if there is a change in control (as defined in the 2006 Plan). Through December 27, 2013, options granted, net of forfeitures and expirations, under the 2006 Plan consisted of 187,500 shares and 6,000 shares for incentive stock options and non-statutory stock options, respectively.

2008 PERFORMANCE INCENTIVE PLAN

In March 2008, the Company's board of directors adopted the 2008 Performance Incentive Plan ("2008 Plan"), and it received stockholder approval at the 2008 annual meeting of the stockholders in June 2008. The 2008 Plan will terminate ten years after the board of directors approved it. At the 2010 and 2012 annual meetings of the stockholders, the stockholders approved 350,000 and 500,000 share increases, respectively, to the 2008 Plan. The maximum number of shares of the Company's common stock that may be issued or transferred pursuant to awards under the 2008 Plan can also be increased by any shares subject to stock options granted under the 2006 Plan and outstanding as of June 9, 2008 which expire, or for any reason are cancelled or terminated, after June 9, 2008 without being exercised. The 2008 Plan currently has 1,406,500 shares of common stock reserved for issuance. Awards authorized by the 2008 Plan include stock options, stock appreciation rights, restricted stock, stock bonuses, stock units, performance stock, and other share-based awards. No participant may be granted an option to purchase more than 100,000 shares in any fiscal year. Options generally may not be granted with exercise prices less than fair market value at the date of grant, with vesting provisions and contractual terms determined by the compensation committee of the board of directors on a grant-by-grant basis. Options granted under the 2008 Plan may be "nonqualified stock options" or "incentive stock options" as defined in Section 422 of the Internal Revenue Code of 1986, as amended. The maximum term of each option shall be 10 years. Upon exercise of nonqualified stock options, the Company is generally entitled to a tax deduction on the exercise of the option for an amount equal to the excess over the exercise price of the fair market value of the shares at the date of exercise. The Company is generally not entitled to any tax deduction on the exercise of an incentive stock option. Option awards provide for accelerated vesting if there is a change in control (as defined in the 2008 Plan). Through December 27, 2013, options granted, net of forfeitures and exercises, under the 2008 Plan consisted of 408,833 shares, 376,000 shares and 25,000 shares for incentive stock options, non-statutory stock options and restricted stock grants, respectively.

The fair value of each option is calculated using the Black-Scholes option valuation model that uses the assumptions noted in the following table. Expected volatility is based upon historical volatility of "guideline companies" since the length of time the Company's shares have been publicly traded is shorter than the expected or contractual term of the options. The expected term of the option, taking into account both the contractual term of the option and the effects of employees' expected exercise and expected post-vesting termination behavior is estimated based upon the simplified method. Under this approach, the expected term is presumed to be the mid-point between the vesting date and the end

WILLDAN GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Fiscal Years 2013, 2012 and 2011

9. EQUITY PLANS (Continued)

of the contractual term. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant. The assumptions are as follows:

	2013	2012	2011
Expected volatility	40%	39%	39% - 40%
Expected dividends	0%	0%	0%
Expected term (in years)	5.75 - 6.00	5.75 - 6.00	5.75 - 6.00
Risk-free rate	1.31% - 1.36%	0.65% - 1.09%	0.88% - 2.20%

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

Summary of Stock Option Activity

A summary of option activity under the 2006 Plan and 2008 Plan as of December 27, 2013 and changes during the fiscal years ended December 27, 2013, December 28, 2012 and December 30, 2011 is presented below. The intrinsic value of the fully-vested options is \$219,000, based on the Company's closing stock price of \$4.91 on December 27, 2013.

	Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)
Outstanding at December 28, 2012	992,000	\$ 3.86	6.95
Granted	100,000	3.62	2.44
Exercised	(9,000)	1.65	5.67
Forfeited or expired	(105,000)	—	—
Outstanding at December 27, 2013	<u>978,000</u>	<u>\$ 3.95</u>	<u>3.35</u>
Vested at December 27, 2013	<u>796,000</u>	<u>\$ 4.04</u>	<u>7.90</u>
Exercisable at December 27, 2013	<u>796,000</u>	<u>\$ 4.04</u>	<u>7.90</u>

	Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)
Outstanding at December 30, 2011	912,000	\$ 3.94	7.47
Granted	202,000	3.30	9.34
Exercised	(5,000)	1.81	6.73
Forfeited or expired	(117,000)	—	—
Outstanding at December 28, 2012	<u>992,000</u>	<u>\$ 3.86</u>	<u>6.95</u>
Vested at December 28, 2012	<u>700,000</u>	<u>\$ 4.09</u>	<u>6.19</u>
Exercisable at December 28, 2012	<u>700,000</u>	<u>\$ 4.09</u>	<u>6.19</u>

WILLDAN GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Fiscal Years 2013, 2012 and 2011

9. EQUITY PLANS (Continued)

	Options	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Term (Years)
Outstanding at December 31, 2010	859,000	\$ 3.90	8.26
Granted	86,000	4.02	9.44
Exercised	(3,000)	1.96	7.92
Forfeited or expired	(30,000)	—	—
Outstanding at December 30, 2011	<u>912,000</u>	<u>\$ 3.94</u>	<u>7.47</u>
Vested at December 30, 2011	<u>570,000</u>	<u>\$ 4.61</u>	<u>6.84</u>
Exercisable at December 30, 2011	<u>570,000</u>	<u>\$ 4.61</u>	<u>6.84</u>

A summary of the status of the Company's nonvested options and changes in nonvested options during the fiscal years ended December 27, 2013, December 28, 2012 and December 30, 2011, is presented below:

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

	Options	Weighted- Average Grant-Date Fair Value
Nonvested at December 30, 2011	341,000	\$ 1.13
Granted	202,000	1.27
Vested	(212,000)	1.07
Forfeited	(38,000)	1.10
Nonvested at December 28, 2012	<u>293,000</u>	<u>1.28</u>

WILLDAN GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Fiscal Years 2013, 2012 and 2011

9. EQUITY PLANS (Continued)

	Options	Weighted-Average Grant-Date Fair Value
Nonvested at December 31, 2010	503,000	\$ 0.96
Granted	86,000	1.60
Vested	(232,000)	0.94
Forfeited	(16,000)	0.95
Nonvested at December 30, 2011	<u>341,000</u>	<u>1.13</u>

Summary of Restricted Stock Activity

A summary of restricted stock activity under the 2008 Plan as of December 27, 2013 and changes during the fiscal years ended December 27, 2013, is presented below. The intrinsic value of the fully-vested options is \$49,000, based on the Company's grant date price of \$2.96.

	Restricted Stock	Weighted-Average Grant Date Fair Value
Outstanding at December 28, 2012	—	\$ —
Granted	25,000	2.96
Vested	—	—
Forfeited	—	—
Outstanding at December 27, 2013	<u>25,000</u>	<u>\$ 2.96</u>

As of December 27, 2013, there was \$200,000 and \$52,000 of total unrecognized compensation expense related to non-vested stock options and restricted stock grants, respectively. That expense is expected to be recognized over a weighted-average period of 1.42 years. There were no options or restricted stock granted that were immediately vested during the fiscal years ended December 27, 2013, December 28, 2012 and December 30, 2011.

AMENDED AND RESTATED 2006 EMPLOYEE STOCK PURCHASE PLAN

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

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

WILLDAN GROUP, INC. AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Fiscal Years 2013, 2012 and 2011****9. EQUITY PLANS (Continued)**

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

The Company's Amended and Restated 2006 Employee Stock Purchase Plan is a non-compensatory plan. As a result, stock-based compensation expense is not recognized in relation to this plan. As of December 27, 2013, there were 92,473 shares available for issuance under the plan.

10. DEBT OBLIGATIONS

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

	2013	2012
Outstanding borrowings on line of credit	\$ —	\$ 3,000,000
Notes payable for vehicles, 36 month term, bearing interest at 1.9%, payable in monthly principal and interest installments of \$6,000 through January 2014, secured by vehicles	7,000	78,000
Notes payable for insurance, 9 month term, bearing interest at 1.9%, payable in monthly principal and interest installments of \$28,000 through August 2014	462,000	508,000
Other	48,000	42,000
	<u>517,000</u>	<u>3,628,000</u>
Less current portion	517,000	3,628,000
Debt obligations, less current portion	<u>\$ —</u>	<u>\$ —</u>

During fiscal year 2013, the Company had a revolving credit agreement with Wells Fargo Bank, N.A, which was entered into on December 23, 2011 and became effective as of January 1, 2012. Loans made under the revolving line of credit accrued interest at a floating rate of LIBOR plus 2.25%. The Company was also required to pay a 0.25% fee on unused commitments and customary fees on any letters of credit drawn under the facility. There were no outstanding borrowings under the Wells Fargo credit facility as of December 27, 2013 and the Company was in compliance with each of its covenants under the Wells Fargo credit agreement as of December 27, 2013.

The Wells Fargo revolving line of credit was scheduled to mature on April 1, 2014, but, on March 20, 2014, the Company reduced the size of the facility from \$5.0 million to \$75,905 and extended its maturity until June 1, 2014. The Company amended the Wells Fargo credit facility in connection with entering into a new credit facility with BMO.

The Company also has a \$7.5 million revolving credit agreement with BMO Harris Bank, N.A. ("BMO"), which was entered into on March 24, 2014 and became effective as of March 24, 2014. The Company has also financed, from time to time, insurance premiums by entering into unsecured notes payable with insurance companies. During the Company's annual insurance renewals in the fourth quarter of the fiscal year ended December 27, 2013, the Company elected to finance our insurance premiums for the upcoming fiscal year.

WILLDAN GROUP, INC. AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Fiscal Years 2013, 2012 and 2011****10. DEBT OBLIGATIONS (Continued)**

The Company's credit agreement with BMO provides for a \$7.5 million revolving line of credit, including a \$5.0 million standby letter of credit sub-facility and a \$2.5 million secured term loan, and matures on March 24, 2016. Loans made under the revolving line of credit will accrue interest at either (i) a floating rate equal to 0.75% above the base rate in effect from time to time or (ii) a floating rate of 1.75% above LIBOR, with the interest rate to be selected by the Company.

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

The credit agreement contains customary representations and affirmative covenants, including financial covenants that require us to maintain (i) a maximum total leverage ratio, measured as total funded debt (measured as the sum of all obligations for borrowed money, including subordinated debt, plus all capital lease obligations) plus capital leases plus financial letters of credit divided by a trailing twelve month EBITDA, measured on a rolling basis) of not more than 2.00; (ii) a minimum fixed charge coverage ratio (measured as the sum of EBITDA plus rent expense less unfinanced capital expenditures divided by the sum of rent expense plus principal payments plus cash taxes plus cash interest plus restricted payments plus distributions) of not less than 1.25; and (iii) a minimum tangible net worth of at least 85% of actual tangible net worth for the last financial statements received prior to the closing date of the agreement, with step ups in an amount equal to 50% of net income (if positive) for each fiscal quarter ending thereafter (no add-back for losses).

The credit agreement also includes customary negative covenants, including (i) restrictions on the incurrence of additional indebtedness by us or the Guarantors other than indebtedness existing on the date of the credit agreement, (ii) restrictions on the total consideration for all permitted acquisitions (including potential future earn-out obligations) shall not exceed \$2.5 million during the term of the agreement and the total consideration for any individual permitted acquisition shall not exceed \$750,000 without BMO's consent, and (iii) limitations on asset sales, mergers and acquisitions. In addition, the credit agreement includes customary events of default. Upon the occurrence of an event of default, the interest rate may be increased by 2.0%, BMO has the option to make any loans then outstanding under the credit agreement immediately due and payable, and BMO is no longer obligated to extend further credit to the Company under the credit agreement.

Principal maturities on notes payable as of December 27, 2013 are as follows:

Fiscal year:	
2014	\$ 517,000
	<u>\$ 517,000</u>

WILLDAN GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Fiscal Years 2013, 2012 and 2011

11. COMMITMENTS

Leases

The Company is obligated under capital leases for certain furniture and office equipment that expire at various dates through the year 2016.

The Company also leases certain office facilities under non-cancelable operating leases that expire at various dates through the year 2016 and is committed under non-cancelable operating leases for the lease of automobiles through the year 2014.

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

	<u>Capital</u>	<u>Operating</u>
Fiscal year:		
2014	\$ 159,000	\$ 2,848,000
2015	86,000	1,017,000
2016	24,000	124,000
Thereafter	—	—
Total future minimum lease payments	<u>269,000</u>	<u>\$ 3,989,000</u>
Amount representing maintenance	(48,000)	
Amount representing interest (at rates ranging from 3.25% to 3.75%)	(7,000)	
Present value of net minimum lease payments under capital leases	<u>214,000</u>	
Less current portion	<u>129,000</u>	
	<u>\$ 85,000</u>	

During the fiscal year ended December 27, 2013, the Company moved certain offices to new locations and closed certain virtual offices. As a result of the office closures and relocations, the Company recorded lease abandonment expense, net, of \$30,000. This expense includes future rental obligations and other costs associated with the leased space net of the fair value of subleases.

Rent expense and related charges for common area maintenance for all facility operating leases for fiscal years 2013, 2012 and 2011 was approximately \$3,405,000, \$3,615,000 and \$3,627,000, respectively.

WILLDAN GROUP, INC. AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Fiscal Years 2013, 2012 and 2011****11. COMMITMENTS (Continued)**

The following is a reconciliation of the liability for lease abandonment expense for fiscal years 2013 and 2012:

	<u>Fiscal 2013</u>	<u>Fiscal 2012</u>
Liability for abandoned leases as of the beginning of year	\$ 162,000	\$ 327,000
Lease abandonment expense, net	30,000	26,000
Lease payments on abandoned leases, net of sublease payments	(189,000)	(238,000)
Other	119,000	47,000
Liability for abandoned leases as of the end of the year	<u>\$ 122,000</u>	<u>\$ 162,000</u>

The current portion of the liability for abandoned leases is included in accrued liabilities and the non-current portion is included in deferred lease obligations in the accompanying consolidated balance sheets.

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 \$507,000, \$248,000 and \$219,000 during fiscal years 2013, 2012 and 2011, respectively.

The Company has a discretionary bonus plan for regional managers, division managers and others as determined by the Company president. Bonuses are awarded if certain financial goals are achieved. The financial goals are not stated in the plan; rather they are judgmentally determined each year. In addition, the board of directors may declare discretionary bonuses to key employees and all employees are eligible for what the Company refers to as the "hot hand" bonus program, which pays awards for outstanding performance. The Company's compensation committee of the board of directors determines the compensation of the president. Bonus expense for fiscal years 2013, 2012 and 2011 totaled approximately \$262,000, \$258,000 and \$1,602,000, respectively, of which approximately \$31,000 and \$52,000 is included in accrued liabilities at December 27, 2013 and December 28, 2012, respectively.

Post employment health benefits

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

WILLDAN GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Fiscal Years 2013, 2012 and 2011

11. COMMITMENTS (Continued)

Included in accrued liabilities in the accompanying consolidated balance sheets related to this obligation is the present value of expected payments for health insurance coverage, \$137,000 as of December 27, 2013 and \$143,000 as of December 28, 2012.

12. INCOME TAXES

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

	Fiscal Year		
	2013	2012	2011
Current federal taxes (benefit)	\$ 88,000	\$ 88,000	\$ (22,000)
Current state taxes	44,000	77,000	58,000
Deferred federal taxes (benefit)	—	(1,830,000)	1,064,000
Deferred state taxes (benefit)	—	(418,000)	400,000
	<u>\$ 132,000</u>	<u>\$ (2,083,000)</u>	<u>\$ 1,500,000</u>

The provision (benefit) for income taxes reconciles to the amounts computed by applying the statutory federal tax rate of 34% to our income (loss) before income taxes. The sources and tax effects of the differences for fiscal years 2013, 2012 and 2011 are as follows:

	2013	2012	2011
Computed "expected" federal income tax expense (benefit)	\$ 940,000	\$ (6,590,000)	\$ 1,132,000
Permanent differences	93,000	93,000	88,000
Current and deferred state income tax (benefit) expense, net of federal benefit	(19,000)	(1,081,000)	302,000
Change in valuation allowances on deferred tax assets	(897,000)	5,473,000	—
Other	15,000	22,000	(22,000)
	<u>\$ 132,000</u>	<u>\$ (2,083,000)</u>	<u>\$ 1,500,000</u>

WILLDAN GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Fiscal Years 2013, 2012 and 2011

12. INCOME TAXES (Continued)

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

	December 27, 2013	December 28, 2012	December 30, 2011
Current deferred tax assets:			
Accounts receivable allowance	\$ 156,000	\$ 119,000	\$ 171,000
Other accrued liabilities	764,000	866,000	895,000
	920,000	985,000	1,066,000
Valuation allowance	(483,000)	(570,000)	—
Net deferred tax assets	437,000	415,000	1,066,000
Current deferred tax liabilities:			
Deferred revenue	(4,125,000)	(3,867,000)	(8,353,000)
Other	—	—	(62,000)
	(4,125,000)	(3,867,000)	(8,415,000)
Net current deferred tax liability	<u>\$ (3,688,000)</u>	<u>\$ (3,452,000)</u>	<u>\$ (7,349,000)</u>
Deferred tax assets, net of current portion:			
Federal and state net operating losses	\$ 3,157,000	\$ 3,370,000	\$ 5,680,000
Intangible assets	4,571,000	4,962,000	—
Other	64,000	143,000	72,000
	7,792,000	8,475,000	5,752,000
Valuation allowance	(4,093,000)	(4,903,000)	—
Net deferred tax assets	3,699,000	3,572,000	5,752,000
Deferred tax liabilities, net of current portion:			
Goodwill amortization	—	—	(460,000)
Fixed assets	(11,000)	(67,000)	(83,000)
Other	0	(53,000)	(109,000)
Net non-current deferred tax assets	<u>\$ 3,688,000</u>	<u>\$ 3,452,000</u>	<u>\$ 5,100,000</u>

At December 27, 2013, the Company had federal and state operating loss carryovers of \$6.8 million and \$9.8 million, respectively. These carryovers expire through 2031 for federal and state income taxes.

The Company files income tax returns in the U.S. federal and various state jurisdictions. Management believes that there are no material uncertain tax positions that would impact the accompanying consolidated financial statements. The Company's policy is to recognize interest and penalties related to unrecognized tax benefits in income tax expense. The Company may be subject to examination by the Internal Revenue Service for calendar years 2010 through 2013. The Company may also be subject to examination on certain state and local jurisdictions for the years 2009 through 2013.

WILLDAN GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Fiscal Years 2013, 2012 and 2011

13. SEGMENT INFORMATION

The Company has four reporting segments: Engineering Services, Energy Efficiency Services, Public Finance Services and Homeland Security Services. The Engineering Services segment consists of Willdan Engineering, Willdan Infrastructure and Public Agency Resources. The Engineering Services segment offers a broad range of engineering and planning services to our public and private sector clients. The Energy Efficiency Services segment, which consists of Willdan Energy Solutions, provides energy efficiency and sustainability consulting services to utilities, state agencies, municipalities, private industry and non-profit organizations. Prior to December 30, 2011, the energy efficiency and sustainability services were aggregated into the Engineering Services segment. Given the manner in which the chief operating decision maker reviews financial results and allocates resources, these services now comprise a separate reporting segment. Segment information for the comparable prior year period has been restated to conform to the Company's current segment presentation of four operating segments. The Public Finance Services segment, which consists of Willdan Financial Services, provides expertise and support for the various financing techniques employed by public agencies to finance their operations and infrastructure along with the mandated reporting and other requirements associated with these financings. The Homeland Security Services segment, which consists of Willdan Homeland Solutions, provides national preparedness, homeland security consulting, public safety and emergency response services to cities, related municipal service agencies and other entities.

The accounting policies applied to determine the segment information are the same as those described in the summary of significant accounting policies. There were no intersegment sales in any of the three fiscal years ended December 27, 2013. Management evaluates the performance of each segment based upon income or loss from operations before income taxes. Certain segment asset information including expenditures for long-lived assets has not been presented as it is not reported to or reviewed by the chief operating decision maker. In addition, enterprise-wide service line contract revenue is not included as it is impracticable to report this information for each group of similar services.

WILLDAN GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
Fiscal Years 2013, 2012 and 2011
13. SEGMENT INFORMATION (Continued)

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

	Engineering Services	Energy Efficiency Services	Public Finance Services	Homeland Security Services	Unallocated Corporate(2)(3)	Intersegment	Consolidated Total
Fiscal Year 2013:							
Contract revenue	\$ 35,217,000	\$ 36,041,000	\$ 9,845,000	\$ 4,407,000	\$ —	\$ —	\$ 85,510,000
Depreciation and amortization	214,000	223,000	41,000	39,000	—	—	517,000
Interest (income) expense	(68,000)	(25,000)	(3,000)	2,000	—	—	(94,000)
Segment profit before income tax expense	1,125,000	710,000	535,000	392,000	—	—	2,762,000
Income tax expense	53,000	45,000	17,000	17,000	—	—	132,000
Net income	1,072,000	665,000	518,000	375,000	—	—	2,630,000
Segment assets(1)	10,436,000	10,305,000	3,528,000	1,406,000	35,692,000	(23,130,000)	38,237,000
Fiscal Year 2012:							
Contract revenue	\$ 34,026,000	\$ 45,549,000	\$ 9,780,000	\$ 4,088,000	\$ —	\$ —	\$ 93,443,000
Depreciation and amortization	256,000	262,000	53,000	100,000	—	—	671,000
Interest expense (income)	50,000	52,000	1,000	3,000	—	—	106,000
Segment (loss) profit before income tax expense	(726,000)	(19,314,000)	930,000	(273,000)	—	—	(19,383,000)
Income tax (benefit) expense	(115,000)	(2,211,000)	344,000	(101,000)	—	—	(2,083,000)
Net (loss) income	(611,000)	(17,103,000)	586,000	(172,000)	—	—	(17,300,000)
Segment assets(1)	9,237,000	13,256,000	3,411,000	1,371,000	37,831,000	(23,129,000)	41,977,000
Fiscal Year 2011:							
Contract revenue	\$ 33,850,000	\$ 57,731,000	\$ 9,687,000	\$ 5,897,000	\$ —	\$ —	\$ 107,165,000
Depreciation and amortization	372,000	306,000	67,000	132,000	—	—	877,000
Interest expense (income)	93,000	(21,000)	(5,000)	10,000	—	—	77,000
Segment (loss) profit before income tax expense	(158,000)	3,271,000	1,116,000	(299,000)	(600,000)	—	3,330,000
Income tax expense (benefit)	7,000	1,296,000	469,000	(67,000)	(205,000)	—	1,500,000
Net (loss) income	(165,000)	1,975,000	647,000	(232,000)	(395,000)	—	1,830,000
Segment assets(1)	9,667,000	39,416,000	4,008,000	2,010,000	32,339,000	(23,129,000)	64,311,000

- Segment assets are presented net of intercompany receivables.
- The following sets forth the amounts included in the net loss that was Unallocated Corporate for fiscal years 2013, 2012 and 2011:

	2013	2012	2011
Unallocated net loss:			
Income tax benefit	\$ —	\$ —	\$ 205,000
Other	—	—	(600,000)
	\$ —	\$ —	\$ (395,000)

WILLDAN GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Fiscal Years 2013, 2012 and 2011

13. SEGMENT INFORMATION (Continued)

(3) The following sets forth the assets that are included in Unallocated Corporate as of December 27, 2013, December 28, 2012 and December 30, 2011.

	2013	2012	2011
Assets:			
Cash and cash equivalents, including restricted cash	\$ 7,341,000	\$ 9,881,000	\$ 2,378,000
Prepaid expenses	1,206,000	1,041,000	1,268,000
Intercompany receivables	114,800,000	113,615,000	117,937,000
Other receivables	73,000	49,000	41,000
Equipment and leasehold improvements, net	177,000	194,000	329,000
Investments in subsidiaries	23,130,000	23,130,000	23,130,000
Other	3,765,000	3,536,000	5,194,000
	<u>\$ 150,492,000</u>	<u>\$ 151,446,000</u>	<u>\$ 150,277,000</u>

14. CONTINGENCIES

Claims and Lawsuits

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

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

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

WILLDAN GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Fiscal Years 2013, 2012 and 2011

15. SUBSEQUENT EVENTS

The Company currently has a revolving credit agreement with BMO Harris Bank, N.A. ("BMO"), which was entered into on March 24, 2014 and became effective as of March 24, 2014. The credit agreement replaces the Company's prior credit facility with Wells Fargo Bank, N.A. See Note 10.

16. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

The tables below reflect selected quarterly information for the fiscal years ended December 27, 2013 and December 28, 2012.

	Fiscal Three Months Ended			
	March 29, 2013	June 28, 2013	September 27, 2013	December 27, 2013
	(in thousands except per share amounts)			
Contract revenue	\$ 21,385	\$ 20,496	\$ 21,167	\$ 22,462
Income from operations	457	718	882	551
Income tax expense (benefit)	49	(8)	44	47
Net income	399	688	842	701
Earnings per share:				
Basic	\$ 0.05	\$ 0.09	\$ 0.11	\$ 0.10
Diluted	\$ 0.05	\$ 0.09	\$ 0.11	\$ 0.09
Weighted-average shares outstanding:				
Basic	7,335	7,353	7,359	7,375
Diluted	7,382	7,401	7,526	7,520

	Fiscal Three Months Ended			
	March 30, 2012	June 29, 2012	September 28, 2012	December 28, 2012
	(in thousands except per share amounts)			
Contract revenue	\$ 25,468	\$ 23,481	\$ 21,547	\$ 22,947
(Loss) income from operations	(2,317)	(19,583)	1,420	1,225
Income tax (benefit) expense	(927)	(2,657)	593	908
Net (loss) income	(1,411)	(16,976)	787	300
(Loss) earnings per share:				
Basic and diluted	\$ (0.19)	\$ (2.33)	\$ 0.11	\$ 0.04
Weighted-average shares outstanding:				
Basic	7,291	7,297	7,315	7,335
Diluted	7,291	7,297	7,315	7,343

CREDIT AGREEMENT
DATED AS OF MARCH 24, 2014,
AMONG
WILLDAN GROUP, INC.,
THE GUARANTORS FROM TIME TO TIME PARTY HERETO,
AND
BMO HARRIS BANK N.A.

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CREDIT AGREEMENT

This Credit Agreement is entered into as of March 24, 2014, by and among WILLDAN GROUP, INC., a Delaware corporation (the “Borrower”), the direct and indirect Subsidiaries of the Borrower from time to time party to this Agreement, as Guarantors, and BMO HARRIS BANK N.A., a national banking association (the “Bank”), as the lender as provided herein.

PRELIMINARY STATEMENT

The Borrower has requested, and the Bank has agreed to extend, certain credit facilities on the terms and conditions of this Agreement.

NOW, THEREFORE, in consideration of the mutual agreements contained herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

SECTION 1. DEFINITIONS; INTERPRETATION.

Section 1.1. Definitions. The following terms when used herein shall have the following meanings:

“*Account Debtor*” means any Person obligated to make payment on any Receivable.

“*Acquired Business*” means the entity or assets acquired by the Borrower or another Loan Party in an Acquisition, whether before or after the date hereof.

“*Acquisition*” means any transaction or series of related transactions for the purpose of or resulting, directly or indirectly, in (a) the acquisition of all or substantially all of the assets of a Person, or of any business or division of a Person, (b) the acquisition of in excess of 50% of the capital stock, partnership interests, membership interests or equity of any Person (other than a Person that is a Subsidiary), or otherwise causing any Person to become a Subsidiary, or (c) a merger or consolidation or any other combination with another Person (other than a Person that is a Subsidiary) provided that the Borrower or another Loan Party is the surviving entity.

“*Adjusted LIBOR*” means, for any Borrowing of Eurodollar Loans, a rate per annum determined in accordance with the following formula:

$$\text{Adjusted LIBOR} = \frac{\text{LIBOR}}{1 - \text{Eurodollar Reserve Percentage}}$$

“*Affiliate*” means, with respect to a specified Person, another Person that directly, or indirectly through one or more intermediaries, Controls or is Controlled by or is under common Control with the Person specified; *provided that*, in any event for purposes of this definition, any Person that owns, directly or indirectly, 5% or more of the securities having the ordinary voting power for the election of directors or governing body of a corporation or 5% or more of the partnership or other ownership interest of any other Person (other than as a limited partner of such other Person) will be deemed to control such corporation or other Person.

“*Agreement*” means this Credit Agreement, as the same may be amended, modified, restated or supplemented from time to time pursuant to the terms hereof.

“*Applicable Margin*” means, with respect to Loans, Reimbursement Obligations, Letter of Credit Fees, and the commitment fees payable under Section 3.1(a), until the first Pricing Date, the rates per annum shown opposite Level I below, and thereafter from one Pricing Date to the next the Applicable Margin means the rates per annum determined in accordance with the following schedule:

LEVEL	TOTAL LEVERAGE RATIO FOR SUCH PRICING DATE	APPLICABLE MARGIN FOR BASE RATE LOANS UNDER REVOLVING FACILITY AND REIMBURSEMENT OBLIGATIONS SHALL BE:	APPLICABLE MARGIN FOR BASE RATE LOANS UNDER DELAYED DRAW TERM LOAN FACILITY SHALL BE:	APPLICABLE MARGIN FOR EURODOLLAR LOANS UNDER REVOLVING FACILITY AND FINANCIAL LETTER OF CREDIT FEES SHALL BE:	APPLICABLE MARGIN FOR EURODOLLAR LOANS UNDER DELAYED DRAW TERM LOAN FACILITY SHALL BE:	APPLICABLE MARGIN FOR PERFORMANCE LETTER OF CREDIT FEES SHALL BE:	APPLICABLE MARGIN FOR COMMITMENT FEE SHALL BE:
I	Less than 0.75 to 1.0	0.75%	1.00%	1.75%	2.00%	1.31%	0.20%
II	Less than 1.50 to 1.0, but greater than or equal to 0.75 to 1.0	1.00%	1.25%	2.00%	2.25%	1.50%	0.25%
III	Greater than or equal to 1.50 to 1.0	1.25%	1.50%	2.25%	2.50%	1.69%	0.30%

For purposes hereof, the term “*Pricing Date*” means, for any Fiscal Quarter ending on or after the first Fiscal Quarter of 2014, the date on which the Bank is in receipt of the Borrower’s most recent financial statements (and, in the case of the Fiscal Year-end financial statements, audit report) for the Fiscal Quarter then ended, pursuant to Section 8.5. The Applicable Margin shall be established based on the Total Leverage Ratio for the most recently completed Fiscal Quarter and the Applicable Margin established on a Pricing Date shall remain in effect until the next Pricing Date. If the Borrower has not delivered its financial statements by the date such financial statements (and, in the case of the Fiscal Year-end financial statements, audit report) are required to be delivered under Section 8.5, until such financial statements and audit report are delivered, the Applicable Margin shall be the highest Applicable Margin (*i.e.*, Level III shall apply). If the Borrower subsequently delivers such financial statements before the next Pricing Date, the Applicable Margin shall be determined on the date of delivery of such financial statements and remain in effect until the next Pricing Date. In all other circumstances, the Applicable Margin shall be in effect from the Pricing Date that occurs immediately after the end of the Fiscal Quarter covered by such financial statements until the next Pricing Date. Each determination of the Applicable Margin made by the Bank in accordance with the foregoing shall be conclusive and binding on the Borrower if reasonably determined.

“*Application*” is defined in Section 2.3(b).

“*Assigned Accounts*” is defined in Section 11.2.

“*Authorized Representative*” means those persons shown on the list of officers provided by the Borrower pursuant to Section 7.2 or on any update of any such list provided by the Borrower to the Bank, or any further or different officers of the Borrower so named by any Authorized Representative of the Borrower in a written notice to the Bank.

“*Bank*” means BMO Harris Bank N.A., in its capacity as the lender hereunder, and any successor in such capacity.

“*Bank Products*” means each and any of the following bank products and services provided to any Loan Party by the Bank or any of its Affiliates: (a) credit cards for commercial customers (including, without limitation, “commercial credit cards” and purchasing cards), (b) stored value cards, and (c) depository, cash management, and treasury management services (including, without limitation, controlled disbursement, automated clearinghouse transactions, return items, overdrafts and interstate depository network services).

“*Bank Product Obligations*” of the Loan Parties means any and all of their obligations, whether absolute or contingent and howsoever and whensoever created, arising, evidenced or acquired (including all renewals, extensions and modifications thereof and substitutions therefor) in connection with Bank Products.

“*Base Rate*” means, for any day, the rate per annum equal to the greatest of: (a) the rate of interest announced or otherwise established by the Bank from time to time as its prime commercial rate as in effect on such day, with any change in the Base Rate resulting from a change in said prime commercial rate to be effective as of the date of the relevant change in said prime commercial rate (it being acknowledged and agreed that such rate may not be the Bank’s best or lowest rate), (b) the sum of (i) the rate determined by the Bank to be the average (rounded upward, if necessary, to the next higher 1/100 of 1%) of the rates per annum quoted to the Bank at approximately 10:00 a.m. (Chicago time) (or as soon thereafter as is practicable) on such day (or, if such day is not a Business Day, on the immediately preceding Business Day) by two or more Federal funds brokers selected by the Bank for sale to the Bank at face value of Federal funds in the secondary market in an amount equal or comparable to the principal amount for which such rate is being determined, plus (ii) 1/2 of 1%, and (c) the LIBOR Quoted Rate for such day plus 1.00%. As used herein, the term “*LIBOR Quoted Rate*” means, for any day, the rate per annum equal to the quotient of (i) the rate per annum (rounded upwards, if necessary, to the next higher one hundred-thousandth of a percentage point) for deposits in U.S. Dollars for a one-month interest period which appears on the LIBOR01 Page as of 11:00 a.m. (London, England time) on such day (or, if such day is not a Business Day, on the immediately preceding Business Day) divided by (ii) one (1) minus the Eurodollar Reserve Percentage.

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“*Base Rate Loan*” means a Loan bearing interest at a rate specified in Section 2.4(a).

“*Borrower*” is defined in the introductory paragraph of this Agreement.

“*Borrowing*” means the total of Loans of a single type advanced, continued for an additional Interest Period, or converted from a different type into such type by the Bank under a Facility on a single date and, in the case of Eurodollar Loans, for a single Interest Period. A Borrowing is “*advanced*” on the day the Bank advances funds comprising such Borrowing to the Borrower, is “*continued*” on the date a new Interest Period for the same type of Loans commences for such Borrowing, and is “*converted*” when such Borrowing is changed from one type of Loans to the other, all as determined pursuant to Section 2.6.

“*Borrowing Base*” means, as of any time it is to be determined, the sum of:

(a) 75% of the then outstanding unpaid amount of Eligible Receivables and the Eligible Retainage Base; plus

(b) 50% of the value (computed at the lower of market or cost using the first-in/first-out method of inventory valuation applied in accordance with GAAP) of Eligible Inventory;

provided that (i) the Bank shall have the right upon five (5) Business Days’ notice to the Borrower to reduce the advance rates against Eligible Receivables and Eligible Inventory in its Permitted Discretion based on results from any field audit or appraisal of the Collateral and (ii) the Borrowing Base shall be computed only as against and on so much of such Collateral as is included on the Borrowing Base Certificates furnished from time to time by the Borrower pursuant to this Agreement and, if required by the Bank pursuant to any of the terms hereof or any Collateral Document, as verified by such other evidence reasonably required to be furnished to the Bank pursuant hereto or pursuant to any such Collateral Document.

“*Borrowing Base Certificate*” means the certificate in the form of Exhibit D hereto, or in such other form acceptable to the Bank, to be delivered to the Bank pursuant to Section 8.5.

“*Business Day*” means any day (other than a Saturday or Sunday) on which banks are not authorized or required to close in Chicago, Illinois and, if the applicable Business Day relates to the advance or continuation of, or conversion into, or payment of a Eurodollar Loan, on which banks are dealing in U.S. Dollar deposits in the interbank eurodollar market in London, England.

“*Capital Expenditures*” means, with respect to any Person for any period, the aggregate amount of all expenditures (whether paid in cash or accrued as a liability) by such Person during that period for the acquisition or leasing (pursuant to a Capital Lease) of fixed or capital assets or additions to property, plant, or equipment (including replacements, capitalized repairs, and improvements) which should be capitalized on the balance sheet of such Person in accordance with GAAP.

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“*Capital Lease*” means any lease of Property which in accordance with GAAP is required to be capitalized on the balance sheet of the lessee.

“*Capitalized Lease Obligation*” means, for any Person, the amount of the liability shown on the balance sheet of such Person in respect of a Capital Lease determined in accordance with GAAP.

“*Cash Collateralize*” means, to pledge and deposit with or deliver to the Bank, as collateral for L/C Obligations, cash or deposit account balances subject to a first priority perfected security interest in favor of the Bank or, if the Bank agrees in its sole discretion, other credit support, in each case pursuant to documentation in form and substance satisfactory to the Bank.

“*Cash Collateral*” shall have a meaning correlative to the foregoing and shall include the proceeds of such cash collateral and other credit support.

“Cash Equivalents” means (a) marketable direct obligations issued by, or unconditionally guaranteed by, the United States or issued by any agency thereof and backed by the full faith and credit of the United States, in each case maturing within one (1) year from the date of acquisition thereof, (b) marketable direct obligations issued or fully guaranteed by any state of the United States or any political subdivision of any such state or any public instrumentality thereof maturing within one (1) year from the date of acquisition thereof and, at the time of acquisition, having one of the two highest ratings obtainable from either S&P or Moody’s, (c) commercial paper maturing within one (1) year from the date of creation thereof and, at the time of acquisition, having a rating of at least A-1 from S&P or at least P-1 from Moody’s, (d) certificates of deposit, time deposits, overnight bank deposits or bankers’ acceptances maturing within one (1) year from the date of acquisition thereof issued by any bank organized under the laws of the United States or any state thereof or the District of Columbia having at the date of acquisition thereof combined capital and surplus of not less than \$250,000,000, (e) deposit accounts maintained with (i) any bank that satisfies the criteria described in clause (d) above, or (ii) any other bank organized under the laws of the United States or any state thereof so long as the full amount maintained with any such other bank is fully insured by the Federal Deposit Insurance Corporation, (f) repurchase obligations of any commercial bank satisfying the requirements of clause (d) of this definition or recognized securities dealer having combined capital and surplus of not less than \$250,000,000, having a term of not more than seven (7) days, with respect to securities satisfying the criteria in clauses (a) or (d) above, provided all such agreements require physical delivery of the securities securing such repurchase agreement, except those delivered through the Federal Reserve Book Entry System, and (g) investments in money market funds substantially all of whose assets are invested in the types of assets described in clauses (a) through (f) above.

“CERCLA” means the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended by the Superfund Amendments and Reauthorization Act of 1986, 42 U.S.C. §§9601 *et seq.*, and any future amendments.

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“Change in Law” means the occurrence, after the date of this Agreement, of any of the following: (a) the adoption or taking effect of any law, rule, regulation or treaty, (b) any change in any law, rule, regulation or treaty or in the administration, interpretation, implementation or application thereof by any Governmental Authority, or (c) the making or issuance of any request, rule, guideline or directive (whether or not having the force of law) by any Governmental Authority; *provided* that notwithstanding anything herein to the contrary, (x) the Dodd-Frank Wall Street Reform and Consumer Protection Act and all requests, rules, regulations, guidelines or directives thereunder or issued in connection therewith and (y) all requests, rules, guidelines or directives promulgated by the Bank for International Settlements, the Basel Committee on Banking Supervision (or any successor or similar authority) or the United States or foreign regulatory authorities, in each case pursuant to Basel III, shall in each case be deemed to be a “Change in Law”, regardless of the date enacted, adopted or issued.

“Change of Control” means any of (a) the acquisition by any “person” or “group” (as such terms are used in sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended) at any time of beneficial ownership of 25% or more of the outstanding capital stock or other equity interests of the Borrower on a fully-diluted basis, (b) the failure of individuals who are members of the board of directors (or similar governing body) of the Borrower on the Closing Date (together with any new or replacement directors whose initial nomination for election was approved by a majority of the directors who were either directors on the Closing Date or previously so approved) to constitute a majority of the board of directors (or similar governing body) of the Borrower, or (c) any “Change of Control” (or words of like import), as defined in any agreement or indenture relating to any issue of Material Indebtedness of any Loan Party or any Subsidiary of a Loan Party, shall occur.

“Closing Date” means the date of this Agreement or such later Business Day upon which each condition described in Section 7.2 shall be satisfied or waived in a manner acceptable to the Bank in its discretion.

“Code” means the Internal Revenue Code of 1986, as amended, and any successor statute thereto.

“Collateral” means all properties, rights, interests, and privileges from time to time subject to the Liens granted to the Bank, or any security trustee therefor, by the Collateral Documents.

“Collateral Account” is defined in Section 9.4(b).

“Collateral Access Agreement” means any landlord waiver, warehouse, processor or other bailee letter or other agreement, in form and substance satisfactory to the Bank, between the Bank and any third party (including any bailee, consignee, customs broker, or other similar Person) in possession of any Collateral or any landlord of the Borrower or any Subsidiary for any real property where any Collateral is located, as such landlord waiver, bailee letter or other agreement may be amended, restated, or otherwise modified from time to time.

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“Collateral Documents” means the Mortgages, the Security Agreement, and all other mortgages, deeds of trust, security agreements, pledge agreements, assignments, financing statements, control agreements, and other documents as shall from time to time secure or relate to the Secured Obligations or any part thereof.

“Commitments” means the Revolving Credit Commitment and the Delayed Draw Term Loan Commitment.

“Commodity Exchange Act” means the Commodity Exchange Act (7 U.S.C. § 1 *et seq.*), as amended from time to time, and any successor statute.

“Connection Income Taxes” means Other Connection Taxes that are imposed on or measured by net income (however denominated) or that are franchise Taxes or branch profit Taxes.

“Constituent Documents” means, with respect to any Person, collectively and, in each case, together with any modification of any term thereof, (a) the articles of incorporation, certificate of incorporation, constitution or certificate of formation of such Person, (b) the bylaws, operating agreement or joint venture agreement of such Person, (c) any other constitutive, organizational or governing document of such Person, whether or not equivalent, and (d) any other document setting forth the manner of election or duties of the directors, officers or managing members of such Person or the designation, amount or relative rights, limitations and preferences of any Voting Stock of such Person.

“*Construction Joint Venture*” means an investment made in the ordinary course of business in connection with joint ventures (including legal entity joint ventures) or a similar pooling of efforts in respect of a specific project or series of related specific projects for a limited or fixed duration which is formed to conduct business of the type in which any Loan Party is presently engaged and which procures the services necessary to conduct its business (other than incidental services) through the owners of such joint venture or pooling of efforts or through subcontractors to the owners of such joint venture.

“*Control*” means the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of a Person, whether through the ability to exercise voting power, by contract or otherwise. “*Controlling*” and “*Controlled*” have meanings correlative thereto.

“*Controlled Group*” means all members of a controlled group of corporations and all trades or businesses (whether or not incorporated) under common control which, together with any Loan Party, are treated as a single employer under Section 414 of the Code.

“*Credit Event*” means the advancing of any Loan, or the issuance of, or extension of the expiration date or increase in the amount of, any Letter of Credit.

“*Debtor Relief Laws*” means the Bankruptcy Code of the United States of America, and all other liquidation, conservatorship, bankruptcy, assignment for the benefit of creditors, moratorium, rearrangement, receivership, insolvency, reorganization, or similar debtor relief Laws of the United States or other applicable jurisdictions from time to time in effect.

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“*Default*” means any event or condition which constitutes an Event of Default or any event or condition the occurrence of which would, with the passage of time or the giving of notice, or both, constitute an Event of Default.

“*Delayed Draw Term Loan Availability Period*” means the period from and including the Closing Date to, but not including, 30 days prior to the Delayed Draw Term Loan Maturity Date, or such earlier date on which (x) Delayed Draw Term Loans have been advanced by the Bank in an amount equal to the Delayed Draw Term Loan Commitment or (y) the Delayed Draw Term Loan Commitment is terminated in whole pursuant to Sections 2.11, 9.2 or 9.3 hereof.

“*Delayed Draw Term Loan Commitment*” means the obligation of the Bank to make the Delayed Draw Term Loan during the Delayed Draw Term Loan Availability Period in the principal amount not to exceed the amount set forth in Section 2.1.

“*Delayed Draw Term Loan*” is defined in Section 2.1 and, as so defined, includes a Base Rate Loan or a Eurodollar Loan, each of which is a “*type*” of Delayed Draw Term Loan hereunder.

“*Delayed Draw Term Loan Facility*” means the credit facility for the Delayed Draw Term Loans described in Section 2.1 hereof.

“*Delayed Draw Term Loan Maturity Date*” means (i) March 24, 2016 or (ii) such later date to which the Delayed Draw Term Loan Maturity Date is extended in whole pursuant to Section 2.12.

“*Delayed Draw Term Note*” is defined in Section 2.10 hereof.

“*Designated Disbursement Account*” means the account of the Borrower maintained with the Bank or its Affiliate and designated in writing to the Bank as the Borrower’s Designated Disbursement Account (or such other account as the Borrower and the Bank may otherwise agree).

“*Disposition*” means the sale, lease, conveyance or other disposition of Property, other than (a) the sale or lease of inventory in the ordinary course of business, and (b) the sale, transfer, lease or other disposition of Property of a Loan Party to another Loan Party in the ordinary course of its business.

“*Domestic Subsidiary*” means a Subsidiary that is not a Foreign Subsidiary.

“*Earn Out Obligations*” means and includes any cash earn out obligations, performance payments or similar obligations of the Borrower or any Guarantor to any sellers arising out of or in connection with an Acquisition, but excluding any working capital adjustments or payments for services or licenses provided by such sellers.

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“*EBITDA*” means, with reference to any period, (i) Net Income for such period (consistently determined in accordance with the Fiscal Year of 2012 audited financial statements delivered to the Bank (the “*2012 Audited Financials*”)) plus all amounts deducted in arriving at such Net Income amount in respect of (a) Interest Expense for such period, (b) federal, state, and local income taxes for such period, (c) depreciation of fixed assets and amortization of intangible assets for such period, and (d) non-cash charges and other pro forma adjustments for such period deducted in the determination of Net Income for such period and reasonably acceptable to the Bank, minus (ii) all amounts included in the calculation of Net Income with respect to such period in respect of non-cash gains and other pro forma adjustments included in the calculation of Net Income with respect to such period (calculated consistent with GAAP in effect as of the 2012 Audited Financials). EBITDA shall be calculated on a pro forma basis giving effect to any Permitted Acquisition or disposition of a Subsidiary or business segment during such period and including pro forma cost savings to the extent such cost savings are approved in the reasonable discretion of the Bank.

“*Eligible Inventory*” means finished goods inventory of the Borrower or any Guarantor that:

(a) is an asset of such Person to which it has good and marketable title, is freely assignable, and is subject to a perfected, first priority Lien in favor of the Bank free and clear of any other Liens (other than Liens permitted by Section 8.8(a) or (b) arising by operation of law which are subordinate to the Liens in favor of the Bank);

(b) is located in the United States of America at a Permitted Collateral Location as set forth in the Security Agreement and, in the case of any location not owned by such Person, which is at all times subject either to a Collateral Access Agreement or, in the absence of such Collateral Access Agreement and the Bank so agrees in its sole discretion, reserves established to the satisfaction of the Bank;

(c) is not bill-and-hold inventory or otherwise so identified to a contract to sell that it constitutes a Receivable;

(d) is not obsolete or slow moving, and is of good and merchantable quality conforming to all standards imposed by any Governmental Authority free from any defects which might adversely affect the market value thereof;

(e) is not covered by a warehouse receipt or similar document;

(f) does not constitute spare or replacement parts, subassemblies, packaging and shipping material, manufacturing supplies, samples, prototypes, displays or display items, bill-and-hold goods, goods that are returned or marked for return (except to the extent such goods may be resold in the ordinary course of business), repossessed goods, defective or damaged goods, goods that have been discontinued or components thereof, goods held on consignment, or goods which are not of a type held for sale in the ordinary course of business;

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(g) does not contain or bear any intellectual property rights licensed to the Borrower or such Guarantor unless the Bank is satisfied that it may sell or otherwise dispose of such inventory without (i) infringing the rights of such licensor, (ii) violating any contract with such licensor, or (iii) incurring any liability with respect to payment of royalties other than royalties incurred pursuant to sale of such inventory under the current licensing agreement;

(h) all representations and warranties set forth in this Agreement and the Collateral Documents are true and correct with respect thereto; and

(i) is not otherwise deemed to be ineligible in the reasonable judgment of the Bank (it being acknowledged and agreed that with five (5) Business Days prior written notice any inventory or categories thereof of the Borrower or any Guarantor may be deemed ineligible by the Bank acting in its reasonable judgment).

“Eligible Line of Business” means any business engaged in as of the date of this Agreement by the Borrower or any other Loan Party or any business reasonably related thereto.

“Eligible Receivables” means any Receivable of the Borrower or any Guarantor that:

(a) (i) arises out of the sale of goods or the performance of services in the ordinary course of business that is not contingent upon the completion of any further performance by the Borrower or any Guarantor or any other Person on its/their behalf, (ii) does not represent a retainage amount, (iii) does not relate to the payment of interest, and (iii) is net of any deposits made by or for the account of the relevant Account Debtor;

(b) is payable in U.S. Dollars and the Account Debtor on such Receivable is located within the United States of America or, if such right has arisen out of the sale of such goods shipped to, or out of the rendition of services to, an Account Debtor located in any other country, such right is secured by a valid and irrevocable transferable letter of credit issued by a lender reasonably acceptable to the Bank for the full amount thereof which has been assigned or transferred to the Bank in a manner acceptable to the Bank;

(c) is the valid, binding and legally enforceable obligation of the Account Debtor obligated thereon and such Account Debtor (i) is not a Subsidiary or an Affiliate of any Loan Party, (ii) is not a shareholder, director, officer, or employee of any Loan Party or of any of its Subsidiaries, (iii) is not the United States of America, or any state or political subdivision thereof, or any department, agency or instrumentality of any of the foregoing, unless the Assignment of Claims Act, or any similar state or local statute, as the case may be, is complied with to the satisfaction of the Bank, (iv) is not a debtor under any proceeding under any Debtor Relief Law, (v) is not an assignor for the benefit of creditors, or (vi) has not sold all or substantially all of its assets;

(d) is not evidenced by an instrument or chattel paper unless the same has been endorsed and delivered to the Bank;

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(e) is an asset of such Person to which it has good and marketable title, is freely assignable, and is subject to a perfected, first priority Lien in favor of the Bank free and clear of any other Liens (other than Liens permitted by Section 8.8(a) or (b) arising by operation of law which are subordinate to the Liens in favor of the Bank);

(f) is not subject to any counterclaim or defense asserted by the Account Debtor or subject to any offset or contra account payable to the Account Debtor (unless the amount of such Receivable is net of such contra account established to the reasonable satisfaction of the Bank);

(g) no surety bond was required or given in connection with said Receivable or the contract or purchase order out of which the same arose;

(h) it is evidenced by an invoice to the Account Debtor dated not more than thirty (30) days subsequent to the shipment date of the relevant inventory or completion of performance of the relevant services and is issued on ordinary trade terms requiring payment within 30 days of invoice date, and has not been invoiced more than once;

(i) is not unpaid more than 90 days after the original due date, and which has not been written off the books of the Borrower of such Guarantor or otherwise designated as uncollectible;

(j) is not owed by an Account Debtor who is obligated on Receivables more than 20% of the aggregate unpaid balance of which have been past due for longer than the relevant period specified in subsection (i) above unless the Bank has approved the continued eligibility thereof;

(k) would not cause the total Receivables owing from any one Account Debtor and its Affiliates to exceed 20% of all Eligible Receivables;

(l) would not cause the total Receivables owing from any one Account Debtor and its Affiliate to exceed any credit limit established for purposes of determining eligibility hereunder by the Bank in its Permitted Discretion for such Account Debtor and for which the Bank has given the Borrower at least five (5) Business Days prior notice of the establishment of any such credit limit;

(m) is not owed by an Account Debtor located in any jurisdiction which requires filing of a "Notice of Business Activities Report" or other similar report in order to permit the Borrower or such Guarantor to seek judicial enforcement in such jurisdiction of payment of such Receivable, unless the Borrower or such Guarantor has filed such report or qualified to do business in such jurisdiction;

(n) complies in all material respects with the requirements of all applicable laws and regulations, whether Federal, state or local, including without limitation the Federal Consumer Credit Protection Act, the Federal Truth in Lending Act and Regulation Z of the Board;

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(o) all representations and warranties set forth in this Agreement and the Collateral Documents are true and correct with respect thereto;

(p) does not arise from a sale on a bill-and-hold, guaranteed sale, sale-or-return, sale-on-approval, consignment, or any other repurchase or return basis; and

(q) is not otherwise deemed to be ineligible in the reasonable judgment of the Bank (it being acknowledged and agreed that with five (5) Business Days prior written notice any Receivable of the Borrower or any Guarantor may be deemed ineligible by the Bank acting in its reasonable judgment).

"*Eligible Retainage*" means, as of any date of determination, retainage amounts owing to any Loan Party arising from the sale of goods or performance of services in the ordinary course of business that would constitute an Eligible Receivable if such amounts were not retainage amounts and the contingencies necessary for the release of such retainage amounts were satisfied pursuant to the terms of the underlying contract under which such retainage amount arose. For the avoidance of doubt, clauses (f), (h), (i) and (j) of the definition of Eligible Receivable need not be satisfied with respect to such retainage amounts.

"*Eligible Retainage Base*" means 50% of the amount of Eligible Retainage.

"*Environmental Claim*" means any investigation, notice, violation, demand, allegation, action, suit, injunction, judgment, order, consent decree, penalty, fine, lien, proceeding or claim (whether administrative, judicial or private in nature) arising (a) pursuant to, or in connection with an actual or alleged violation of, any Environmental Law, (b) in connection with any Hazardous Material, (c) from any abatement, removal, remedial, investigative, corrective or response action in connection with a Hazardous Material, Environmental Law or order of a Governmental Authority or (d) from any actual or alleged damage, injury, threat or harm to health, safety, natural resources or the environment.

"*Environmental Law*" means any current or future Legal Requirement pertaining to (a) the protection of health, safety and the indoor or outdoor environment, (b) the conservation, management, protection or use of natural resources and wildlife, (c) the protection or use of surface water or groundwater, (d) the management, manufacture, possession, presence, use, generation, transportation, treatment, storage, disposal, Release, threatened Release, abatement, removal, investigation, remediation or handling of, or exposure to, any Hazardous Material or (e) pollution (including any Release to air, land, surface water or groundwater), and any amendment, rule, regulation, order or directive issued thereunder.

"*Environmental Liability*" means any liability, contingent or otherwise (including any liability for damages, costs of environmental remediation, fines, costs of compliance, penalties or indemnities), of any Loan Party or any Subsidiary of a Loan Party directly or indirectly resulting from or based upon (a) any actual or alleged violation of any Environmental Law, (b) the generation, use, handling, transportation, storage, treatment or disposal of any Hazardous Materials, (c) exposure to any Hazardous Materials, (d) the Release or threatened Release of any Hazardous Materials into the environment or (e) any contract, agreement or other legally enforceable consensual arrangement pursuant to which liability is assumed or imposed with respect to any of the foregoing.

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"*ERISA*" means the Employee Retirement Income Security Act of 1974, as amended, or any successor statute thereto.

"*Eurodollar Loan*" means a Loan bearing interest at the rate specified in Section 2.4(b).

"*Eurodollar Reserve Percentage*" means the maximum reserve percentage, expressed as a decimal, at which reserves (including, without limitation, any emergency, marginal, special, and supplemental reserves) are imposed by the Board of Governors of the Federal Reserve System (or any successor) on "*eurocurrency liabilities*", as defined in such Board's Regulation D (or any successor thereto), subject to any amendments of such reserve requirement by such Board or its successor, taking into account any transitional adjustments thereto. For purposes of this definition, the relevant Loans shall be deemed to be "*eurocurrency liabilities*" as defined in Regulation D without benefit or credit for any prorations, exemptions or offsets under Regulation D. The Eurodollar Reserve Percentage shall be adjusted automatically on and as of the effective date of any change in any such reserve percentage.

"*Event of Default*" means any event or condition identified as such in Section 9.1.

“*Event of Loss*” means, with respect to any Property, any of the following: (a) any loss, destruction or damage of such Property or (b) any condemnation, seizure, or taking, by exercise of the power of eminent domain or otherwise, of such Property, or confiscation of such Property or the requisition of the use of such Property.

“*Excess Availability*” means, as of any time the same is to be determined, the amount (if any) by which (a) the lesser of the Borrowing Base as then determined and computed or the Revolving Credit Commitment as then in effect exceeds (b) the aggregate principal amount of Revolving Loans and L/C Obligations then outstanding.

“*Excess Interest*” is defined in Section 12.12 hereof.

“*Excluded Deposit Account*” means a deposit account the balance of which consists exclusively of (and is identified when established as an account established solely for the purposes of) (a) withheld income Taxes and federal, state, local or foreign employment Taxes in such amounts as are required in the reasonable judgment of a Loan Party to be paid to the Internal Revenue Service or any other U.S., federal, state or local or foreign government agencies within the following month with respect to employees of such Loan Party, (b) amounts required to be paid over to an employee benefit plan pursuant to DOL Reg. Sec. 2510.3-102 on behalf of or for the benefit of employees of any Loan Party, (c) amounts which are required to be pledged or otherwise provided as security pursuant to any requirement of any Governmental Authority or foreign pension requirement, (d) amounts to be used to fund payroll obligations (including, but not limited to, amounts payable to any employment contracts between any Loan Party and their respective employees), and (e) other deposit accounts maintained in the ordinary course of business containing cash amounts that do not exceed at any time \$100,000 for any such account and \$250,000 in the aggregate for all such accounts under this clause (e), unless requested by the Bank after the occurrence and during the continuation of an Event of Default.

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“*Excluded Equity Issuances*” means (a) the issuance by any Subsidiary of equity securities to the Borrower or any Guarantor, as applicable, (b) the issuance of equity securities by the Borrower to any Person that is an equity holder of the Borrower prior to such issuance (a “*Subject Holder*”) so long as such Subject Holder did not acquire any equity securities of the Borrower so as to become a Subject Holder concurrently with, or in contemplation of, the issuance of such equity securities to such Subject Holder, (c) the issuance of equity securities of the Borrower to directors, officers and employees of the Borrower and its Subsidiaries pursuant to employee stock option plans (or other employee incentive plans or other compensation arrangements) approved by the Borrower’s Board of Directors, and (d) the issuance of equity securities of the Borrower in order to finance the purchase consideration (or a portion thereof) in connection with a Permitted Acquisition or Capital Expenditures.

“*Excluded Property*” means (a) any fee-owned real property with a fair market value of less than \$500,000 in the aggregate, unless requested by the Bank after the occurrence and during the continuation of an Event of Default; (b) any leased real property; (c) any equipment securing purchase money indebtedness or Capitalized Lease Obligations if the granting of a Lien to any third party is prohibited by the agreement(s) setting forth the terms and conditions applicable to such Indebtedness but only if such Indebtedness and the Liens securing the same are permitted by Sections 8.7(b) and 8.8(d) of the Credit Agreement, *provided* that if and when the prohibition which prevents the granting of a Lien in any such Property is removed, terminated or otherwise becomes unenforceable as a matter of law (including, without limitation, the termination of any such security interest resulting from the satisfaction of the Indebtedness secured thereby), and notwithstanding any previous release of Lien provided by the Bank requested in connection with respect to any such Indebtedness, the Excluded Property will no longer include such Property and the Bank will be deemed to have, and at all times to have had, a security interest in such property and the Collateral will be deemed to include, and at all times to have included, such Property without further action or notice by any Person; (d) any permit or license issued to any Loan Party as the permit holder or licensee thereof or any lease to which any Loan Party is lessee thereof, in each case only to the extent and for so long as the terms of such permit, license, or lease effectively (after giving effect to Sections 9-406 through 9-409, inclusive, of the Uniform Commercial Code in the applicable state (or any successor provision or provisions) or any other applicable law) prohibit the creation by such Loan Party of a security interest in such permit, license, or lease in favor of the Bank or would result in an effective invalidation, termination or breach of the terms of any such permit, license or lease (after giving effect to Sections 9-406 through 9-409, inclusive, of the Uniform Commercial Code in the applicable state (or any successor provision or provisions) or any other applicable law), in each case unless and until any required consents are obtained, *provided* that the Excluded Property will not include, and the Collateral shall include and the security interest granted in the Collateral shall attach to, (x) all proceeds, substitutions or replacements of any such excluded items referred to herein unless such proceeds, substitutions or replacements would constitute excluded items hereunder, (y) all rights to payment due or to become due under any such excluded items referred to herein, and (z) if and when the prohibition which prevents the granting of a security interest in any such Property is removed, terminated, or otherwise becomes unenforceable as a matter of law, the Bank will be

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deemed to have, and at all times to have had, a security interest in such property, and the Collateral will be deemed to include, and at all times to have included, such Property without further action or notice by any Person; (e) equity interests of any Foreign Subsidiary which, if granted, would cause a material adverse effect on the Borrower’s federal income tax liability, unless requested by the Bank after the occurrence and during the continuation of an Event of Default, provided that Excluded Property shall not include, and the Collateral shall include, (x) non-voting equity interests of a first-tier Foreign Subsidiary owned by any Loan Party and (y) voting equity interests of a first-tier Foreign Subsidiary owned by any Loan Party representing not more than 66% of the total voting power of all outstanding voting equity interests of such Foreign Subsidiary, with equity interests of such Foreign Subsidiary constituting “stock entitled to vote” within the meaning of Treasury regulation section 1.956-2(c)(2) being treated as voting equity interests of such Foreign Subsidiary for purposes of this clause (e); and (f) Excluded Deposit Accounts.

“*Excluded Swap Obligation*” means, with respect to any Guarantor, any Swap Obligation if, and to the extent that, all or a portion of the Guarantee of such Guarantor of, or the grant by such Guarantor of a security interest to secure, such Swap Obligation (or any Guarantee thereof) is or becomes illegal under the Commodity Exchange Act or any rule, regulation or order of the Commodity Futures Trading Commission (or the application or official interpretation of any thereof) by virtue of such Guarantor’s failure for any reason not to constitute an “eligible contract participant” as defined in the Commodity Exchange Act and the regulations thereunder at the time the Guarantee of such Guarantor or the grant of such security interest becomes effective with respect to such related Swap Obligation. If a Swap Obligation arises under a master agreement governing more than one swap, such exclusion shall apply only to the portion of such Swap Obligation that is attributable to swaps for which such Guarantee or security interest is or becomes illegal.

“*Excluded Taxes*” means any of the following Taxes imposed on or with respect to a the Bank or required to be withheld or deducted from a payment to the Bank, (a) Taxes imposed on or measured by net income (however denominated), franchise Taxes, and branch profits Taxes, in each case, (i) imposed as a result of the Bank being organized under the laws of, or having its principal office or its applicable lending office located in, the jurisdiction imposing such Tax (or any political subdivision thereof) or (ii) that are Other Connection Taxes, (b) U.S. federal withholding Taxes imposed on amounts payable to or for the account of the Bank with respect to an applicable interest in a Loan or Commitment pursuant to a law in effect on the date on which (i) the Bank acquires such interest in the Loan or Commitment or (ii) the Bank changes its lending office, except in each case to the extent that, pursuant to Section 4.1 amounts with respect to such Taxes were payable to the Bank immediately before it changed its lending office, and (c) any U.S. federal withholding Taxes imposed under FATCA.

“*Extension Period*” has the meaning set forth in Section 2.12 hereof.

“*Extension Request Date*” has the meaning set forth in Section 2.12 hereof.

“*Facility*” means any of the Revolving Facility or Delayed Draw Term Loan Facility.

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“*FATCA*” means Sections 1471 through 1474 of the Code, as of the date of this Agreement (or any amended or successor version that is substantively comparable and not materially more onerous to comply with), any current or future regulations or official interpretations thereof, and any agreements entered into pursuant to Section 1471(b)(1) of the Code

“*Federal Funds Rate*” means the fluctuating interest rate per annum described in part (i) of clause (b) of the definition of Base Rate.

“*Financial Officer*” of any Person means the chief financial officer, principal accounting officer, treasurer or controller of such Person.

“*Financial Standby Letters of Credit*” shall mean letters of credit and bank guarantees in which the underlying performance being supported thereby is financial in nature, as determined by the Bank, which determination shall be conclusive and binding upon the Borrower absent manifest error.

“*Fiscal Month*” means, for the first and second Fiscal Month in any Fiscal Quarter, a four-week period of the Borrower, and for the third Fiscal Month in any Fiscal Quarter, a five-week period of the Borrower, where such week begins on Saturday.

“*Fiscal Quarter*” means a three—Fiscal Month period of the Borrower. For the sake of clarity, the last day of each Fiscal Quarter shall be those dates set forth on Schedule 1.1, which schedule shall be updated by the Borrower from time to time upon request of the Bank.

“*Fiscal Year*” means a four Fiscal Quarter period of the Borrower, which period commences on the first Saturday after the last Fiscal Month of the Fiscal Year. For the sake of clarity, the Fiscal Year of 2014 commences on December 28, 2013.

“*Fixed Charge Coverage Ratio*” means, at any time the same is to be determined, the ratio of (a) EBITDA for the four (4) consecutive Fiscal Quarters most recently then ended plus Rent Expense of the Loan Parties and their Subsidiaries during such period less Unfinanced Capital Expenditures of the Loan Parties and their Subsidiaries during such period to (b) the sum of Fixed Charges for the same four (4) consecutive Fiscal Quarters then ended.

“*Fixed Charges*” means, with reference to any period, the sum of (a) all scheduled payments of principal paid or required to be paid during such period with respect to Indebtedness of the Loan Parties and their Subsidiaries, (b) Interest Expense paid or required to be paid in cash for such period, (c) federal, state, and local income taxes (and franchise taxes in lieu of income taxes) paid or required to be paid in cash by the Loan Parties and their Subsidiaries during such period, (d) Restricted Payments paid in cash by the Loan Parties and their Subsidiaries during such period, and (e) Rent Expense of the Loan Parties and their Subsidiaries during such period.

“*Foreign Subsidiary*” means each Subsidiary that (a) is organized under the laws of a jurisdiction other than the United States of America or any state thereof or the District of Columbia, (b) conducts substantially all of its business outside of the United States of America, and (c) has substantially all of its assets outside of the United States of America.

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“*GAAP*” means generally accepted accounting principles set forth from time to time in the opinions and pronouncements of the Accounting Principles Board and the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board (or agencies with similar functions of comparable stature and authority within the U.S. accounting profession), which are applicable to the circumstances as of the date of determination.

“*Governmental Authority*” means the government of the United States of America or any other nation, or of any political subdivision thereof, whether state or local, and any agency, authority, instrumentality, regulatory body, court, central bank or other entity exercising executive, legislative, judicial, taxing, regulatory or administrative powers or functions of or pertaining to government (including any supra-national bodies such as the European Union or the European Central Bank).

“*Guarantee*” of or by any Person (the “*guarantor*”) means any obligation, contingent or otherwise, of the guarantor guaranteeing or having the economic effect of guaranteeing any Indebtedness or other obligation of any other Person (the “*primary obligor*”) in any manner, whether directly or indirectly, and including any obligation of the guarantor, direct or indirect, (a) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness or other obligation or to purchase (or to advance or supply funds for the purchase of) any security for the payment thereof, (b) to purchase or lease property, securities or services for the purpose of assuring the owner of such Indebtedness or other obligation of the payment thereof, (c) to maintain working capital, equity capital or any other financial statement condition or liquidity of the primary obligor so as to enable the primary obligor to pay such Indebtedness or other obligation or (d) as an account party in respect of any letter of credit or letter of guaranty issued to support such Indebtedness or obligation; *provided*, that the term Guarantee shall not include endorsements for collection or deposit in the ordinary course of business.

“*Guaranty Agreements*” means and includes the Guarantee of the Loan Parties provided for in Section 10, and any other guaranty agreement executed and delivered in order to guarantee the Secured Obligations or any part thereof in form and substance acceptable to the Bank.

“*Guarantors*” means and includes each Subsidiary of the Borrower, and the Borrower, in its capacity as a guarantor of the Secured Obligations of another Loan Party; *provided, however*, that unless otherwise required by the Bank during the existence of any Event of Default, a Foreign Subsidiary shall not be required to be a Guarantor hereunder if providing such Guaranty Agreement would cause a material adverse effect on the Borrower’s federal income tax liability.

“*Hazardous Material*” means any substance, chemical, compound, product, solid, gas, liquid, waste, byproduct, pollutant, contaminant or material which is hazardous, toxic, or a pollutant and includes, without limitation, (a) asbestos, polychlorinated biphenyls and petroleum (including crude oil or any fraction thereof) and (b) any material classified or regulated as “hazardous,” “toxic,” or a “pollutant” or words of like import pursuant to an Environmental Law.

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“*Hazardous Material Activity*” means any activity, event or occurrence involving a Hazardous Material, including, without limitation, the manufacture, possession, presence, use, generation, transportation, treatment, storage, disposal, Release, threatened Release, abatement, removal, remediation, handling of or corrective or response action to any Hazardous Material.

“*Hedging Agreement*” means any agreement with respect to any swap, forward, future or derivative transaction or option or similar agreement involving, or settled by reference to, one or more rates, currencies, commodities, equity or debt instruments or securities, or economic, financial or pricing indices or measures of economic, financial or pricing risk or value or any similar transaction or any combination of these transactions; *provided* that no phantom stock or similar plan providing for payments only on account of services provided by current or former directors, officers, employees or consultants of any Loan Party or its Subsidiaries shall be a Hedging Agreement.

“*Hedging Liability*” means the liability of any Loan Party to the Bank or any Affiliates of the Bank in respect of any Hedging Agreement as such Loan Party may from time to time enter into with the Bank or its Affiliates, whether absolute or contingent and howsoever and whensoever created, arising, evidenced or acquired (including all renewals, extensions and modifications thereof and substitutions therefor); *provided, however*, that, with respect to any Guarantor, Hedging Liability Guaranteed by such Guarantor shall exclude all Excluded Swap Obligations.

“*Hostile Acquisition*” means the acquisition of the capital stock or other equity interests of a Person through a tender offer or similar solicitation of the owners of such capital stock or other equity interests which has not been approved (prior to such acquisition) by resolutions of the Board of Directors of such Person or by similar action if such Person is not a corporation, or as to which such approval has been withdrawn.

“*Indebtedness*” means for any Person (without duplication) (a) all indebtedness created, assumed or incurred in any manner by such Person representing money borrowed (including by the issuance of debt securities), (b) all indebtedness for the deferred purchase price of property or services (including any Earn Out Obligations but excluding trade accounts payable arising in the ordinary course of business which are not more than sixty (60) days past due), (c) all indebtedness secured by any Lien upon Property of such Person, whether or not such Person has assumed or become liable for the payment of such indebtedness, (d) all Capitalized Lease Obligations of such Person, (e) all obligations of such Person on or with respect to letters of credit, bankers’ acceptances and other extensions of credit whether or not representing obligations for borrowed money, (f) all obligations of such Person to purchase, redeem, retire, defease or otherwise make any payment in respect of any equity interest in such Person or any other Person or any warrant, right or option to acquire such equity interest, valued, in the case of a redeemable preferred interest, at the greater of its voluntary or involuntary liquidation preference plus accrued and unpaid dividends, (g) all net obligations (determined as of any time based on the termination value thereof) of such Person under any interest rate, foreign currency, and/or commodity swap, exchange, cap, collar, floor, forward, future or option agreement, or any other similar interest rate, currency or commodity hedging arrangement; and (h) all Guarantees of such Person in respect of any of the foregoing. For all purposes hereof, the Indebtedness of any

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Person shall include the Indebtedness of any partnership or joint venture (other than a joint venture that is itself a corporation or limited liability company) in which such Person is a general partner or a joint venturer, unless such Indebtedness is expressly made non-recourse to such Person.

“*Indemnified Taxes*” means (a) all Taxes other than Excluded Taxes, imposed on or with respect to any payment made by or on account of any obligation of any Loan Party under any Loan Document and (b) to the extent not otherwise described in (a), Other Taxes.

“*Information*” is defined in Section 12.17 hereof.

“*Interest Expense*” means, with reference to any period, the sum of all interest charges (including imputed interest charges with respect to Capitalized Lease Obligations and all amortization of debt discount and expense) of the Borrower and its Subsidiaries for such period determined on a consolidated basis in accordance with GAAP.

“*Interest Payment Date*” means (a) with respect to any Eurodollar Loan, the last day of each Interest Period with respect to such Eurodollar Loan and on the maturity date and, if the applicable Interest Period is longer than three (3) three months, on each day occurring every three (3) months after the commencement of such Interest Period, and (b) with respect to any Base Rate Loan, the last day of every calendar month and on the maturity date.

“*Interest Period*” means the period commencing on the date a Borrowing of Eurodollar Loans is advanced, continued, or created by conversion and ending in the case of Eurodollar Loans, one (1), two (2), three (3), or six (6) months thereafter, *provided, however*, that:

(i) no Interest Period shall extend beyond the final maturity date of the relevant Loans;

(ii) no Interest Period with respect to any portion of the Delayed Draw Term Loan shall extend beyond a date on which the Borrower is required to make a scheduled payment of principal on the Delayed Draw Term Loan, unless the sum of (a) the aggregate principal amount of the Delayed Draw Term Loan that constitutes Base Rate Loans *plus* (b) the aggregate principal amount of the Delayed Draw Term Loan that constitutes

Eurodollar Loans with Interest Periods expiring on or before such date equals or exceeds the principal amount to be paid on the Delayed Draw Term Loan, on such payment date;

(iii) whenever the last day of any Interest Period would otherwise be a day that is not a Business Day, the last day of such Interest Period shall be extended to the next succeeding Business Day, *provided* that, if such extension would cause the last day of an Interest Period for a Borrowing of Eurodollar Loans to occur in the following calendar month, the last day of such Interest Period shall be the immediately preceding Business Day; and

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(iv) for purposes of determining an Interest Period for a Borrowing of Eurodollar Loans, a month means a period starting on one day in a calendar month and ending on the numerically corresponding day in the next calendar month; *provided, however*, that if there is no numerically corresponding day in the month in which such an Interest Period is to end or if such an Interest Period begins on the last Business Day of a calendar month, then such Interest Period shall end on the last Business Day of the calendar month in which such Interest Period is to end.

“*IRS*” means the United States Internal Revenue Service.

“*L/C Obligations*” means the aggregate undrawn face amounts of all outstanding Letters of Credit and all unpaid Reimbursement Obligations.

“*L/C Sublimit*” means \$5,000,000, as reduced or otherwise amended pursuant to the terms hereof.

“*Legal Requirement*” means any treaty, convention, statute, law, common law, rule regulation, ordinance, license, permit, governmental approval, injunction, judgment, order, consent decree or other requirement of any Governmental Authority, whether federal, state, or local.

“*Lending Office*” is defined in Section 4.7.

“*Letter of Credit*” is defined in Section 2.3(a).

“*Letter of Credit Fee*” is defined in Section 3.1(b).

“*LIBOR*” means, for an Interest Period for a Borrowing of Eurodollar Loans, (a) the LIBOR Index Rate for such Interest Period, if such rate is available, and (b) if the LIBOR Index Rate cannot be determined, the arithmetic average of the rates of interest per annum (rounded upwards, if necessary, to the nearest 1/100 of 1%) at which deposits in U.S. Dollars in immediately available funds are offered to the Bank at 11:00 a.m. (London, England time) two (2) Business Days before the beginning of such Interest Period by three (3) or more major banks in the interbank eurodollar market selected by the Bank for delivery on the first day of and for a period equal to such Interest Period and in an amount equal or comparable to the principal amount of the Eurodollar Loan scheduled to be made as part of such Borrowing.

“*LIBOR Index Rate*” means, for any Interest Period, the rate per annum (rounded upwards, if necessary, to the next higher one hundred-thousandth of a percentage point) for deposits in U.S. Dollars for a period equal to such Interest Period, which appears on the LIBOR01 Page as of 11:00 a.m. (London, England time) on the day two (2) Business Days before the commencement of such Interest Period.

“*LIBOR01 Page*” means the display designated as “*LIBOR01 Page*” on the Reuters Service (or on any successor or substitute page of such service, or any successor to or substitute for such service, providing rate quotations comparable to those currently provided on such page of such service, as determined by the Bank from time to time for purposes of providing quotations of interest rates applicable to dollar deposits in the London interbank market).

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“*Lien*” means any mortgage, lien, security interest, pledge, charge or encumbrance of any kind in respect of any Property, including the interests of a vendor or lessor under any conditional sale, Capital Lease or other title retention arrangement.

“*Loan*” means any Revolving Loan or Delayed Draw Term Loan, whether outstanding as a Base Rate Loan or Eurodollar Loan or otherwise, each of which is a “*type*” of Loan hereunder.

“*Loan Documents*” means this Agreement, the Notes (if any), the Applications, the Collateral Documents, the Guaranty Agreements, and each other instrument or document to be delivered hereunder or thereunder or otherwise in connection therewith.

“*Loan Party*” means the Borrower and each of the Guarantors.

“*Material Adverse Effect*” means (a) a material adverse change in, or material adverse effect upon, the operations, business, Property, condition (financial or otherwise) or prospects of the Borrower or of the Loan Parties and their Subsidiaries taken as a whole, (b) a material impairment of the ability of any Loan Party to perform its obligations under any Loan Document or (c) a material adverse effect upon (i) the legality, validity, binding effect or enforceability against any Loan Party of any Loan Document or the rights and remedies of the Bank thereunder or (ii) the perfection or priority of any Lien granted under any Collateral Document.

“*Material Indebtedness*” means Indebtedness (other than the Loans and Letters of Credit), or obligations in respect of one or more Hedging Agreements, of any one or more of the Loan Parties and its Subsidiaries in an aggregate principal amount exceeding \$500,000. For purposes of determining Material Indebtedness, the “obligations” of any Loan Party or any Subsidiary in respect of any Hedging Agreement at any time shall be the maximum aggregate amount (giving effect to any netting agreements) that such Loan Party or such Subsidiary would be required to pay if such Hedging Agreement were terminated at such time.

“*Material Plan*” is defined in Section 9.1(h) hereof.

“Maximum Rate” is defined in Section 12.12 hereof.

“Moody’s” means Moody’s Investors Service, Inc.

“Mortgages” means, collectively, each mortgage or deed of trust delivered to the Bank pursuant to Section 11.3 from time to time, as the same may be amended, modified, supplemented or restated from time to time.

“Net Cash Proceeds” means, as applicable, (a) with respect to any Disposition by a Person, cash and cash equivalent proceeds received by or for such Person’s account, net of (i) reasonable direct costs relating to such Disposition, (ii) sale, use or other transactional taxes paid or payable by such Person as a direct result of such Disposition, and (iii) the principal

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amount of any Indebtedness permitted hereby which is secured by a prior perfected Lien on the asset subject to such Disposition and is required to be repaid in connection with such Disposition, (b) with respect to any Event of Loss of a Person, cash and cash equivalent proceeds received by or for such Person’s account (whether as a result of payments made under any applicable insurance policy therefor or in connection with condemnation proceedings or otherwise), net of reasonable direct costs incurred in connection with the collection of such proceeds, awards or other payments, and (c) with respect to any offering of equity securities of a Person or the issuance of any Indebtedness by a Person, cash and cash equivalent proceeds received by or for such Person’s account, net of reasonable legal, underwriting, and other fees and expenses incurred as a direct result thereof.

“Net Income” means, with reference to any period, the net income (or net loss) of the Borrower and its Subsidiaries for such period computed on a consolidated basis in accordance with GAAP; *provided* that there shall be excluded from Net Income (a) the net income (or net loss) of any Person accrued prior to the date it becomes a Subsidiary of, or has merged into or consolidated with, the Borrower or another Subsidiary, (b) the net income (or net loss) of any Person (other than a Subsidiary) in which the Borrower or any of its Subsidiaries has an equity interest, except to the extent of the amount of dividends or other distributions actually paid to the Borrower or any of its Subsidiaries during such period, and (c) the undistributed earnings of any Subsidiary to the extent that the declaration or payment of dividends or similar distributions by such Subsidiary is not at the time permitted by the terms of any contractual obligation (other than under any Loan Document) or requirement of law applicable to such Subsidiary.

“Net Worth” means, for any Person and at any time the same is to be determined, total shareholder’s equity (including capital stock, additional paid-in capital, and retained earnings after deducting treasury stock) which would appear on the balance sheet of such Person in accordance with GAAP.

“Note” and “Notes” each is defined in Section 2.10.

“Obligations” means all obligations of the Borrower to pay principal and interest on the Loans, all Reimbursement Obligations owing under the Applications, all fees and charges payable hereunder, and all other payment obligations of the Borrower or any other Loan Party arising under or in relation to any Loan Document, in each case whether now existing or hereafter arising, due or to become due, direct or indirect, absolute or contingent, and howsoever evidenced, held or acquired.

“OFAC” means the United States Department of Treasury Office of Foreign Assets Control.

“OFAC Event” means the event specified in Section 8.15(c).

“OFAC Sanctions Programs” means all laws, regulations, and Executive Orders administered by OFAC, including without limitation, the Bank Secrecy Act, anti-money laundering laws (including, without limitation, the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001, Pub. L. 107-56 (a/k/a the USA Patriot Act)), and all economic and trade sanction programs administered by OFAC, any and all similar United States federal laws, regulations or Executive Orders, and any similar laws, regulations or orders adopted by any State within the United States.

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“OFAC SDN List” means the list of the Specially Designated Nationals and Blocked Persons maintained by OFAC.

“Other Connection Taxes” means, with respect to the Bank, Taxes imposed as a result of a present or former connection between the Bank and the jurisdiction imposing such Tax (other than connections arising from the Bank having executed, delivered, become a party to, performed its obligations under, received payments under, received or perfected a security interest under, engaged in any other transaction pursuant to or enforced any Loan Document, or sold or assigned an interest in any Loan or Loan Document).

“Other Taxes” means all present or future stamp, court or documentary, intangible, recording, filing or similar Taxes that arise from any payment made under, from the execution, delivery, performance, enforcement or registration of, from the receipt or perfection of a security interest under, or otherwise with respect to, any Loan Document, except any such Taxes that are Other Connection Taxes imposed with respect to an assignment.

“PBGC” means the Pension Benefit Guaranty Corporation or any Person succeeding to any or all of its functions under ERISA.

“Perfection Certificate” means that certain Perfection Certificate dated as of the Closing Date from the Borrower to the Bank.

“Performance Standby Letters of Credit” shall mean all standby letters of credit and bank guarantees other than Financial Standby Letters of Credit, as determined by the Bank, which determination shall be conclusive and binding upon the Borrower and the Lenders absent manifest error.

“Permitted Acquisition” means any Acquisition with respect to which all of the following conditions shall have been satisfied:

- (a) the Acquired Business is in an Eligible Line of Business and has its primary operations within the United States of America;

(b) such Acquisition shall be structured as (1) an asset acquisition by a Borrower or Guarantor of all or substantially all of the assets of the Person whose assets are being acquired (or all or substantially all of a line or lines of business of such Person), (2) a merger of the Person to be acquired and into a Borrower or a Guarantor, with such Borrower or Guarantor as the surviving corporation in such merger, or (3) a purchase of no less than 100% of the equity interests of the Person to be acquired by a Borrower or Guarantor;

(c) the Acquisition shall not be a Hostile Acquisition;

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(d) the Total Consideration for the Acquired Business shall not exceed \$750,000 and, when taken together with the Total Consideration for all Acquired Businesses during the term of this Agreement, shall not exceed \$2,500,000 in the aggregate;

(e) the Borrower shall have notified the Bank and Lenders not less than thirty (30) days prior to any such Acquisition and furnished to the Bank and Lenders at such time details as to such Acquisition as are reasonably satisfactory to the Bank;

(f) if a new Subsidiary is formed or acquired as a result of or in connection with the Acquisition, the Borrower shall have complied with the requirements of Section 8.18, Section 10 and Section 11 in connection therewith;

(g) the Borrower shall have delivered to the Bank a certificate with covenant compliance calculations reasonably satisfactory to the Bank demonstrating that after giving effect to the Acquisition and any Credit Event in connection therewith, (i) no Default or Event of Default shall exist, and (ii) the Borrower shall be in compliance with the financial covenants contained in Section 8.23 on a pro forma basis (for the four (4) consecutive Fiscal Quarters most recently then ended as if the Acquisition occurred on the first day of such period and after giving effect to the payment of the purchase price for the Acquired Business and, in the case of the Total Leverage Ratio, the Total Leverage Ratio before and after giving effect to the Acquisition shall not exceed the covenant compliance level set forth in Section 8.23 for the prevailing period, less 0.50);

(h) after giving effect to the Acquisition and any Credit Event in connection therewith, the Borrower shall have not less than \$2,000,000 of Unused Revolving Credit Commitments;

(i) the Acquired Business must have a positive EBITDA for the twelve most recently completed calendar months; and

(j) there shall not have been more than four (4) Permitted Acquisitions in the twelve consecutive Fiscal Month period ended as of the date of such Acquisition.

“*Permitted Discretion*” means a determination made in good faith and in the exercise of reasonable (from the perspective of a secured asset-based lender) business judgment.

“*Person*” means any natural Person, corporation, limited liability company, trust, joint venture, association, company, partnership, Governmental Authority or other entity.

“*Plan*” means any employee pension benefit plan covered by Title IV of ERISA or subject to the minimum funding standards under Section 412 of the Code that either (a) is maintained by a member of the Controlled Group for employees of a member of the Controlled Group or (b) is maintained pursuant to a collective bargaining agreement or any other arrangement under which more than one employer makes contributions and to which a member of the Controlled Group is then making or accruing an obligation to make contributions or has within the preceding five plan years made contributions.

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“*Premises*” means the real property owned or leased by any Loan Party or any Subsidiary of a Loan Party, including without limitation the real property and improvements thereon owned by any Loan Party subject to the Lien of the Mortgages or any other Collateral Documents.

“*Property*” means, as to any Person, all types of real, personal, tangible, intangible or mixed property owned by such Person whether or not included in the most recent balance sheet of such Person and its subsidiaries under GAAP.

“*Qualified ECP Guarantor*” means, in respect of any Swap Obligation, each Loan Party that has total assets exceeding \$10,000,000 at the time the relevant Guarantee or grant of the relevant security interest becomes effective with respect to such Swap Obligation or such other person as constitutes an “eligible contract participant” under the Commodity Exchange Act or any regulations promulgated thereunder and can cause another person to qualify as an “eligible contract participant” at such time by entering into a keepwell under Section 1a(18)(A)(v)(II) of the Commodity Exchange Act.

“*RCRA*” means the Solid Waste Disposal Act, as amended by the Resource Conservation and Recovery Act of 1976 and Hazardous and Solid Waste Amendments of 1984, 42 U.S.C. §§6901 *et seq.*, and any future amendments.

“*Receivables*” means all rights to the payment of a monetary obligation, now or hereafter owing, whether evidenced by accounts, instruments, chattel paper, or general intangibles.

“*Reimbursement Obligation*” is defined in Section 2.3(c).

“*Related Parties*” means, with respect to any Person, such Person’s Affiliates and the partners, directors, officers, employees, agents, trustees, administrators, managers, advisors and representatives of such Person and of such Person’s Affiliates.

“*Release*” means any spilling, leaking, pumping, pouring, emitting, emptying, discharging, injecting, escaping, leaching, migrating, dumping, or disposing into the indoor or outdoor environment, including, without limitation, the abandonment or discarding of barrels, drums, containers, tanks or other receptacles containing or previously containing any Hazardous Material.

“*Rent Expense*” is defined as, with reference to any period, all rent expense payable under leases and other similar agreements for the use of real or personal property that are classified as “*operating leases*” under GAAP of the Loan Parties and their Subsidiaries for such period determined on a consolidated basis in accordance with GAAP, excluding real and personal property acquired for the execution of a project and charged directly to such project.

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“*Responsible Officer*” of any person means any executive officer or Financial Officer of such Person and any other officer, general partner or managing member or similar official thereof with responsibility for the administration of the obligations of such person in respect of this Agreement whose signature and incumbency shall have been certified to the Bank on or after the Closing Date pursuant to an incumbency certificate of the type contemplated by Section 7.2.

“*Restricted Payments*” has the meaning set forth in Section 8.12 hereof.

“*Revolving Facility*” means the credit facility for making Revolving Loans and issuing Letters of Credit described in Sections 2.2 and 2.3.

“*Revolving Credit Commitment*” means the obligation of the Bank to make Revolving Loans and to participate in Letters of Credit issued for the account of the Borrower hereunder in an aggregate principal or face amount at any one time outstanding not to exceed the amount set forth in Section 2.2, as the same may be reduced or modified at any time or from time to time pursuant to the terms hereof.

“*Revolving Credit Exposure*” means, at any time, the aggregate principal amount at such time of the Bank’s outstanding Revolving Loans and L/C Obligations at such time.

“*Revolving Credit Termination Date*” means March 24, 2016, or (i) such earlier date on which the Revolving Credit Commitment is terminated in whole pursuant to Section 2.11, 9.2 or 9.3, or (ii) such later date to which the Revolving Credit Commitment is extended in whole pursuant to Section 2.12.

“*Revolving Loan*” is defined in Section 2.2 and, as so defined, includes a Base Rate Loan or a Eurodollar Loan, each of which is a “*type*” of Revolving Loan hereunder.

“*Revolving Note*” is defined in Section 2.10.

“*S&P*” means Standard & Poor’s Ratings Services Group, a Standard & Poor’s Financial Services LLC business.

“*Secured Obligations*” means the Obligations, Hedging Liability, and Bank Product Obligations, in each case whether now existing or hereafter arising, due or to become due, direct or indirect, absolute or contingent, and howsoever evidenced, held or acquired (including all interest, costs, fees, and charges after the entry of an order for relief against any Loan Party in a case under the United States Bankruptcy Code or any similar proceeding, whether or not such interest, costs, fees and charges would be an allowed claim against such Loan Party in any such proceeding); *provided, however*, that, with respect to any Guarantor, Secured Obligations Guaranteed by such Guarantor shall exclude all Excluded Swap Obligations.

“*Security Agreement*” means that certain Security Agreement dated the date of this Agreement among the Loan Parties and the Bank, as the same may be amended, modified, supplemented or restated from time to time.

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“*Subordinated Debt*” means Indebtedness which is subordinated in right of payment to the prior payment of the Secured Obligations pursuant to subordination provisions approved in writing by the Bank and is otherwise pursuant to documentation that is, which is in an amount that is, and which contains interest rates, payment terms, maturities, amortization schedules, covenants, defaults, remedies and other material terms that are in form and substance, in each case satisfactory to the Bank.

“*Subsidiary*” means, as to any particular parent corporation or organization, any other corporation or organization more than 50% of the outstanding Voting Stock of which is at the time directly or indirectly owned by such parent corporation or organization or by any one or more other entities which are themselves subsidiaries of such parent corporation or organization. Unless otherwise expressly noted herein, the term “*Subsidiary*” means a Subsidiary of the Borrower or of any of its direct or indirect Subsidiaries.

“*Swap Obligation*” means, with respect to any Guarantor, any obligation to pay or perform under any agreement, contract or transaction that constitutes a “swap” within the meaning of Section 1a(47) of the Commodity Exchange Act.

“*Tangible Net Worth*” means, for any Person and at any time the same is to be determined, Net Worth of such Person at such time, *minus* the sum of (a) all assets which would be classified as intangible assets under GAAP, including, without limitation, goodwill, patents, trademarks, trade names, copyrights, franchises and deferred charges (including, without limitation, unamortized debt discount and expense, organization costs and deferred research and development expense) and similar assets, and (b) receivables (whether an account receivable, loan receivable, note receivable or otherwise) from shareholders, officers and Affiliates of such Person and its Subsidiaries.

“*Taxes*” means all present or future taxes, levies, imposts, duties, deductions, withholdings (including backup withholding), assessments, fees or other charges imposed by any Governmental Authority, including any interest, additions to tax or penalties applicable thereto.

“*Total Consideration*” means, with respect to an Acquisition, the sum (but without duplication) of (a) cash paid or payable in connection with any Acquisition, whether paid at or prior to or after the closing thereof, (b) indebtedness payable to the seller in connection with such Acquisition, including all “earn-out” and other future payment obligations subject to the occurrence of any contingency (*provided* that, in the case of any future payment subject to a contingency, such shall be considered part of the Total Consideration to the extent of the reserve, if any, required under GAAP to be established in respect thereof by any Loan Party or any Subsidiary of a Loan Party), (c) the fair market value of any equity securities, including any warrants or options therefor, delivered in connection with any Acquisition, (d) the present value of covenants not to compete entered into in connection with such Acquisition or other future payments which are required to be made over a period of time and are not contingent upon any Loan Party or its Subsidiary meeting financial

“*Total Credit Exposure*” means, at any time, the unused Commitments, Revolving Credit Exposure and outstanding Delayed Draw Term Loan of the Bank at such time.

“*Total Funded Debt*” means, at any time the same is to be determined, the sum (but without duplication) of (a) all Indebtedness of the Borrower and its Subsidiaries at such time described in clauses (a)-(f), both inclusive, of the definition thereof, and (b) all Indebtedness of any other Person which is directly or indirectly Guaranteed by the Borrower or any of its Subsidiaries or which the Borrower or any of its Subsidiaries has agreed (contingently or otherwise) to purchase or otherwise acquire or in respect of which the Borrower or any of its Subsidiaries has otherwise assured a creditor against loss, *provided, however*, that for the avoidance of doubt, obligations of the Borrower or any of its Subsidiaries with respect to Performance Standby Letters of Credit shall be excluded from the calculation of Total Funded Debt.

“*Total Leverage Ratio*” means, as of the last day of any Fiscal Quarter, the ratio of (a) Total Funded Debt of the Borrower and its Subsidiaries as of the last day of such Fiscal Quarter to (b) EBITDA of the Borrower and its Subsidiaries for the period of four (4) consecutive Fiscal Quarters then ended.

“*TTM EBITDA*” means EBITDA of the Loan Parties and their Subsidiaries for the twelve consecutive Fiscal Month period ended as of the date so specified.

“*Unfinanced Capital Expenditures*” means, with respect to any period, the aggregate amount of Capital Expenditures made by the Borrower and its Subsidiaries during such period to the extent permitted by this Agreement and not financed with proceeds of Indebtedness; *provided* that any Capital Expenditures financed under the Revolving Facility shall be considered Unfinanced Capital Expenditures.

“*Unfunded Vested Liabilities*” means, for any Plan at any time, the amount (if any) by which the present value of all vested nonforfeitable accrued benefits under such Plan exceeds the fair market value of all Plan assets allocable to such benefits, all determined as of the then most recent valuation date for such Plan, but only to the extent that such excess represents a potential liability of a member of the Controlled Group to the PBGC or the Plan under Title IV of ERISA.

“*U.S. Dollars*” and “*\$*” each means the lawful currency of the United States of America.

“*U.S. Person*” means any Person that is a “United States Person” as defined in Section 7701(a)(30) of the Code.

“*Voting Stock*” of any Person means capital stock or other equity interests of any class or classes (however designated) having ordinary power for the election of directors or other similar governing body of such Person, other than stock or other equity interests having such power only by reason of the happening of a contingency.

“*Welfare Plan*” means a “welfare plan” as defined in Section 3(1) of ERISA.

“*Wholly-owned Subsidiary*” means a Subsidiary of which all of the issued and outstanding shares of capital stock (other than directors’ qualifying shares as required by law) or other equity interests are owned by the Borrower and/or one or more Wholly-owned Subsidiaries within the meaning of this definition.

“*Withholding Agent*” means any Loan Party and the Bank.

Section 1.2. Interpretation. The foregoing definitions are equally applicable to both the singular and plural forms of the terms defined. Whenever the context may require, any pronoun shall include the corresponding masculine, feminine and neuter forms. The words “include,” “includes” and “including” shall be deemed to be followed by the phrase “without limitation.” The word “will” shall be construed to have the same meaning and effect as the word “shall.” Unless the context requires otherwise (a) any definition of or reference to any agreement, instrument or other document herein shall be construed as referring to such agreement, instrument or other document as from time to time amended, supplemented or otherwise modified (subject to any restrictions on such amendments, supplements or modifications set forth herein), (b) any reference herein to any Person shall be construed to include such Person’s successors and assigns, (c) the words “herein,” “hereof” and “hereunder,” and words of similar import, shall be construed to refer to this Agreement in its entirety and not to any particular provision hereof, (d) all references herein to Articles, Sections, Exhibits and Schedules shall be construed to refer to Articles and Sections of, and Exhibits and Schedules to, this Agreement, (e) any reference to any law or regulation herein shall, unless otherwise specified, refer to such law or regulation as amended, modified or supplemented from time to time, and (f) the words “asset” and “property” shall be construed to have the same meaning and effect and to refer to any and all tangible and intangible assets and properties, including cash, securities, accounts and contract rights. All references to time of day herein are references to Chicago, Illinois, time unless otherwise specifically provided. Where the character or amount of any asset or liability or item of income or expense is required to be determined or any consolidation or other accounting computation is required to be made for the purposes of this Agreement, it shall be done in accordance with GAAP except where such principles are inconsistent with the specific provisions of this Agreement. The Borrower covenants and agrees with the Bank that whether or not the Borrower may at any time adopt Accounting Standards Codification 825 or account for assets and liabilities acquired in an acquisition on a fair value basis pursuant to Accounting Standards Codification 805, all determinations of compliance with the terms and conditions of this Agreement shall be made on the basis that the Borrower has not adopted Accounting Standards Codification 825 or Accounting Standards Codification 805.

Section 1.3. Change in Accounting Principles. If, after the date of this Agreement, there shall occur any change in GAAP from those used in the preparation of the financial statements referred to in Section 6.5 and such change shall result in a change in the method of calculation of any financial covenant, standard or term found in this Agreement, either the Borrower or the Bank may by notice to the Bank or the Borrower, respectively, require that the Bank and the Borrower negotiate in good faith to amend such covenants, standards, and terms so as equitably to reflect such change in accounting principles,

negotiation shall limit their right to so require such a negotiation at any time after such a change in accounting principles. Until any such covenant, standard, or term is amended in accordance with this Section, financial covenants shall be computed and determined in accordance with GAAP in effect prior to such change in accounting principles. Without limiting the generality of the foregoing, the Borrower shall neither be deemed to be in compliance with any financial covenant hereunder nor out of compliance with any financial covenant hereunder if such state of compliance or noncompliance, as the case may be, would not exist but for the occurrence of a change in accounting principles after the date hereof.

SECTION 2. THE FACILITIES.

Section 2.1. Delayed Draw Term Loan Facility. Subject to the terms and conditions hereof, the Bank agrees to make one or more loans (the “*Delayed Draw Term Loan*”) in U.S. Dollars to the Borrower at any time during the Delayed Draw Term Loan Availability Period up to \$2,500,000, subject to any reductions thereof pursuant to the terms hereof. The Borrower may request Borrowings under the Delayed Draw Term Loans during the Delayed Draw Term Loan Availability Period provided that there shall be allowed no more than four (4) such Borrowings in the twelve consecutive calendar month period ended as of the date of such Borrowing; any unfunded Delayed Draw Term Loan Commitment shall expire on the last day of the Delayed Draw Term Loan Availability Period. As provided in Section 2.6(a), the Borrower may elect that the Delayed Draw Term Loan be outstanding as Base Rate Loans or Eurodollar Loans. No amount repaid or prepaid on the Delayed Draw Term Loan may be borrowed again.

Section 2.2. Revolving Facility. Subject to the terms and conditions hereof, the Bank agrees to make a loan or loans (individually a “*Revolving Loan*” and collectively, the “*Revolving Loans*”) in U.S. Dollars to the Borrower from time to time on a revolving basis up to \$7,500,000, subject to any reductions thereof pursuant to the terms hereof, before the Revolving Credit Termination Date. The sum of the aggregate principal amount of Revolving Loans and L/C Obligations at any time outstanding shall not exceed the lesser of (i) the Revolving Credit Commitment in effect at such time and (ii) the Borrowing Base as then determined and computed. As provided in Section 2.6(a), the Borrower may elect that each Borrowing of Revolving Loans be either Base Rate Loans or Eurodollar Loans. Revolving Loans may be repaid and the principal amount thereof reborrowed before the Revolving Credit Termination Date, subject to the terms and conditions hereof.

Section 2.3. Letters of Credit. (a) *General Terms.* Subject to the terms and conditions hereof, as part of the Revolving Facility, the Bank (or one of its Affiliates) shall issue standby and commercial letters of credit (each a “*Letter of Credit*”) for the account of the Borrower and one or more of its Subsidiaries in an aggregate undrawn face amount up to the L/C Sublimit. Letters of Credit shall constitute usage of the Revolving Credit Commitment in an amount equal to the L/C Obligations then outstanding.

(b) *Applications.* At any time before the Revolving Credit Termination Date, the Bank (or one of its Affiliates) shall, at the request of the Borrower, issue one or more Letters of Credit in U.S. Dollars, in a form satisfactory to the Bank, with expiration dates no later than the earlier of 12 months from the date of issuance (or which are cancelable not later than 12 months from

the date of issuance and each renewal) in an aggregate face amount as set forth above, upon the receipt of an application duly executed by the Borrower and, if such Letter of Credit is for the account of one of its Subsidiaries, such Subsidiary for the relevant Letter of Credit in the form then customarily prescribed by the Bank for the Letter of Credit requested (each an “*Application*”). The Borrower agrees that if ten (10) days prior to the Revolving Credit Termination Date any Letters of Credit remain outstanding the Borrower shall then deliver to the Bank, without notice or demand, Cash Collateral in an amount equal to 105% of the aggregate amount of each Letter of Credit then outstanding (which shall be held by the Bank pursuant to the terms of Section 9.4). Notwithstanding anything contained in any Application to the contrary: (i) the Borrower shall pay fees in connection with each Letter of Credit as set forth in Section 3.1(b), (ii) except as otherwise provided herein or in Section 2.8, unless an Event of Default exists, the Bank will not call for the funding by the Borrower of any amount under a Letter of Credit before being presented with a drawing thereunder, and (iii) if the Bank is not timely reimbursed for the amount of any drawing under a Letter of Credit on the date such drawing is paid, except as otherwise provided for in Section 2.6(b), the Borrower’s obligation to reimburse the Bank for the amount of such drawing shall bear interest (which the Borrower hereby promises to pay) from and after the date such drawing is paid at a rate per annum equal to the sum of the Applicable Margin plus the Base Rate from time to time in effect (computed on the basis of a year of 365 or 366 days, as the case may be, and the actual number of days elapsed). If the Bank issues any Letter of Credit with an expiration date that is automatically extended unless the Bank gives notice that the expiration date will not so extend beyond its then scheduled expiration date, the Bank will give such notice of non-renewal before the time necessary to prevent such automatic extension if before such required notice date: (i) the Revolving Credit Commitment has been terminated, or (ii) an Event of Default exists. The Bank agrees to issue amendments to the Letter(s) of Credit increasing the amount, or extending the expiration date, thereof at the request of the Borrower subject to the conditions of Section 7 and the other terms of this Section.

(c) *The Reimbursement Obligations.* Subject to Section 2.3(b), the obligation of the Borrower to reimburse the Bank for all drawings under a Letter of Credit (a “*Reimbursement Obligation*”) shall be governed by the Application related to such Letter of Credit, except that reimbursement shall be made by no later than 12:00 Noon (Chicago time) on the date when each drawing is to be paid if the Borrower has been informed of such drawing by the Bank on or before 11:00 a.m. (Chicago time) on the date when such drawing is to be paid or, if notice of such drawing is given to the Borrower after 11:00 a.m. (Chicago time) on the date when such drawing is to be paid, by no later than 12:00 Noon (Chicago time) on the following Business Day, in immediately available funds at the Bank’s principal office in Chicago, Illinois, or such other office as the Bank may designate in writing to the Borrower (who shall thereafter cause to be distributed to the Bank such amount(s) in like funds).

(d) *Obligations Absolute.* The Borrower’s obligation to reimburse L/C Obligations shall be absolute, unconditional and irrevocable, and shall be performed strictly in accordance with the terms of this Agreement and the relevant Application under any and all circumstances whatsoever and irrespective of (i) any lack of validity or enforceability of any Letter of Credit or this Agreement, or any term or provision therein, (ii) any draft or other document presented under a Letter of Credit proving to be forged, fraudulent or invalid in any respect or any statement

therein being untrue or inaccurate in any respect, (iii) payment by the Bank under a Letter of Credit against presentation of a draft or other document that does not strictly comply with the terms of such Letter of Credit, or (iv) any other event or circumstance whatsoever, whether or not similar to any of the foregoing, that might, but for the provisions of this Section, constitute a legal or equitable discharge of, or provide a right of setoff against, the Borrower's obligations hereunder. The Bank shall not have any liability or responsibility by reason of or in connection with the issuance or transfer of any Letter of Credit or any payment or failure to make any payment thereunder (irrespective of any of the circumstances referred to in the preceding sentence), or any error, omission, interruption, loss or delay in transmission or delivery of any draft, notice or other communication under or relating to any Letter of Credit (including any document required to make a drawing thereunder), any error in interpretation of technical terms or any consequence arising from causes beyond the control of the Bank; *provided* that the foregoing shall not be construed to excuse the Bank from liability to the Borrower to the extent of any direct damages (as opposed to consequential damages, claims in respect of which are hereby waived by the Borrower and each other Loan Party to the extent permitted by applicable law) suffered by the Borrower or any Loan Party that are caused by the Bank's failure to exercise care when determining whether drafts and other documents presented under a Letter of Credit comply with the terms thereof. The parties hereto expressly agree that, in the absence of gross negligence or willful misconduct on the part of the Bank (as determined by a court of competent jurisdiction by final and nonappealable judgment), the Bank shall be deemed to have exercised care in each such determination. In furtherance of the foregoing and without limiting the generality thereof, the parties agree that, with respect to documents presented which appear on their face to be in substantial compliance with the terms of a Letter of Credit, the Bank may, in its sole discretion, either accept and make payment upon such documents without responsibility for further investigation, regardless of any notice or information to the contrary, or refuse to accept and make payment upon such documents if such documents are not in strict compliance with the terms of such Letter of Credit.

(e) *Manner of Requesting a Letter of Credit.* The Borrower shall provide at least five (5) Business Days' advance written notice to the Bank of each request for the issuance of a Letter of Credit, such notice in each case to be accompanied by an Application for such Letter of Credit properly completed and executed by the Borrower and, in the case of an extension or amendment or an increase in the amount of a Letter of Credit, a written request therefor, in a form acceptable to the Bank, in each case, together with the fees called for by this Agreement.

Section 2.4. Applicable Interest Rates. (a) *Base Rate Loans.* Each Base Rate Loan made or maintained by the Bank shall bear interest (computed on the basis of a year of 360 days and the actual days elapsed on the unpaid principal amount thereof from the date such Loan is advanced, or created by conversion from a Eurodollar Loan, until maturity (whether by acceleration or otherwise) at a rate per annum equal to the sum of the Applicable Margin plus the Base Rate from time to time in effect, payable by the Borrower on each Interest Payment Date and at maturity (whether by acceleration or otherwise).

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(b) *Eurodollar Loans.* Each Eurodollar Loan made or maintained by the Bank shall bear interest during each Interest Period it is outstanding (computed on the basis of a year of 360 days and actual days elapsed) on the unpaid principal amount thereof from the date such Loan is advanced or continued, or created by conversion from a Base Rate Loan, until maturity (whether by acceleration or otherwise) at a rate per annum equal to the sum of the Applicable Margin plus the Adjusted LIBOR applicable for such Interest Period, payable by the Borrower on each Interest Payment Date and at maturity (whether by acceleration or otherwise).

(c) *Rate Determinations.* The Bank shall determine each interest rate applicable to the Loans and the Reimbursement Obligations hereunder, and its determination thereof shall be conclusive and binding except in the case of manifest error.

Section 2.5. Minimum Borrowing Amounts; Maximum Eurodollar Loans. Each Borrowing of Base Rate Loans advanced under a Facility shall be in an amount not less than \$50,000. Each Borrowing of Eurodollar Loans advanced, continued or converted under a Facility shall be in an amount equal to \$150,000 or such greater amount which is an integral multiple of \$150,000. Without the Bank's consent, there shall not be more than five (5) Borrowings of Eurodollar Loans outstanding hereunder at any one time.

Section 2.6. Manner of Borrowing Loans and Designating Applicable Interest Rates. (a) *Notice to the Bank.* The Borrower shall give notice to the Bank by no later than 12:00 Noon (Chicago time): (i) at least three (3) Business Days before the date on which the Borrower requests the Bank to advance a Borrowing of Eurodollar Loans and (ii) on the date the Borrower requests the Bank to advance a Borrowing of Base Rate Loans. The Loans included in each Borrowing shall bear interest initially at the type of rate specified in such notice of a new Borrowing. Thereafter, subject to the terms and conditions hereof, the Borrower may from time to time elect to change or continue the type of interest rate borne by each Borrowing or, subject to the minimum amount requirement for each outstanding Borrowing set forth in Section 2.5, a portion thereof, as follows: (i) if such Borrowing is of Eurodollar Loans, on the last day of the Interest Period applicable thereto, the Borrower may continue part or all of such Borrowing as Eurodollar Loans or convert part or all of such Borrowing into Base Rate Loans or (ii) if such Borrowing is of Base Rate Loans, on any Business Day, the Borrower may convert all or part of such Borrowing into Eurodollar Loans for an Interest Period or Interest Periods specified by the Borrower. The Borrower shall give all such notices requesting the advance, continuation or conversion of a Borrowing to the Bank by telephone, teletype, or other telecommunication device acceptable to the Bank (which notice shall be irrevocable once given and, if by telephone, shall be promptly confirmed in writing in a manner acceptable to the Bank), substantially in the form attached hereto as Exhibit A (Notice of Borrowing) or Exhibit B (Notice of Continuation/Conversion), as applicable, or in such other form acceptable to the Bank. Notice of the continuation of a Borrowing of Eurodollar Loans for an additional Interest Period or of the conversion of part or all of a Borrowing of Base Rate Loans into Eurodollar Loans must be given by no later than 12:00 Noon (Chicago time) at least three (3) Business Days before the date of the requested continuation or conversion. All such notices concerning the advance, continuation or conversion of a Borrowing shall specify the date of the requested advance, continuation or conversion of a Borrowing (which shall be a Business Day), the amount of the requested Borrowing to be advanced, continued or converted, the type of Loans to comprise such new, continued or converted Borrowing and, if such Borrowing is to be comprised of Eurodollar Loans, the Interest Period applicable thereto. Upon notice to the Borrower by the Bank (or, in the case of an Event of Default under Section 9.1(j) or 9.1(k) with respect to the Borrower,

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without notice), no Borrowing of Eurodollar Loans shall be advanced, continued, or created by conversion if any Default then exists. The Borrower agrees that the Bank may rely on any such telephonic, teletype or other telecommunication notice given by any person the Bank in good faith believes is an Authorized Representative without the necessity of independent investigation, and in the event any such notice by telephone conflicts with any written confirmation such telephonic notice shall govern if the Bank has acted in reliance thereon.

(b) *Borrower's Failure to Notify.* If the Borrower fails to give notice pursuant to Section 2.6(a) above of the continuation or conversion of any outstanding principal amount of a Borrowing of Eurodollar Loans before the last day of its then current Interest Period within the period required by Section 2.6(a) and such Borrowing is not prepaid in accordance with Section 2.8(a), such Borrowing shall automatically be converted into a Borrowing of Base Rate Loans. In the event the Borrower fails to give notice pursuant to Section 2.6(a) above of a Borrowing equal to the amount of a Reimbursement Obligation and has not notified the Bank by 12:00 noon (Chicago time) on the day such Reimbursement Obligation becomes due that it intends to repay such Reimbursement Obligation through funds not borrowed under this Agreement, the Borrower shall be deemed to have requested a Borrowing of Base Rate Loans under the Revolving Facility on such day in the amount of the Reimbursement Obligation then due, which Borrowing shall be applied to pay the Reimbursement Obligation then due.

(c) *Disbursement of Loans.* The Bank shall make the proceeds of each new Borrowing available to the Borrower at the Bank's principal office in Chicago, Illinois (or at such other location as the Bank shall designate), by depositing or wire transferring such proceeds to the credit of the Borrower's Designated Disbursement Account or as the Borrower and the Bank may otherwise agree.

Section 2.7. Maturity of Loans. (a) *Scheduled Payments of Delayed Draw Term Loan.* The Borrower shall make principal payments on each Delayed Draw Term Loan in installments on the last day of each March, June, September, and December in each year, commencing with the first calendar quarter ending after any Delayed Draw Term Loan is advanced hereunder, with the amount of each such principal installment equal to: (i) 2.5% of the original principal amount of such Delayed Draw Term Loan on the last day of each of the first four calendar quarters ending after such Delayed Draw Term Loan was advanced, (ii) 3.75% of the original principal amount of such Delayed Draw Term Loan on the last day of each of the four calendar quarters ending during the second year after such Delayed Draw Term Loan was advanced, and (iii) 5.0% of the original principal amount of such Delayed Draw Term Loan on the last day of each of the four calendar quarters ending during the third year after such Delayed Draw Term Loan was advanced, it being agreed that a final payment of all principal and interest not sooner paid on each Delayed Draw Term Loan shall be due and payable on the Delayed Draw Term Loan Maturity Date.

(b) *Revolving Loans.* Each Revolving Loan, both for principal and interest not sooner paid, shall mature and be due and payable by the Borrower on the Revolving Credit Termination Date.

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Section 2.8. Prepayments. (a) *Optional.* The Borrower may prepay in whole or in part (but, if in part, then: (i) if such Borrowing is of Base Rate Loans, in an amount not less than \$100,000, (ii) if such Borrowing is of Eurodollar Loans, in an amount not less than \$500,000, and (iii) in each case, in an amount such that the minimum amount required for a Borrowing pursuant to Section 2.5 remains outstanding) upon not less than three (3) Business Days prior notice by the Borrower to the Bank in the case of any prepayment of a Borrowing of Eurodollar Loans and notice delivered by the Borrower to the Bank no later than 12:00 Noon (Chicago time) on the date of prepayment in the case of a Borrowing of Base Rate Loans (or, in any case, such shorter period of time then agreed to by the Bank), such prepayment to be made by the payment of the principal amount to be prepaid and, in the case of the Delayed Draw Term Loan or any Eurodollar Loans, accrued interest thereon to the date fixed for prepayment plus any amounts due the Bank under Section 4.5.

(b) *Mandatory.* (i) The Borrower shall, on each date the Revolving Credit Commitment is reduced pursuant to Section 2.11, prepay the Revolving Loans, and, if necessary, prefund the L/C Obligations by the amount, if any, necessary to reduce the sum of the aggregate principal amount of Revolving Loans and L/C Obligations then outstanding to the amount to which the Revolving Credit Commitment has been so reduced.

(ii) If at any time the sum of the unpaid principal balance of the Revolving Loans and the L/C Obligations then outstanding shall be in excess of the Borrowing Base as then determined and computed, the Borrower shall immediately and without notice or demand pay over the amount of the excess to the Bank as and for a mandatory prepayment on such Obligations, with each such prepayment first to be applied to the Revolving Loans until paid in full with any remaining balance to be held by the Bank in the Collateral Account as security for the Obligations owing with respect to the Letters of Credit.

(iii) If the Borrower or any Subsidiary shall at any time or from time to time make or agree to make a Disposition or shall suffer an Event of Loss with respect to any Property, then the Borrower shall promptly notify the Bank of such proposed Disposition or Event of Loss (including the amount of the estimated Net Cash Proceeds to be received by the Borrower or such Subsidiary in respect thereof) and, promptly upon receipt by the Borrower or such Subsidiary of the Net Cash Proceeds of such Disposition or Event of Loss, the Borrower shall prepay the Obligations in an aggregate amount equal to 100% of the amount of all such Net Cash Proceeds; *provided* that (x) so long as no Default then exists, this subsection shall not require any such prepayment with respect to Net Cash Proceeds received on account of an Event of Loss so long as such Net Cash Proceeds are applied to replace or restore the relevant Property in accordance with the relevant Collateral Documents, (y) this subsection shall not require any such prepayment with respect to Net Cash Proceeds received on account of Dispositions during any Fiscal Year of the Borrower not exceeding \$200,000 in the aggregate so long as no Default then exists, and (z) in the case of any Disposition not covered by clause (y) above, so long as no Default then exists, if the Borrower states in its notice of such event that the Borrower or the relevant Subsidiary intends to reinvest, within 90 days of the applicable Disposition, the Net Cash Proceeds thereof in assets similar to the assets which were subject to such Disposition, then the Borrower shall not be required to make a mandatory prepayment under this subsection in respect of such Net Cash Proceeds to the extent such Net Cash Proceeds are actually reinvested in such

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similar assets with such 90-day period. Promptly after the end of such 90-day period, the Borrower shall notify the Bank whether the Borrower or such Subsidiary has reinvested such Net Cash Proceeds in such similar assets, and, to the extent such Net Cash Proceeds have not been so reinvested, the Borrower shall promptly prepay the Obligations in the amount of such Net Cash Proceeds not so reinvested. The amount of each such prepayment shall be applied first to the outstanding Delayed Draw Term Loan until paid in full and then to the Revolving Facility, *provided* that proceeds relating to Eligible Inventory and Eligible Receivables then included in the Borrowing Base shall first be applied to the Revolving Facility. If the Bank so requests, all proceeds of such Disposition or Event of Loss shall be deposited with the Bank (or its agent) and held by it in the Collateral Account. So long as no Default exists, the Bank is authorized to disburse amounts representing such proceeds from the Collateral Account to or at the Borrower's direction for application to or reimbursement for the costs of replacing, rebuilding or restoring such Property.

(iv) If after the Closing Date the Borrower or any Subsidiary shall issue new equity securities (whether common or preferred stock or otherwise), other than Excluded Equity Issuances, the Borrower shall promptly notify the Bank of the estimated Net Cash Proceeds of such issuance to be received by or for the account of the Borrower or such Subsidiary in respect thereof. Promptly upon receipt by the Borrower or such Subsidiary of Net Cash Proceeds of such issuance, the Borrower shall prepay the Obligations in an aggregate amount equal to 100% of the amount of such Net Cash Proceeds. The amount of

each such prepayment shall be applied first to the outstanding Delayed Draw Term Loan until paid in full and then to the Revolving Facility. The Borrower acknowledges that its performance hereunder shall not limit the rights and remedies of the Bank for any breach of Section 8.11 (Maintenance of Subsidiaries) or Section 9.1(i) (Change of Control) or any other terms of the Loan Documents.

(v) If after the Closing Date the Borrower or any Subsidiary shall issue any Indebtedness, other than Indebtedness permitted by Section 8.7(a)-(j), the Borrower shall promptly notify the Bank of the estimated Net Cash Proceeds of such issuance to be received by or for the account of the Borrower or such Subsidiary in respect thereof. Promptly upon receipt by the Borrower or such Subsidiary of Net Cash Proceeds of such issuance, the Borrower shall prepay the Obligations in an aggregate amount equal to 100% of the amount of such Net Cash Proceeds. The amount of each such prepayment shall be applied first to the outstanding Delayed Draw Term Loan until paid in full and then to the Revolving Facility. The Borrower acknowledges that its performance hereunder shall not limit the rights and remedies of the Bank for any breach of Section 8.7 or any other terms of the Loan Documents.

(vi) If after the Closing Date the Borrower or any Subsidiary shall issue any Subordinated Debt, the Borrower shall promptly notify the Bank of the estimated Net Cash Proceeds of such issuance to be received by or for the account of the Borrower or such Subsidiary in respect thereof. Promptly upon receipt by the Borrower or such Subsidiary of Net Cash Proceeds of such issuance, the Borrower shall prepay the Obligations in an aggregate amount equal to 100% of the amount of such Net Cash Proceeds. The amount of each such prepayment shall be applied first to the outstanding Delayed Draw Term Loan until paid in full and then to the Revolving Facility. The Borrower acknowledges that its performance hereunder shall not limit the rights and remedies of the Bank for any breach of Section 8.7 or any other terms of the Loan Documents.

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(vii) Unless the Borrower otherwise directs, prepayments of Loans under this Section 2.8(b) shall be applied first to Borrowings of Base Rate Loans until payment in full thereof with any balance applied to Borrowings of Eurodollar Loans in the order in which their Interest Periods expire. Each prepayment of Loans under this Section 2.8(b) shall be made by the payment of the principal amount to be prepaid and, in the case of the Delayed Draw Term Loan or any Eurodollar Loans, accrued interest thereon to the date of prepayment together with any amounts due the Bank under Section 4.5. Each prefunding of L/C Obligations shall be made in accordance with Section 9.4.

(c) Any amount of Revolving Loans paid or prepaid before the Revolving Credit Termination Date may, subject to the terms and conditions of this Agreement, be borrowed, repaid and borrowed again. No amount of the Delayed Draw Term Loan paid or prepaid may be reborrowed, and, in the case of any partial prepayment, such prepayment shall be applied to the remaining payments on the relevant Loans on a ratable basis among all such remaining amortization payments based on the principal amounts thereof.

Section 2.9. Default Rate. Notwithstanding anything to the contrary contained herein, while any Event of Default exists or after acceleration, the Borrower shall pay interest (after as well as before entry of judgment thereon to the extent permitted by law) on the principal amount of all Loans and Reimbursement Obligations, letter of credit fees and other amounts at a rate per annum equal to:

(a) for any Base Rate Loan, the sum of 2.0% *plus* the Applicable Margin *plus* the Base Rate from time to time in effect;

(b) for any Eurodollar Loan, the sum of 2.0% *plus* the rate of interest in effect thereon at the time of such Event of Default until the end of the Interest Period applicable thereto and, thereafter, at a rate per annum equal to the sum of 2.0% *plus* the Applicable Margin for Base Rate Loans *plus* the Base Rate from time to time in effect;

(c) for any Reimbursement Obligation, the sum of 2.0% *plus* the amounts due under Section 2.3 with respect to such Reimbursement Obligation;

(d) for any Letter of Credit, the sum of 2.0% *plus* the Letter of Credit Fee due under Section 3.1(b) with respect to such Letter of Credit; and

(e) for any other amount owing hereunder not covered by clauses (a) through (d) above, the sum of 2% *plus* the Applicable Margin *plus* the Base Rate from time to time in effect;

provided, however, that in the absence of acceleration pursuant to Section 9.2 or 9.3, any adjustments pursuant to this Section shall be made at the election of the Bank, with written notice to the Borrower (which election may be retroactively effective to the date of such Event of Default). While any Event of Default exists or after acceleration, interest shall be paid on demand of the Bank.

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Section 2.10. Evidence of Indebtedness. (a) The Bank shall maintain in accordance with its usual practice an account or accounts evidencing the indebtedness of the Borrower resulting from each Loan made by the Bank from time to time, including the amounts of principal and interest payable and paid to the Bank from time to time hereunder.

(b) The Bank shall also maintain accounts in which it will record (i) the amount of each Loan made hereunder, the type thereof and the Interest Period with respect thereto, (ii) the amount of any principal or interest due and payable or to become due and payable from the Borrower to the Bank hereunder and (iii) the amount of any sum received by the Bank hereunder from the Borrower.

(c) The entries maintained in the accounts maintained pursuant to subsections (a) and (b) above shall be *prima facie* evidence of the existence and amounts of the Obligations therein recorded; *provided, however*, that the failure of the Bank to maintain such accounts or any error therein shall not in any manner affect the obligation of the Borrower to repay the Obligations in accordance with their terms.

(d) The Borrower shall prepare, execute and deliver to the Bank a promissory note or notes payable to the Bank or its registered assigns in the forms of Exhibit C-1 (in the case of the Delayed Draw Term Loan and referred to herein as a "*Delayed Draw Term Note*") and C-2 (in the case of the Revolving Loans and referred to herein as a "*Revolving Note*") (the Delayed Draw Term Note and Revolving Note being hereinafter referred to collectively as the "*Notes*" and individually as a "*Note*").

Section 2.11. Commitment Terminations. (a) *Optional Terminations.* The Borrower shall have the right at any time and from time to time, upon five (5) Business Days prior written notice to the Bank (or such shorter period of time agreed to by the Bank), to terminate the Delayed Draw Term Loan Commitment (prior to the expiration of the Delayed Draw Term Loan Availability Period) or Revolving Credit Commitment without premium or penalty and in whole or in part, any partial termination to be in an amount not less than \$500,000, provided that the Revolving Credit Commitment may not be reduced to an amount less than the sum of the aggregate principal amount of Revolving Loans and L/C Obligations then outstanding. Any termination of the Revolving Credit Commitment below the L/C Sublimit then in effect shall reduce the L/C Sublimit by a like amount.

(b) *Mandatory Revolving Credit Termination.* If at any time Net Cash Proceeds or other amounts remain after the prepayment of the Delayed Draw Term Loan in full pursuant to Section 2.8(b)(iii), (iv), (v), (vi) or (vii) hereof, the Revolving Credit Commitment shall ratably terminate by an amount equal to 100% of such excess.

(c) Any termination of the Commitments pursuant to this Section may not be reinstated.

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Section 2.12. Extension of Revolving Credit Termination Date. At any time following the delivery of the financial statements required by Section 8.5(b) and/or (c) for the Fiscal Month ended September 25, 2015 and third Fiscal Quarter of 2015 but no later than thirty (30) days prior to the Revolving Credit Termination Date as in effect on the Closing Date, the Borrower may request (the "*Extension Request Date*") the Bank to extend the then current Revolving Credit Termination Date and Delayed Draw Term Loan Maturity Date for a period of one year (the "*Extension Period*"). The effectiveness of such extension of the Revolving Credit Termination Date and Delayed Draw Term Loan Maturity Date shall be conditioned upon the Bank's satisfaction that the following conditions shall have been satisfied: (a) each of the representations and warranties set forth herein and in the other Loan Documents shall be and remain true and correct in all material respects as of said time (where not already qualified by materiality, otherwise in all respects), except to the extent the same expressly relate to an earlier date, in which case they shall be true and correct in all material respects (where not already qualified by materiality, otherwise in all respects) as of such earlier date, (b) no Default shall have occurred and be continuing as of the Extension Request Date, (c) such financial statements shall evidence that the TTM EBITDA as of the third Fiscal Quarter of 2015 is not less than \$5,000,000 and shall demonstrate compliance as of the date of such financial statements with the financial covenants set forth in Section 8.23 hereof, and (d) the payment of any fees and expenses of the Bank in connection therewith. Any date to which the Revolving Credit Termination Date or Delayed Draw Term Loan Maturity Date has been extended in accordance with this Section 2.12 may not be extended in like manner. For the avoidance of doubt, the financial covenants set forth in Section 8.23(b) hereof shall apply during the Extension Period.

SECTION 3. FEES.

Section 3.1. Fees. (a) *Commitment Fees.* The Borrower shall pay to the Bank a commitment fee at the rate per annum equal to the Applicable Margin (computed on the basis of a year of 360 days and the actual number of days elapsed) times the daily amount by which (i) the Revolving Credit Commitment exceeds the principal amount of Revolving Loans and L/C Obligations then outstanding and (ii) the Delayed Draw Term Loan Credit Commitment exceeds the principal amount of the Delayed Draw Term Loan(s) advanced pursuant to Section 2.1. Such commitment fee shall be payable quarterly in arrears on the last day of each March, June, September, and December in each year (commencing on the first such date occurring after the Closing Date) and on the Revolving Credit Termination Date, unless the Revolving Credit Commitment or the Delayed Draw Term Loan Commitment is terminated in whole on an earlier date, in which event the commitment fee for the period to the date of such termination in whole shall be paid on the date of such termination.

(b) *Letter of Credit Fees.* Quarterly in arrears, on the last day of each March, June, September, and December, commencing on the first such date occurring after the Closing Date, the Borrower shall pay to the Bank a letter of credit fee (the "*Letter of Credit Fee*") at a rate per annum equal to the Applicable Margin (computed on the basis of a year of 360 days and the actual number of days elapsed) in effect during each day of such quarter applied to the daily average face amount of Letters of Credit outstanding during such quarter. In addition, the Borrower shall pay to the Bank the Bank's standard issuance, drawing, negotiation, amendment, assignment, and other administrative fees for each Letter of Credit as established by the Bank from time to time.

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(c) *Closing Fee.* The Borrower shall pay to the Bank the fees set forth in that certain Fee Letter dated as of January 31, 2014.

SECTION 4. TAXES; CHANGE IN CIRCUMSTANCES, INCREASED COSTS, AND FUNDING INDEMNITY.

Section 4.1. Taxes. (a) *Certain Defined Terms.* For purposes of this Section, the term "applicable law" includes FATCA.

(b) *Payments Free of Taxes.* Any and all payments by or on account of any obligation of any Loan Party under any Loan Document shall be made without deduction or withholding for any Taxes, except as required by applicable law. If any applicable law (as determined in the good faith discretion of an applicable Withholding Agent) requires the deduction or withholding of any Tax from any such payment by a Withholding Agent, then the applicable Withholding Agent shall be entitled to make such deduction or withholding and shall timely pay the full amount deducted or withheld to the relevant Governmental Authority in accordance with applicable law and, if such Tax is an Indemnified Tax, then the sum payable by the applicable Loan Party shall be increased as necessary so that after such deduction or withholding has been made (including such deductions and withholdings applicable to additional sums payable under this Section) the Bank receives an amount equal to the sum it would have received had no such deduction or withholding been made.

(c) *Payment of Other Taxes by the Loan Parties.* The Loan Parties shall timely pay to the relevant Governmental Authority in accordance with applicable law, or at the option of the Bank timely reimburse it for the payment of, any Other Taxes.

(d) *Indemnification by the Loan Parties.* The Loan Parties shall jointly and severally indemnify the Bank, within ten (10) days after demand therefor, for the full amount of any Indemnified Taxes (including Indemnified Taxes imposed or asserted on or attributable to amounts payable under this Section) payable or paid by the Bank or required to be withheld or deducted from a payment to the Bank and any reasonable expenses arising therefrom or with respect thereto, whether or not such Indemnified Taxes were correctly or legally imposed or asserted by the relevant Governmental Authority. A certificate as to the amount of such payment or liability delivered to the Borrower by the Bank shall be conclusive absent manifest error.

(e) *Evidence of Payments.* As soon as practicable after any payment of Taxes by any Loan Party to a Governmental Authority pursuant to this Section, such Loan Party shall deliver to the Bank the original or a certified copy of a receipt issued by such Governmental Authority evidencing such payment, a copy of the return reporting such payment or other evidence of such payment reasonably satisfactory to the Bank.

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(f) *Treatment of Certain Refunds.* If any party determines, in its sole discretion exercised in good faith, that it has received a refund of any Taxes as to which it has been indemnified pursuant to this Section (including by the payment of additional amounts pursuant to this Section), it shall pay to the indemnifying party an amount equal to such refund (but only to the extent of indemnity payments made under this Section with respect to the Taxes giving rise to such refund), net of all out-of-pocket expenses (including Taxes) of such indemnified party and without interest (other than any interest paid by the relevant Governmental Authority with respect to such refund). Such indemnifying party, upon the request of such indemnified party, shall repay to such indemnified party the amount paid over pursuant to this subsection (f) (plus any penalties, interest or other charges imposed by the relevant Governmental Authority) in the event that such indemnified party is required to repay such refund to such Governmental Authority. Notwithstanding anything to the contrary in this subsection (f), in no event will the indemnified party be required to pay any amount to an indemnifying party pursuant to this subsection (f) the payment of which would place the indemnified party in a less favorable net after-Tax position than the indemnified party would have been in if the Tax subject to indemnification had not been deducted, withheld or otherwise imposed and the indemnification payments or additional amounts giving rise to such refund had never been paid. This subsection shall not be construed to require any indemnified party to make available its Tax returns (or any other information relating to its Taxes that it deems confidential) to the indemnifying party or any other Person.

(g) *Survival.* Each party's obligations under this Section shall survive any assignment of rights by the Bank, the termination of the Commitments and the repayment, satisfaction or discharge of all obligations under any Loan Document.

Section 4.2. Change of Law. Notwithstanding any other provisions of this Agreement or any other Loan Document, if at any time any Change in Law makes it unlawful for the Bank to make or continue to maintain any Eurodollar Loans or to perform its obligations as contemplated hereby, the Bank shall promptly give notice thereof to the Borrower and the Bank's obligations to make or maintain Eurodollar Loans under this Agreement shall be suspended until it is no longer unlawful for the Bank to make or maintain Eurodollar Loans. The Borrower shall prepay on demand the outstanding principal amount of any such affected Eurodollar Loans, together with all interest accrued thereon and all other amounts then due and payable to the Bank under this Agreement; *provided, however,* subject to all of the terms and conditions of this Agreement, the Borrower may then elect to borrow the principal amount of the affected Eurodollar Loans from the Bank by means of Base Rate Loans.

Section 4.3. Unavailability of Deposits or Inability to Ascertain, or Inadequacy of, LIBOR. If on or prior to the first day of any Interest Period for any Borrowing of Eurodollar Loans:

(a) the Bank determines that deposits in U.S. Dollars (in the applicable amounts) are not being offered to it in the interbank eurodollar market for such Interest Period, or that by reason of circumstances affecting the interbank eurodollar market adequate and reasonable means do not exist for ascertaining the applicable LIBOR, or

(b) the Bank determines that (i) LIBOR as determined by the Bank will not adequately and fairly reflect the cost to the Bank of funding Eurodollar Loans for such Interest Period or (ii) that the making or funding of Eurodollar Loans become impracticable,

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then the Bank shall forthwith give notice thereof to the Borrower, whereupon until the Bank notifies the Borrower that the circumstances giving rise to such suspension no longer exist, the obligations of the Bank to make Eurodollar Loans shall be suspended.

Section 4.4. Increased Costs. (a) *Increased Costs Generally.* If any Change in Law shall:

(i) impose, modify or deem applicable any reserve, special deposit, compulsory loan, insurance charge or similar requirement against assets of, deposits with or for the account of, or credit extended or participated in by, the Bank (except any reserve requirement reflected in the Adjusted LIBOR);

(ii) subject the Bank to any Taxes (other than (A) Indemnified Taxes, (B) Taxes described in clauses (b) through (d) of the definition of Excluded Taxes and (C) Connection Income Taxes) on its loans, loan principal, letters of credit, commitments, or other obligations, or its deposits, reserves, other liabilities or capital attributable thereto; or

(iii) impose on the Bank or the London interbank market any other condition, cost or expense (other than Taxes) affecting this Agreement or Loans made by the Bank or any Letter of Credit or participation therein;

and the result of any of the foregoing shall be to increase the cost to the Bank of making, converting to, continuing or maintaining any Loan or of maintaining its obligation to make any such Loan, or to increase the cost to the Bank of issuing or maintaining any Letter of Credit (or of maintaining its obligation to issue any Letter of Credit), or to reduce the amount of any sum received or receivable by the Bank hereunder (whether of principal, interest or any other amount) then, upon request of the Bank, the Borrower will pay to the Bank such additional amount or amounts as will compensate the Bank for such additional costs incurred or reduction suffered.

(b) *Capital Requirements.* If the Bank determines that any Change in Law affecting the Bank or any lending office of the Bank or the Bank's holding company, if any, regarding capital or liquidity requirements, has or would have the effect of reducing the rate of return on the Bank's capital or on the capital of the Bank's holding company, if any, as a consequence of this Agreement, the Commitments of the Bank or the Loans made by, or the Letters of Credit issued by the Bank, to a level below that which the Bank or the Bank's holding company could have achieved but for such Change in Law (taking into consideration the Bank's policies and the policies of the Bank's holding company with respect to capital adequacy), then from time to time the Borrower will pay to the Bank, as the case may be, such additional amount or amounts as will compensate the Bank or the Bank's holding company for any such reduction suffered.

(c) *Certificates for Reimbursement.* A certificate of the Bank setting forth the amount or amounts necessary to compensate the Bank or its holding company, as the case may be, as specified in subsection (a) or (b) of this Section and delivered to the Borrower, shall be conclusive absent manifest error. The Borrower shall pay the Bank the amount shown as due on any such certificate within ten (10) days after receipt thereof.

(d) *Delay in Requests.* Failure or delay on the part of the Bank to demand compensation pursuant to this Section shall not constitute a waiver of the Bank's right to demand such compensation; *provided* that the Borrower shall not be required to compensate the Bank pursuant to this Section for any increased costs incurred or reductions suffered more than nine (9) months prior to the date that the Bank notifies the Borrower of the Change in Law giving rise to such increased costs or reductions, and of the Bank's intention to claim compensation therefor (except that, if the Change in Law giving rise to such increased costs or reductions is retroactive, then the nine-month period referred to above shall be extended to include the period of retroactive effect thereof).

Section 4.5. Funding Indemnity. If the Bank shall incur any loss, cost or expense (including, without limitation, any loss, cost or expense incurred by reason of the liquidation or re-employment of deposits or other funds acquired by the Bank to fund or maintain any Eurodollar Loan or the relending or reinvesting of such deposits or amounts paid or prepaid to the Bank) as a result of:

- (a) any payment, prepayment or conversion of a Eurodollar Loan on a date other than the last day of its Interest Period,
- (b) any failure (because of a failure to meet the conditions of Section 7 or otherwise) by the Borrower to borrow or continue a Eurodollar Loan, or to convert a Base Rate Loan into a Eurodollar Loan on the date specified in a notice given pursuant to Section 2.6(a) or 2.2(b),
- (c) any failure by the Borrower to make any payment of principal on any Eurodollar Loan when due (whether by acceleration or otherwise), or
- (d) any acceleration of the maturity of a Eurodollar Loan as a result of the occurrence of any Event of Default hereunder,

then, upon the demand of the Bank, the Borrower shall pay to the Bank such amount as will reimburse the Bank for such loss, cost or expense. If the Bank makes such a claim for compensation, it shall provide to the Borrower a certificate setting forth the amount of such loss, cost or expense in reasonable detail and the amounts shown on such certificate shall be conclusive absent manifest error.

Section 4.6. Discretion of the Bank as to Manner of Funding. Notwithstanding any other provision of this Agreement, the Bank shall be entitled to fund and maintain its funding of all or any part of its Loans in any manner it sees fit, it being understood, however, that for the purposes of this Agreement all determinations hereunder with respect to Eurodollar Loans shall be made as if the Bank had actually funded and maintained each Eurodollar Loan through the purchase of deposits in the interbank eurodollar market having a maturity corresponding to such Loan's Interest Period, and bearing an interest rate equal to LIBOR for such Interest Period.

Section 4.7. Lending Offices; Mitigation Obligations. The Bank may, at its option, elect to make its Loans hereunder at the branch, office or affiliate specified on the appropriate signature page hereof (each a "Lending Office") for each type of Loan available hereunder or at such other of its branches, offices or affiliates as it may from time to time elect and designate in a written notice to the Borrower. If the Bank requests compensation under Section 4.4, or requires the Borrower to pay any Indemnified Taxes or additional amounts to the Bank or any Governmental Authority for the account of the Bank pursuant to Section 4.1, then the Bank shall (at the request of the Borrower) use reasonable efforts to designate a different lending office for funding or booking its Loans hereunder or to assign its rights and obligations hereunder to another of its offices, branches or affiliates, if, in the judgment of the Bank, such designation or assignment (i) would eliminate or reduce amounts payable pursuant to Section 4.1 or 4.4, as the case may be, in the future, and (ii) would not subject the Bank to any unreimbursed cost or expense and would not otherwise be disadvantageous to the Bank. The Borrower hereby agrees to pay all reasonable costs and expenses incurred by the Bank in connection with any such designation or assignment.

SECTION 5. PLACE AND APPLICATION OF PAYMENTS.

Section 5.1. Place and Application of Payments. All payments of principal of and interest on the Loans and the Reimbursement Obligations, and all other Obligations payable by the Borrower under this Agreement and the other Loan Documents, shall be made by the Borrower to the Bank by no later than 12:00 Noon (Chicago time) on the due date thereof at the office of the Bank in Chicago, Illinois (or such other location as the Bank may designate to the Borrower). Any payments received after such time shall be deemed to have been received by the Bank on the next Business Day. All such payments shall be made in U.S. Dollars, in immediately available funds at the place of payment, in each case without set-off or counterclaim.

Section 5.2. Non-Business Days. Subject to the definition of Interest Period, if any payment hereunder becomes due and payable on a day which is not a Business Day, the due date of such payment shall be extended to the next succeeding Business Day on which date such payment shall be due and payable. In the case of any payment of principal falling due on a day which is not a Business Day, interest on such principal amount shall continue to accrue during such extension at the rate per annum then in effect, which accrued amount shall be due and payable on the next scheduled date for the payment of interest.

Section 5.3. Payments Set Aside. To the extent that any payment by or on behalf of the Borrower or any other Loan Party is made to the Bank or the Bank exercises its right of setoff, and such payment or the proceeds of such setoff or any part thereof is subsequently invalidated, declared to be fraudulent or preferential, set aside or required (including pursuant to any settlement entered into by the Bank in its discretion) to be repaid to a trustee, receiver or any other party, in connection with any proceeding under any Debtor Relief Law or otherwise, then to the extent of such recovery, the obligation or part thereof originally intended to be satisfied shall be revived and continued in full force and effect as if such payment had not been made or such setoff had not occurred.

Section 5.4. Account Debit. The Borrower hereby irrevocably authorizes the Bank to charge any of the Borrower's deposit accounts maintained with the Bank for the amounts from time to time necessary to pay any then due Obligations; *provided* that the Bank acknowledges and agrees that the Bank shall not be under an obligation to do so and the Bank shall not incur any liability to the Borrower or any other Person for the Bank's failure to do so.

SECTION 6. REPRESENTATIONS AND WARRANTIES.

Each Loan Party represents and warrants to the Bank as follows:

Section 6.1. Organization and Qualification. Each Loan Party is duly organized, validly existing, and in good standing as a corporation, limited liability company, or partnership, as applicable, under the laws of the jurisdiction in which it is organized, has full and adequate power to own its Property and conduct its business as now conducted, and is duly licensed or qualified and in good standing in each jurisdiction in which the nature of the business conducted by it or the nature of the Property owned or leased by it requires such licensing or qualifying, except where the failure to do so would not have a Material Adverse Effect.

Section 6.2. Subsidiaries. Each Subsidiary that is not a Loan Party is duly organized, validly existing, and in good standing under the laws of the jurisdiction in which it is organized, has full and adequate power to own its Property and conduct its business as now conducted, and is duly licensed or qualified and in good standing in each jurisdiction in which the nature of the business conducted by it or the nature of the Property owned or leased by it requires such licensing or qualifying, except where the failure to do so would not have a Material Adverse Effect. Schedule 6.2 hereto identifies each Subsidiary (including Subsidiaries that are Loan Parties), the jurisdiction of its organization, the percentage of issued and outstanding shares of each class of its capital stock or other equity interests owned by any Loan Party and its Subsidiaries and, if such percentage is not 100% (excluding directors' qualifying shares as required by law), a description of each class of its authorized capital stock and other equity interests and the number of shares of each class issued and outstanding. All of the outstanding shares of capital stock and other equity interests of each Subsidiary are validly issued and outstanding and fully paid and nonassessable and all such shares and other equity interests indicated on Schedule 6.2 as owned by the relevant Loan Party or another Subsidiary are owned, beneficially and of record, by such Loan Party or such Subsidiary free and clear of all Liens other than the Liens granted in favor of the Bank pursuant to the Collateral Documents or otherwise permitted by this Agreement. There are no outstanding commitments or other obligations of any Subsidiary to issue, and no options, warrants or other rights of any Person to acquire, any shares of any class of capital stock or other equity interests of any Subsidiary.

Section 6.3. Authority and Validity of Obligations. Each Loan Party has full right and authority to enter into this Agreement and the other Loan Documents executed by it, to make the borrowings herein provided for (in the case of the Borrower), to guarantee the Secured Obligations (in the case of each Guarantor), to grant to the Bank the Liens described in the

Collateral Documents executed by such Loan Party, and to perform all of its obligations hereunder and under the other Loan Documents executed by it. The Loan Documents delivered by the Loan Parties and their Subsidiaries have been duly authorized, executed, and delivered by such Persons and constitute valid and binding obligations of such Loan Parties and their Subsidiaries enforceable against each of them in accordance with their terms, except as enforceability may be limited by bankruptcy, insolvency, fraudulent conveyance or similar laws affecting creditors' rights generally and general principles of equity (regardless of whether the application of such principles is considered in a proceeding in equity or at law); and this Agreement and the other Loan Documents do not, nor does the performance or observance by any Loan Party or any Subsidiary of any of the matters and things herein or therein provided for, (a) contravene or constitute a default under any provision of law or any judgment, injunction, order or decree binding upon any Loan Party or any Subsidiary of a Loan Party or any provision of the organizational documents (*e.g.*, charter, certificate or articles of incorporation and by-laws, certificate or articles of association and operating agreement, partnership agreement, or other similar organizational documents) of any Loan Party or any Subsidiary of a Loan Party, (b) contravene or constitute a default under any covenant, indenture or agreement of or affecting any Loan Party or any Subsidiary of a Loan Party or any of their respective Property, in each case where such contravention or default, individually or in the aggregate, could reasonably be expected to have a Material Adverse Effect, or (c) result in the creation or imposition of any Lien on any Property of any Loan Party or any Subsidiary of a Loan Party other than the Liens granted in favor of the Bank pursuant to the Collateral Documents.

Section 6.4. Use of Proceeds; Margin Stock. The Borrower shall use the proceeds of the Delayed Draw Term Loan to finance Permitted Acquisitions and to pay transaction expenses related to Permitted Acquisitions; and the Borrower shall use the proceeds of the Revolving Facility to refinance existing Indebtedness outstanding on the Closing Date, pay the transaction expenses related to the Loan Documents, finance Capital Expenditures and for its general working capital purposes and for such other legal and proper purposes as are consistent with all applicable laws. No Loan Party nor any of its Subsidiaries is engaged in the business of extending credit for the purpose of purchasing or carrying margin stock (within the meaning of Regulation U of the Board of Governors of the Federal Reserve System), and no part of the proceeds of any Loan or any other extension of credit made hereunder will be used to purchase or carry any such margin stock or to extend credit to others for the purpose of purchasing or carrying any such margin stock. Margin stock (as hereinabove defined) constitutes less than 25% of the assets of the Loan Parties and their Subsidiaries which are subject to any limitation on sale, pledge or other restriction hereunder.

Section 6.5. Financial Reports. The consolidated balance sheet of the Loan Parties and their Subsidiaries as at December 28, 2012, and the related consolidated statements of income, retained earnings and cash flows of the Loan Parties and their Subsidiaries for the Fiscal Year then ended, and accompanying notes thereto, which financial statements are accompanied by the audit report of Ernst & Young LLP, independent public accountants, and the unaudited interim consolidated balance sheet of the Loan Parties and their Subsidiaries as at the Fiscal Month ended November 22, 2013, and the related consolidated statements of income, retained earnings and cash flows of the Loan Parties and their Subsidiaries for the 11 Fiscal Months then ended, heretofore furnished to the Bank, fairly present the consolidated financial condition of the Loan

Parties and their Subsidiaries as at said dates and the consolidated results of their operations and cash flows for the periods then ended in conformity with GAAP applied on a consistent basis. No Loan Party nor any of its Subsidiaries has contingent liabilities which are material to it other than as indicated on such financial statements or, with respect to future periods, on the financial statements furnished pursuant to Section 8.5.

Section 6.6. No Material Adverse Change. Since December 28, 2012, there has been no change in the condition (financial or otherwise) or business prospects of any Loan Party or any Subsidiary of a Loan Party except those occurring in the ordinary course of business, none of which individually or in the aggregate could reasonably be expected to have a Material Adverse Effect.

Section 6.7. Full Disclosure. The statements and information furnished to the Bank in connection with the negotiation of this Agreement and the other Loan Documents and the commitment by the Bank to provide all or part of the financing contemplated hereby do not contain any untrue statements of a material fact or omit a material fact necessary to make the material statements contained herein or therein not misleading, the Bank acknowledging that as to any projections furnished to the Bank, the Loan Parties only represent that the same were prepared on the basis of information and estimates the Loan Parties believed to be reasonable.

Section 6.8. Trademarks, Franchises, and Licenses. The Loan Parties and their Subsidiaries own, possess, or have the right to use all necessary patents, licenses, franchises, trademarks, trade names, trade styles, copyrights, trade secrets, know how, and confidential commercial and proprietary information to conduct their businesses as now conducted, without known conflict with any patent, license, franchise, trademark, trade name, trade style, copyright or other proprietary right of any other Person.

Section 6.9. Governmental Authority and Licensing. The Loan Parties and their Subsidiaries have received all licenses, permits, and approvals of all federal, state, and local governmental authorities, if any, necessary to conduct their businesses, in each case where the failure to obtain or maintain the same could reasonably be expected to have a Material Adverse Effect. No investigation or proceeding which, if adversely determined, could reasonably be expected to result in revocation or denial of any material license, permit or approval is pending or, to the knowledge of the any Loan Party, threatened.

Section 6.10. Good Title. The Loan Parties and their Subsidiaries have good and defensible title (or valid leasehold interests) to their assets as reflected on the most recent consolidated balance sheet of the Loan Parties and their Subsidiaries furnished to the Bank (except for sales of assets in the ordinary course of business), subject to no Liens other than such thereof as are permitted by Section 8.8.

Section 6.11. Litigation and Other Controversies. There is no litigation or governmental or arbitration proceeding or labor controversy pending, nor to the knowledge of any Loan Party threatened, against any Loan Party or any Subsidiary of a Loan Party or any of their respective Property which if adversely determined, individually or in the aggregate, could reasonably be expected to have a Material Adverse Effect.

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Section 6.12. Taxes. All Tax returns required to be filed by any Loan Party or any Subsidiary of a Loan Party in any jurisdiction have, in fact, been filed, and all Taxes upon any Loan Party or any Subsidiary of a Loan Party or upon any of their respective Property, income or franchises, which are shown to be due and payable in such returns, have been paid, except such Taxes, if any, as are being contested in good faith and by appropriate proceedings which prevent enforcement of the matter under contest and as to which adequate reserves established in accordance with GAAP have been provided. No Loan Party knows of any proposed additional Tax assessment against it or its Subsidiaries for which adequate provisions in accordance with GAAP have not been made on their accounts. Adequate provisions in accordance with GAAP for Taxes on the books of each Loan Party and each of its Subsidiaries have been made for all open years, and for its current fiscal period.

Section 6.13. Approvals. No authorization, consent, license or exemption from, or filing or registration with, any court or governmental department, agency or instrumentality, nor any approval or consent of any other Person, is or will be necessary to the valid execution, delivery or performance by any Loan Party or any Subsidiary of a Loan Party of any Loan Document, except for (i) such approvals which have been obtained prior to the date of this Agreement and remain in full force and effect and (ii) filings which are necessary to perfect the security interests under the Collateral Documents.

Section 6.14. Affiliate Transactions. No Loan Party nor any of its Subsidiaries is a party to any contracts or agreements with any of its Affiliates on terms and conditions which are less favorable to such Loan Party or such Subsidiary than would be usual and customary in similar contracts or agreements between Persons not affiliated with each other.

Section 6.15. Investment Company. No Loan Party nor any of its Subsidiaries is an "investment company" or a company "controlled" by an "investment company" within the meaning of the Investment Company Act of 1940, as amended.

Section 6.16. ERISA. Each Loan Party and each other member of its Controlled Group has fulfilled its obligations under the minimum funding standards of and is in compliance in all material respects with ERISA and the Code to the extent applicable to it and has not incurred any liability to the PBGC or a Plan under Title IV of ERISA other than a liability to the PBGC for premiums under Section 4007 of ERISA. No Loan Party nor any of its Subsidiaries has any contingent liabilities with respect to any post-retirement benefits under a Welfare Plan, other than liability for continuation coverage described in article 6 of Title I of ERISA.

Section 6.17. Compliance with Laws. (a) The Loan Parties and their Subsidiaries are in compliance with all Legal Requirements applicable to or pertaining to their Property or business operations, where any such non-compliance, individually or in the aggregate, could reasonably be expected to have a Material Adverse Effect.

(b) Except for such matters, individually or in the aggregate, which could not reasonably be expected to result in a Material Adverse Effect, the Loan Parties represent and warrant that: (i) the Loan Parties and their Subsidiaries, and each of the Premises, comply in all material respects with all applicable Environmental Laws; (ii) the Loan Parties and their

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Subsidiaries have obtained, maintain and are in compliance with all approvals, permits, or authorizations of Governmental Authorities required for their operations and each of the Premises; (iii) the Loan Parties and their Subsidiaries have not, and no Loan Party has knowledge of any other Person who has, caused any Release, threatened Release or disposal of any Hazardous Material at, on, or from any of the Premises in any material quantity and, to the knowledge of each Loan Party, none of the Premises are adversely affected by any such Release, threatened Release or disposal of a Hazardous Material; (iv) the Loan Parties and their Subsidiaries are not subject to and have no notice or knowledge of any Environmental Claim involving any Loan Party or any Subsidiary of a Loan Party or any of the Premises, and there are no conditions or occurrences at any of the Premises which could reasonably be anticipated to

form the basis for such an Environmental Claim; (v) none of the Premises contain and have contained any: (1) underground storage tanks, (2) material amounts of asbestos containing building material, (3) landfills or dumps, (4) hazardous waste management facilities as defined pursuant to any Environmental Law, or (5) sites on or nominated for the National Priority List or similar state list; (vi) the Loan Parties and their Subsidiaries have not used a material quantity of any Hazardous Material and have conducted no Hazardous Material Activity at any of the Premises; (vii) none of the Premises are subject to any, and no Loan Party has knowledge of any imminent restriction on the ownership, occupancy, use or transferability of the Premises in connection with any (1) Environmental Law or (2) Release, threatened Release or disposal of a Hazardous Material; and (viii) there are no conditions or circumstances at any of the Premises which pose an unreasonable risk to the environment or the health or safety of Persons; and (ix) the Loan Parties and their Subsidiaries have no knowledge of any capital expenditures necessary to bring the Premises or their respective business or equipment into compliance with Environmental Laws. The Loan Parties have delivered to the Bank complete and accurate copies of all material environmental reports, studies, assessments and investigation results in the Loan Parties' possession or control and that relate to any Loan Party's or Subsidiary's operations or to any of the Premises.

Section 6.18. OFAC. (a) Each Loan Party is in compliance in all material respects with the requirements of all OFAC Sanctions Programs applicable to it, (b) each Subsidiary of each Loan Party is in compliance in all material respects with the requirements of all OFAC Sanctions Programs applicable to such Subsidiary, (c) each Loan Party has provided to the Bank all information requested by them regarding such Loan Party and its Affiliates and Subsidiaries necessary for the Bank to comply with all applicable OFAC Sanctions Programs, and (d) to the best of each Loan Party's knowledge, no Loan Party nor any of its Affiliates or Subsidiaries is, as of the date hereof, named on the current OFAC SDN List.

Section 6.19. Labor Matters. There are no strikes, lockouts or slowdowns against any Loan Party or any Subsidiary of a Loan Party pending or, to the knowledge of any Loan Party, threatened. There are no collective bargaining agreements in effect between any Loan Party or any Subsidiary of a Loan Party and any labor union; and no Loan Party nor any of its Subsidiaries is under any obligation to assume any collective bargaining agreement to or conduct any negotiations with any labor union with respect to any future agreements. Each Loan Party and its Subsidiaries have remitted on a timely basis all amounts required to have been withheld and remitted (including withholdings from employee wages and salaries relating to income tax, employment insurance, and pension plan contributions), goods and services tax and all other amounts which if not paid when due could result in the creation of a Lien against any of its Property, except for Liens permitted by Section 8.8.

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Section 6.20. Other Agreements. No Loan Party nor any of its Subsidiaries is in default under the terms of any covenant, indenture or agreement of or affecting such Person or any of its Property, which default if uncured could reasonably be expected to have a Material Adverse Effect.

Section 6.21. Solvency. The Loan Parties and their Subsidiaries are solvent, able to pay their debts as they become due, and have sufficient capital to carry on their business and all businesses in which they are about to engage.

Section 6.22. No Default. No Default has occurred and is continuing.

Section 6.23. No Broker Fees. No broker's or finder's fee or commission will be payable with respect hereto or any of the transactions contemplated thereby; and the Loan Parties hereby agree to indemnify the Bank against, and agree that they will hold the Bank harmless from, any claim, demand, or liability for any such broker's or finder's fees alleged to have been incurred in connection herewith or therewith and any expenses (including reasonable attorneys' fees) arising in connection with any such claim, demand, or liability.

Section 6.24. Security Documents. (a) The Security Agreement is effective to create in favor of the Bank legal, valid and enforceable Liens on, and security interests in, the Collateral (as defined in the Security Agreement) and, (i) when financing statements and other filings in appropriate form are filed in the appropriate offices, and (ii) upon the taking of possession or control by the Bank of the Collateral (as defined in the Security Agreement) with respect to which a security interest may be perfected only by possession or control, the Liens created by the Security Agreement shall constitute fully perfected Liens on, and security interests in, all right, title and interest of the grantors thereunder in the Collateral (as defined in the Security Agreement) (other than (A) the patents, trademarks, tradestyles, copyrights, and other intellectual property rights (including all registrations and applications therefor) and (B) such Collateral (as defined in the Security Agreement) in which a security interest cannot be perfected under the UCC as in effect at the relevant time in the relevant jurisdiction or in respect of which perfection is not required at such time by this Agreement or the Security Agreement), in each case subject to no Liens other than those permitted by Section 8.8 hereof.

(b) When (i) the Security Agreement or a short form thereof is filed in the United States Patent and Trademark Office and the United States Copyright Office, as applicable, and (ii) financing statements and other filings in appropriate form are filed in the applicable offices, the Liens created by such Security Agreement shall constitute fully perfected Liens on, and security interests in, all right, title and interest of the grantors thereunder in the patents, trademarks, tradestyles, copyrights, and other intellectual property rights (including all registrations and applications therefor), in each case subject to no Liens other than those permitted by Section 8.8 hereof.

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SECTION 7. CONDITIONS PRECEDENT.

Section 7.1. All Credit Events. At the time of each Credit Event hereunder:

(a) each of the representations and warranties set forth herein and in the other Loan Documents shall be and remain true and correct in all material respects as of said time (where not already qualified by materiality, otherwise in all respects), except to the extent the same expressly relate to an earlier date, in which case they shall be true and correct in all material respects (where not already qualified by materiality, otherwise in all respects) as of such earlier date;

(b) no Default shall have occurred and be continuing or would occur as a result of such Credit Event;

(c) after giving effect to such extension of credit the aggregate principal amount of all Revolving Loans and L/C Obligations outstanding under this Agreement shall not exceed the lesser of (i) the Revolving Credit Commitment and (ii) the Borrowing Base as then determined and computed;

(d) in the case of a Borrowing the Bank shall have received the notice required by Section 2.6, in the case of the issuance of any Letter of Credit the Bank shall have received a duly completed Application for such Letter of Credit together with any fees called for by Section 3.1, and, in the case of an extension or increase in the amount of a Letter of Credit, a written request therefor in a form acceptable to the Bank together with fees called for by Section 3.1;

(e) in the case of any Delayed Draw Term Loan, the Borrower shall be in compliance on a pro forma basis with Section 8.23(a) after giving effect to such Borrowing; and

(f) such Credit Event shall not violate any order, judgment or decree of any court or other authority or any provision of law or regulation applicable to the Bank (including, without limitation, Regulation U of the Board of Governors of the Federal Reserve System) as then in effect.

Each request for a Borrowing hereunder and each request for the issuance of, increase in the amount of, or extension of the expiration date of, a Letter of Credit shall be deemed to be a representation and warranty by the Borrower on the date on such Credit Event as to the facts specified in subsections (a) through (d), both inclusive, of this Section; *provided, however*, that the Bank may continue to make advances under the Revolving Facility in its sole discretion, notwithstanding the failure of the Borrower to satisfy one or more of the conditions set forth above and any such advances so made shall not be deemed a waiver of any Default or other condition set forth above that may then exist.

Section 7.2. Initial Credit Event. Before or concurrently with the initial Credit Event:

(a) the Bank shall have received this Agreement duly executed by the Borrower and its Domestic Subsidiaries, as Guarantors, and the Bank;

(b) the Bank shall have received duly executed Notes of the Borrower dated the date hereof and otherwise in compliance with the provisions of Section 2.10;

(c) the Bank shall have received the Security Agreement duly executed by the Loan Parties, together with (i) original stock certificates or other similar instruments or securities representing all of the issued and outstanding shares of capital stock or other equity interests in each Subsidiary (limited in the case of any first tier Foreign Subsidiary to 66% of the Voting Stock and 100% of any other equity interests as provided in Section 11.1) as of the Closing Date, (ii) stock powers executed in blank and undated for the Collateral consisting of the stock or other equity interest in each Subsidiary, (iii) UCC financing statements to be filed against each Loan Party, as debtor, in favor of the Bank, as secured party, (iv) patent, trademark, and copyright collateral agreements to the extent requested by the Bank, (v) deposit account, securities account, and commodity account control agreements to the extent requested by the Bank, (vi) Collateral Access Agreements to the extent requested by the Bank, and (vii) a duly completed and executed Perfection Certificate;

(d) the Bank shall have received evidence of insurance required to be maintained under the Loan Documents, naming the Bank as mortgagee/lender's loss payee and as an additional insured, as applicable;

(e) the Bank shall have received copies of each Loan Party's articles of incorporation and bylaws (or comparable organizational documents) and any amendments thereto, certified in each instance by its Secretary or Assistant Secretary (or comparable Responsible Officer);

(f) the Bank shall have received copies of resolutions of each Loan Party's Board of Directors (or similar governing body) authorizing the execution, delivery and performance of this Agreement and the other Loan Documents to which it is a party and the consummation of the transactions contemplated hereby and thereby, together with specimen signatures of the persons authorized to execute such documents on each Loan Party's behalf, all certified in each instance by its Secretary or Assistant Secretary (or comparable Responsible Officer);

(g) the Bank shall have received copies of the certificates of good standing for each Loan Party (dated no earlier than 30 days prior to the date hereof) from the office of the secretary of the state of its incorporation or organization and of each state in which it is qualified to do business as a foreign corporation or organization;

(h) the Bank shall have received a list of the Borrower's Authorized Representatives;

(i) the Bank shall have received a certificate as to the Borrower's Designated Disbursement Account;

(j) the Bank shall have received the initial fees called for by Section 3.1;

(k) the capital and organizational structure of the Loan Parties and their Subsidiaries shall be satisfactory to the Bank;

(l) the Bank shall have received such evaluations and certifications as it may reasonably require in order to satisfy itself as to the value of the Collateral, including but not limited to completion of a field audit;

(m) the Bank shall have received (i) audited financial statements (including an income statement, a balance sheet, and a cash flow statement) of the Loan Parties for the Fiscal Year ended December 28, 2012, (ii) unaudited Fiscal Month financial statements (including an income statement and a balance sheet) of the Loan Parties for the Fiscal Year-to-date period ended November 22, 2013 and for the most recent Fiscal Month ended prior to the Closing Date, (iii) substantially complete draft unaudited financial statements (including an income statement and a balance sheet) of the Loan Parties for the Fiscal Year ended December 27, 2013 and (iv) 1-year projected financial statements of the company as of November 22, 2013, in each case in form and substance reasonably acceptable to the Bank and certified to by a Financial Officer of the Borrower;

(n) the Bank shall have received a Borrowing Base Certificate prepared by the Borrower and certified to by a Financial Officer of the Borrower evidencing Excess Availability of at least \$5,000,000 as of the Closing Date after giving effect to the initial Credit Event and the transactions contemplated hereby and payment of all costs and expenses in connection therewith;

(o) the Bank shall have received a certificate from a Responsible Officer of the Borrower certifying that (i) the solvency of the Loan Parties and their Subsidiaries as of the Closing Date after giving effect to the initial Credit Event and the transactions contemplated hereby and payment of all costs and expenses in connection therewith; (ii) since December 28, 2012, no Material Adverse Effect has occurred; (iii) the TTM EBITDA as of the Fiscal Month ended November 22, 2013, is not less than \$3,000,000 and (iv) the Total Leverage Ratio is not greater than 0.75 to 1.00, on a pro forma basis calculated based on TTM EBITDA as of the Fiscal Month ended November 22, 2013, and after giving effect to all extensions of Credit made on the Closing Date;

(p) the Bank shall have received financing statement, tax, and judgment lien search results against each Loan Party and its Property evidencing the absence of Liens thereon except as permitted by Section 8.8;

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(q) the Bank shall have received pay-off and lien release letters from secured creditors of the Loan Parties (other than secured parties intended to remain outstanding after the Closing Date with Indebtedness and Liens permitted by Sections 8.7 and 8.8) setting forth, among other things, the total amount of indebtedness outstanding and owing to them (or outstanding letters of credit issued for the account of any Loan Party or its Subsidiaries) and containing an undertaking to cause to be delivered to the Bank UCC termination statements and any other lien release instruments necessary to release their Liens on the assets of any Loan Party or any Subsidiary of a Loan Party, which pay-off and lien release letters shall be in form and substance acceptable to the Bank;

(r) the Bank shall have received the favorable written opinion of counsel to each Loan Party, in form and substance satisfactory to the Bank;

(s) the Bank shall have received, sufficiently in advance of the Closing Date, all documentation and other information requested by the Bank required by bank regulatory authorities under applicable "know your customer" and anti-money laundering rules and regulations, including without limitation, the United States Patriot Act (Title III of Pub. L. 107-56 (signed into law October 26, 2001)) including, without limitation, the information described in Section 12.16; and the Bank shall have received a fully executed Internal Revenue Service Form W-9 (or its equivalent) for the Borrower and each other Loan Party; and

(t) the Bank shall have received such other agreements, instruments, documents, certificates, and opinions as the Bank may reasonably request.

SECTION 8. COVENANTS.

Each Loan Party agrees that, so long as any credit is available to or in use by the Borrower hereunder, except to the extent compliance in any case or cases is waived in writing by the Bank:

Section 8.1. Maintenance of Business. Each Loan Party shall, and shall cause each of its Subsidiaries to, preserve and maintain its existence, except as otherwise provided in Section 8.10(c); *provided, however,* that nothing in this Section shall prevent the Borrower from dissolving any of its Subsidiaries if such action is, in the reasonable business judgment of the Borrower, desirable in the conduct of its business and is not disadvantages in any material respect to the Bank. Each Loan Party shall, and shall cause each of its Subsidiaries to, preserve and keep in force and effect all licenses, permits, franchises, approvals, patents, trademarks, trade names, trade styles, copyrights, and other proprietary rights necessary to the proper conduct of its business where the failure to do so could reasonably be expected to have a Material Adverse Effect.

Section 8.2. Maintenance of Properties. Each Loan Party shall, and shall cause each of its Subsidiaries to, maintain, preserve, and keep its property, plant, and equipment in good repair, working order and condition (ordinary wear and tear excepted), and shall from time to time make all needful and proper repairs, renewals, replacements, additions, and betterments thereto so that at all times the efficiency thereof shall be fully preserved and maintained, except to the extent that, in the reasonable business judgment of such Person, any such Property is no longer necessary for the proper conduct of the business of such Person.

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Section 8.3. Taxes and Assessments. Each Loan Party shall duly pay and discharge, and shall cause each of its Subsidiaries to duly pay and discharge, all Taxes, rates, assessments, fees, and governmental charges upon or against it or its Property, in each case before the same become delinquent and before penalties accrue thereon, unless and to the extent that the same are being contested in good faith and by appropriate proceedings which prevent enforcement of the matter under contest and adequate reserves are provided therefor.

Section 8.4. Insurance. Each Loan Party shall insure and keep insured, and shall cause each of its Subsidiaries to insure and keep insured, with good and responsible insurance companies, all insurable Property owned by it which is of a character usually insured by Persons similarly situated and operating like Properties against loss or damage from such hazards and risks (including flood insurance with respect to any improvements on real Property consisting of building or parking facilities in an area designated by a governmental body as having special flood hazards), and in such amounts, as are insured by Persons similarly situated and operating like Properties, but in no event at any time in an amount less than the replacement value of the Collateral. Each Loan Party shall also maintain, and shall cause each of its Subsidiaries to maintain, insurance with respect to the business of such Loan Party and its Subsidiaries, covering commercial general liability, statutory worker's compensation and occupational disease, statutory structural work act liability, and business interruption and such other risks with good and responsible insurance companies, in such amounts and on such terms as the Bank shall reasonably request, but in any event as and to the extent usually insured by Persons similarly situated and conducting similar businesses. The Loan Parties shall in any event maintain insurance on the Collateral to the extent required by the Collateral Documents. All such policies of insurance shall contain satisfactory mortgagee/lender's loss payable endorsements, naming the Bank (or its security trustee) as mortgagee or a loss payee, assignee or additional insured, as

appropriate, as its interest may appear, and showing only such other loss payees, assignees and additional insureds as are satisfactory to the Bank. Each policy of insurance or endorsement shall contain a clause requiring the insurer to give not less than thirty (30) days' (ten (10) days' in the case of nonpayment of insurance premiums) prior written notice to the Bank in the event of cancellation of the policy for any reason whatsoever and a clause specifying that the interest of the Bank shall not be impaired or invalidated by any act or neglect of any Loan Party or any Subsidiary of a Loan Party, or the owner of the premises or Property or by the occupation of the premises for purposes more hazardous than are permitted by said policy. The Borrower shall deliver to the Bank (a) on the Closing Date and at such other times as the Bank shall reasonably request, certificates evidencing the maintenance of insurance required hereunder, (b) prior to the termination of any such policies, certificates evidencing the renewal thereof, and (c) promptly following request by the Bank, copies of all insurance policies of the Loan Parties and their Subsidiaries. The Borrower also agrees to deliver to the Bank, promptly as rendered, true copies of all reports made in any reporting forms to insurance companies.

Section 8.5. Financial Reports. The Loan Parties shall, and shall cause each of their Subsidiaries to, maintain proper books of records and accounts reasonably necessary to prepare financial statements required to be delivered pursuant to this Section in accordance with GAAP and shall furnish to the Bank:

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(a) as soon as available, and in any event no later than 30 days after the last day of each Fiscal Month, a Borrowing Base Certificate showing the computation of the Borrowing Base in reasonable detail as of the close of business on the last day of such Fiscal Month, together with an accounts receivable and accounts payable aging, prepared by the Borrower and certified to by a Financial Officer of the Borrower; *provided, however,* that no Borrowing Base Certificate shall be required to be delivered pursuant to this Section 8.5(a) if as of last day of each Fiscal Month then ended, there are no Revolving Loans outstanding or the L/C Obligations then outstanding is less than \$500,000;

(b) as soon as available, and in any event no later than 30 days after the last day of each Fiscal Month, a copy of the consolidated balance sheet of the Loan Parties and their Subsidiaries as of the last day of such Fiscal Month and the consolidated statement of income of the Loan Parties and their Subsidiaries for the Fiscal Month and for the Fiscal Year-to-date period then ended, each in reasonable detail showing in comparative form the figures for the corresponding date and period in the previous Fiscal Year, prepared by the Borrower in accordance with GAAP (subject to the absence of footnote disclosures and Fiscal Year-end audit adjustments) and certified to by a Financial Officer of the Borrower together with Fiscal Month backlog reports; *provided* that so long as no Default or Event of Default shall have occurred and be continuing and upon the Borrower's receipt of written notice from the Bank as set forth in clause (c) below, this Section 8.5(b) shall only apply during the first twelve Fiscal Months of the Borrower ending after the Closing Date;

(c) upon receipt by the Borrower of written notice from the Bank that it will no longer require the Fiscal Month financial statements required pursuant to clause (b) above, commencing with the first Fiscal Quarter of 2015, as soon as available, and in any event no later than 45 days after the last day of each of the first three Fiscal Quarters of each Fiscal Year of the Borrower, a copy of the consolidated balance sheet of the Loan Parties and their Subsidiaries as of the last day of such Fiscal Quarter and the consolidated statements of income, retained earnings, and cash flows of the Loan Parties and their Subsidiaries for the Fiscal Quarter and for the Fiscal Year-to-date period then ended, each in reasonable detail showing in comparative form the figures for the corresponding date and period in the previous Fiscal Year, prepared by the Borrower in accordance with GAAP (subject to the absence of footnote disclosures and Fiscal Year-end audit adjustments) and certified to by a Financial Officer of the Borrower together with Fiscal Month backlog reports;

(d) as soon as available, and in any event no later than 90 days after the last day of each Fiscal Year of the Borrower, a copy of the consolidated and consolidating balance sheet of the Loan Parties and their Subsidiaries as of the last day of the Fiscal Year then ended and the consolidated and consolidating statements of income, retained earnings, and cash flows of the Loan Parties and their Subsidiaries for the Fiscal Year then ended, and accompanying notes thereto, each in reasonable detail showing in comparative form the figures for the previous Fiscal Year, accompanied in the case of the consolidated financial statements by an unqualified opinion of Ernst & Young LLP or

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another firm of independent public accountants of recognized standing, selected by the Borrower and reasonably satisfactory to the Bank, to the effect that the consolidated financial statements have been prepared in accordance with GAAP and present fairly in accordance with GAAP the consolidated financial condition of the Loan Parties and their Subsidiaries as of the close of such Fiscal Year and the results of their operations and cash flows for the Fiscal Year then ended and that an examination of such accounts in connection with such financial statements has been made in accordance with generally accepted auditing standards and, accordingly, such examination included such tests of the accounting records and such other auditing procedures as were considered necessary in the circumstances, together with Fiscal Month backlog reports;

(e) promptly after receipt thereof, any additional written reports, management letters or other detailed information contained in writing concerning significant aspects of any Loan Party's or any of its Subsidiary's operations and financial affairs given to it by its independent public accountants;

(f) promptly after receipt thereof, a copy of each audit made by any regulatory agency of the books and records of any Loan Party or any Subsidiary of a Loan Party or of notice of any material noncompliance with any applicable law, regulation or guideline relating to any Loan Party or any Subsidiary of a Loan Party or their respective business;

(g) as soon as available, and in any event no later than 30 days after the end of each Fiscal Year of the Borrower, a copy of the consolidated and consolidating business plan for the Loan Parties and their Subsidiaries for following Fiscal Year, such business plan to show the projected consolidated and consolidating revenues, expenses and balance sheet of the Loan Parties and their Subsidiaries on a Fiscal Month-by-Fiscal Month basis, such business plan to be in reasonable detail prepared by the Borrower and in form satisfactory to the Bank (which shall include a summary of all assumptions made in preparing such business plan);

(h) notice of any Change of Control;

(i) promptly after knowledge thereof shall have come to the attention of any Responsible Officer of any Loan Party, written notice of (i) any threatened or pending litigation or governmental or arbitration proceeding or labor controversy against any Loan Party or any Subsidiary of a

Loan Party or any of their Property which, if adversely determined, could reasonably be expected to have a Material Adverse Effect, (ii) the occurrence of any Material Adverse Effect or (iii) the occurrence of any Default;

(j) with each of the financial statements delivered pursuant to subsections (b) (if such financial statements delivered pursuant to subsection (b) are delivered as of the last day of a Fiscal Quarter), (c) and (d) above, a written certificate in the form attached hereto as Exhibit E signed by a Financial Officer of the Borrower to the effect that to the best of such officer's knowledge and belief no Default has occurred during the period covered by such statements or, if any such Default has occurred during such period, setting forth a description of such Default and specifying the action, if any, taken by the

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relevant Loan Party or its Subsidiary to remedy the same. Such certificate shall also set forth the calculations supporting such statements in respect of Section 8.23 (Financial Covenants) in the form attached as Schedule I to such Exhibit E hereto and shall be accompanied by a work-in-process report detailing the aging of current underbillings; and

(k) promptly, from time to time, such other information regarding the operations, business affairs and financial condition of any Loan Party or any Subsidiary of a Loan Party, or compliance with the terms of any Loan Document.

Section 8.6. Inspection; Field Audits. Each Loan Party shall, and shall cause each of its Subsidiaries to, permit the Bank and each of their duly authorized representatives and agents to visit and inspect any of its Property, corporate books, and financial records, to examine and make copies of its books of accounts and other financial records, and to discuss its affairs, finances, and accounts with, and to be advised as to the same by, its officers, employees and independent public accountants (and by this provision the Loan Parties hereby authorize such accountants to discuss with the Bank the finances and affairs of the Loan Parties and their Subsidiaries) at such reasonable times and intervals as the Bank may designate and, so long as no Default exists, with reasonable prior notice to the Borrower. The Borrower shall pay to the Bank charges for field audits of the Collateral, inspections and visits to Property, inspections of corporate books and financial records, examinations and copies of books of accounts and financial record and other activities permitted in this Section performed by the Bank or its agents or third party firms, in such amounts as the Bank may from time to time request (the Bank acknowledging and agreeing that any internal charges for such audits and inspections shall be computed in the same manner as it at the time customarily uses for the assessment of charges for similar collateral audits); *provided, however*, that in the absence of any Default, the Borrower shall not be required to pay the Bank for more than one (1) such audit per Fiscal Year.

Section 8.7. Borrowings and Guaranties. No Loan Party shall, nor shall it permit any of its Subsidiaries to, issue, incur, assume, create or have outstanding any Indebtedness, or incur liabilities under any Hedging Agreement, or be or become liable as endorser, guarantor, surety or otherwise for any Indebtedness or undertaking of any Person, or otherwise agree to provide funds for payment of the obligations of another, or supply funds thereto or invest therein or otherwise assure a creditor of another against loss, or apply for or become liable to the issuer of a letter of credit which supports an obligation of another, or subordinate any claim or demand it may have to the claim or demand of any Person; *provided, however*, that the foregoing shall not restrict nor operate to prevent:

- (a) the Secured Obligations of the Loan Parties and their Subsidiaries owing to the Bank (and its Affiliates);
- (b) purchase money indebtedness and Capitalized Lease Obligations of the Loan Parties and their Subsidiaries in an amount not to exceed \$500,000 in the aggregate at any one time outstanding;
- (c) obligations of the Loan Parties and their Subsidiaries arising out of interest rate, foreign currency, and commodity Hedging Agreements entered into with financial institutions in connection with bona fide hedging activities in the ordinary course of business and not for speculative purposes;

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- (d) endorsement of items for deposit or collection of commercial paper received in the ordinary course of business;
 - (e) intercompany advances from time to time owing between the Loan Parties in the ordinary course of business to finance their working capital needs;
 - (f) indebtedness owed to any Person providing workers' compensation, health, disability or other employee benefits (including contractual and statutory benefits) or property, casualty, liability or credit insurance, pursuant to reimbursement or indemnification obligations to such Person, in each case incurred in the ordinary course of business;
 - (g) indebtedness in respect of bids, trade contracts (other than for debt for borrowed money), leases (other than Capitalized Lease Obligations), statutory obligations, surety, stay, customs and appeal bonds, performance, performance and completion and return of money bonds, government contracts and similar obligations, in each case, provided in the ordinary course of business;
 - (h) indebtedness in respect of netting services, overdraft protection and similar arrangements, in each case, in connection with cash management and deposit accounts;
 - (i) indebtedness arising from agreements of a Loan Party or its Subsidiary providing for indemnification, adjustment of purchase or acquisition price or similar obligations, in each case, incurred or assumed in connection with a Permitted Acquisition;
 - (j) indebtedness owed to Wells Fargo Bank, National Association with respect to certain existing letter of credit obligations in an amount not to exceed \$76,000; and
 - (k) unsecured indebtedness of the Loan Parties and their Subsidiaries not otherwise permitted by this Section in an amount not to exceed \$250,000 in the aggregate at any one time outstanding.

Section 8.8. Liens. No Loan Party shall, nor shall it permit any of its Subsidiaries to, create, incur or permit to exist any Lien of any kind on any Property owned by any such Person; *provided, however,* that the foregoing shall not apply to nor operate to prevent:

(a) Liens arising by statute in connection with worker's compensation, unemployment insurance, old age benefits, social security obligations, Taxes, assessments, statutory obligations or other similar charges (other than Liens arising under ERISA), good faith cash deposits in connection with tenders, contracts or leases to which any Loan Party or any Subsidiary of a Loan Party is a party or other cash deposits

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required to be made in the ordinary course of business, provided in each case that the obligation is not for borrowed money and that the obligation secured is not overdue or, if overdue, is being contested in good faith by appropriate proceedings which prevent enforcement of the matter under contest and adequate reserves have been established therefor;

(b) mechanics', workmen's, materialmen's, landlords', carriers' or other similar Liens arising in the ordinary course of business with respect to obligations which are not due or which are being contested in good faith by appropriate proceedings which prevent enforcement of the matter under contest;

(c) judgment liens and judicial attachment liens not constituting an Event of Default under Section 9.1(g) and the pledge of assets for the purpose of securing an appeal, stay or discharge in the course of any legal proceeding, provided that the aggregate amount of such judgment liens and attachments and liabilities of the Loan Parties and their Subsidiaries secured by a pledge of assets permitted under this subsection, including interest and penalties thereon, if any, shall not be in excess of \$250,000 at any one time outstanding;

(d) Liens on equipment of any Loan Party or any Subsidiary of a Loan Party created solely for the purpose of securing indebtedness permitted by Section 8.7(b), representing or incurred to finance the purchase price of such Property; *provided* that no such Lien shall extend to or cover other Property of such Loan Party or such Subsidiary other than the respective Property so acquired, and the principal amount of indebtedness secured by any such Lien shall at no time exceed the purchase price of such Property, as reduced by repayments of principal thereon;

(e) any interest or title of a lessor under any operating lease, including the filing of Uniform Commercial Code financing statements solely as a precautionary measure in connection with operating leases entered into by any Loan Party or any Subsidiary of a Loan Party in the ordinary course of its business;

(f) easements, rights-of-way, restrictions, and other similar encumbrances against real property incurred in the ordinary course of business which, in the aggregate, are not substantial in amount and which do not materially detract from the value of the Property subject thereto or materially interfere with the ordinary conduct of the business of any Loan Party or any Subsidiary of a Loan Party;

(g) bankers' Liens, rights of setoff and other similar Liens (including under Section 4-210 of the Uniform Commercial Code) in one or more deposit accounts maintained by any Loan Party or any Subsidiary of a Loan Party, in each case granted in the ordinary course of business in favor of the bank or banks with which such accounts are maintained, securing amounts owing to such bank with respect to cash management and operating account arrangements, including those involving pooled accounts and netting arrangements; *provided* that, unless such Liens are non-consensual and arise by operation of law, in no case shall any such Liens secure (either directly or indirectly) the repayment of any Indebtedness;

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(h) Liens granted in favor of the Bank pursuant to the Collateral Documents;

(i) Liens granted in favor of Wells Fargo Bank, National Association to cash collateralize existing letter of credit obligations in an amount not to exceed \$76,000; and

(j) non-exclusive licenses of intellectual property granted in the ordinary course of business and not interfering in any material respect with the ordinary conduct of business of any Loan Party or any Subsidiary of a Loan Party.

Section 8.9. Investments, Acquisitions, Loans and Advances. No Loan Party shall, nor shall it permit any of its Subsidiaries to, directly or indirectly, make, retain or have outstanding any investments (whether through purchase of stock or obligations or otherwise) in, or loans or advances to (other than for travel advances and other similar cash advances made to employees in the ordinary course of business), any other Person, or acquire all or any substantial part of the assets or business of any other Person or division thereof; *provided, however,* that the foregoing shall not apply to nor operate to prevent:

(a) Cash Equivalents;

(b) the Loan Parties' existing investments in their respective Subsidiaries outstanding on the Closing Date;

(c) intercompany advances made from time to time between the Loan Parties in the ordinary course of business to finance their working capital needs;

(d) intercompany advances from time to time owing between a Loan Party and any Subsidiary that is not a Guarantor hereunder in the ordinary course of business to finance their working capital needs, *provided* that the aggregate amount of such advances to any Subsidiaries that are not Guarantors hereunder together with any investments therein do not exceed \$100,000 at any one time outstanding;

(e) Permitted Acquisitions;

(f) other investments existing on the Closing Date not otherwise permitted above and listed and identified on Schedule 8.9;

(g) investments in Construction Joint Ventures which are made in the ordinary course of business; *provided, however*, that the aggregate investments in Construction Joint Ventures shall not at any time exceed 15% of the combined consolidated Net Worth of the Borrower and its Subsidiaries;

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(h) loans and advances to employees of the Loan Parties for relocation expenses and other related costs in an amount not to exceed \$500,000 in the aggregate at any one time outstanding; and

(i) other investments, loans, and advances in addition to those otherwise permitted by this Section in an amount not to exceed \$100,000 in the aggregate at any one time outstanding.

In determining the amount of investments, acquisitions, loans, and advances permitted under this Section, investments and acquisitions shall always be taken at the original cost thereof (regardless of any subsequent appreciation or depreciation therein), and loans and advances shall be taken at the principal amount thereof then remaining unpaid.

Section 8.10. Mergers, Consolidations and Sales. No Loan Party shall, nor shall it permit any of its Subsidiaries to, be a party to any merger or consolidation or amalgamation, or sell, transfer, lease or otherwise dispose of all or any part of its Property, including any disposition of Property as part of a sale and leaseback transaction, or in any event sell or discount (with or without recourse) any of its notes or accounts receivable; *provided, however*, that this Section shall not apply to nor operate to prevent:

(a) the sale or lease of inventory in the ordinary course of business;

(b) the sale, transfer, lease or other disposition of Property of any Loan Party to one another in the ordinary course of its business;

(c) the merger of any Loan Party with and into the Borrower or any other Loan Party, provided that, in the case of any merger involving the Borrower, the Borrower is the corporation surviving the merger;

(d) the sale of delinquent notes or accounts receivable in the ordinary course of business for purposes of collection only (and not for the purpose of any bulk sale or securitization transaction);

(e) the sale, transfer or other disposition of any tangible personal property that, in the reasonable business judgment of the relevant Loan Party or its Subsidiary, has become obsolete or worn out, and which is disposed of in the ordinary course of business; and

(f) the Disposition of Property of any Loan Party or any Subsidiary of a Loan Party (including any Disposition of Property as part of a sale and leaseback transaction) aggregating for all Loan Parties and their Subsidiaries not more than \$500,000 during any Fiscal Year of the Borrower, *provided* that (i) each such Disposition shall be made for fair value and (ii) at least 80% of the total consideration received at the closing of such Disposition shall consist of cash and at least 80% of the total consideration received after taking into account all final purchase price adjustments and/or contingent payments (including working capital adjustment or earn-out provisions) expressly contemplated by the transaction documents, when received shall consist of cash.

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Section 8.11. Maintenance of Subsidiaries. No Loan Party shall assign, sell or transfer, nor shall it permit any of its Subsidiaries to issue, assign, sell or transfer, any shares of capital stock or other equity interests of a Subsidiary; *provided, however*, that the foregoing shall not operate to prevent (a) the issuance, sale, and transfer to any person of any shares of capital stock of a Subsidiary solely for the purpose of qualifying, and to the extent legally necessary to qualify, such person as a director of such Subsidiary, (b) any transaction permitted by Section 8.10(c) above, and (c) Liens on the capital stock or other equity interests of Subsidiaries granted to the Bank pursuant to the Collateral Documents.

Section 8.12. Dividends and Certain Other Restricted Payments. No Loan Party shall, nor shall it permit any of its Subsidiaries to, (a) declare or pay any dividends on or make any other distributions in respect of any class or series of its capital stock or other equity interests (other than dividends or distributions payable solely in its capital stock or other equity interests), or (b) directly or indirectly purchase, redeem, or otherwise acquire or retire any of its capital stock or other equity interests or any warrants, options, or similar instruments to acquire the same (collectively referred to herein as "*Restricted Payments*"); *provided, however*, that the foregoing shall not operate to prevent the making of dividends or distributions by any Subsidiary to any Borrower.

Section 8.13. ERISA. Each Loan Party shall, and shall cause each of its Subsidiaries to, promptly pay and discharge all obligations and liabilities arising under ERISA of a character which if unpaid or unperformed could reasonably be expected to result in the imposition of a Lien against any of its Property. Each Loan Party shall, and shall cause each of its Subsidiaries to, promptly notify the Bank of: (a) the occurrence of any reportable event (as defined in ERISA) with respect to a Plan, (b) receipt of any notice from the PBGC of its intention to seek termination of any Plan or appointment of a trustee therefor, (c) its intention to terminate or withdraw from any Plan, and (d) the occurrence of any event with respect to any Plan which would result in the incurrence by any Loan Party or any Subsidiary of a Loan Party of any material liability, fine or penalty, or any material increase in the contingent liability of any Loan Party or any Subsidiary of a Loan Party with respect to any post-retirement Welfare Plan benefit.

Section 8.14. Compliance with Laws. (a) Each Loan Party shall, and shall cause each of its Subsidiaries to, comply in all respects with all Legal Requirements applicable to or pertaining to its Property or business operations, where any such non-compliance, individually or in the aggregate, could reasonably be expected to have a Material Adverse Effect or result in a Lien upon any of its Property.

(b) Without limiting Section 8.14(a) above, each Loan Party shall, and shall cause each of its Subsidiaries to, at all times, do the following to the extent the failure to do so, individually or in the aggregate, could reasonably be expected to have a Material Adverse Effect: (i) comply in all material respects with, and maintain each of the Premises in compliance in all material respects with, all applicable Environmental Laws; (ii) require that each tenant and subtenant, if any, of any of the Premises or any part thereof comply in all material respects with all applicable

Environmental Laws; (iii) obtain and maintain in full force and effect all material governmental approvals required by any applicable Environmental Law for the operation of their business and each of the Premises; (iv) cure any material violation by it or at any of the Premises of applicable Environmental Laws; (v) not allow the presence or operation at any of the Premises of any (1) landfill or dump or (2) hazardous waste management facility or solid waste disposal facility as defined pursuant to applicable Environmental Law; (vi) not manufacture, use, generate, transport, treat, store, Release, dispose or handle any Hazardous Material (or allow any tenant or subtenant to do any of the foregoing) at any of the Premises except in the ordinary course of its business, in *de minimis* amounts, and in compliance with all applicable Environmental Laws; (vii) within ten (10) Business Days notify the Bank in writing of and provide any reasonably requested documents upon learning of any of the following in connection with any Loan Party or any Subsidiary of a Loan Party or any of the Premises: (1) any material Environmental Liability; (2) any material Environmental Claim; (3) any material violation of an Environmental Law or material Release, threatened Release or disposal of a Hazardous Material; (4) any restriction on the ownership, occupancy, use or transferability of any Premises arising from or in connection with any (x) Release, threatened Release or disposal of a Hazardous Material or (y) Environmental Law; or (5) any environmental, natural resource, health or safety condition, which individually or in the aggregate could reasonably be expected to have a Material Adverse Effect; (viii) conduct at its expense any investigation, study, sampling, testing, abatement, cleanup, removal, remediation or other corrective or response action necessary to remove, remediate, clean up, correct or abate any material Release, threatened Release or violation of any applicable Environmental Law, (ix) abide by and observe any restrictions on the use of the Premises imposed by any Governmental Authority as set forth in a deed or other instrument affecting any Loan Party's or any of its Subsidiary's interest therein; (x) promptly provide or otherwise make available to the Bank any reasonably requested environmental record concerning the Premises which any Loan Party or any Subsidiary of a Loan Party possesses or can reasonably obtain; and (xi) perform, satisfy, and implement any operation, maintenance or corrective actions or other requirements of any Governmental Authority or Environmental Law, or included in any no further action letter or covenant not to sue issued by any Governmental Authority under any Environmental Law.

Section 8.15. Compliance with OFAC Sanctions Programs. (a) Each Loan Party shall at all times comply with the requirements of all OFAC Sanctions Programs applicable to such Loan Party and shall cause each of its Subsidiaries to comply with the requirements of all OFAC Sanctions Programs applicable to such Subsidiary.

(b) Each Loan Party shall provide the Bank any information regarding the Loan Parties, their Affiliates, and their Subsidiaries necessary for the Bank to comply with all applicable OFAC Sanctions Programs; subject however, in the case of Affiliates, to such Loan Party's ability to provide information applicable to them.

(c) If any Loan Party obtains actual knowledge or receives any written notice that any Loan Party, any Affiliate or any Subsidiary of any Loan Party is named on the then current OFAC SDN List (such occurrence, an "OFAC Event"), such Loan Party shall promptly (i) give written notice to the Bank of such OFAC Event, and (ii) comply in all material respects with all applicable laws with respect to such OFAC Event (regardless of whether the party included on

the OFAC SDN List is located within the jurisdiction of the United States of America), including the OFAC Sanctions Programs, and each Loan Party hereby authorizes and consents to the Bank taking any and all steps the Bank deems necessary, in their sole but reasonable discretion, to avoid violation of all applicable laws with respect to any such OFAC Event, including the requirements of the OFAC Sanctions Programs (including the freezing and/or blocking of assets and reporting such action to OFAC).

Section 8.16. Burdensome Contracts With Affiliates. No Loan Party shall, nor shall it permit any of its Subsidiaries to, enter into any contract, agreement or business arrangement with any of its Affiliates on terms and conditions which are less favorable to such Loan Party or such Subsidiary than would be usual and customary in similar contracts, agreements or business arrangements between Persons not affiliated with each other; *provided that* the foregoing restriction shall not apply to transactions between or among the Loan Parties.

Section 8.17. No Changes in Fiscal Year. The Borrower shall not, nor shall it permit any Subsidiary to, change its current Fiscal Year reporting method.

Section 8.18. Formation of Subsidiaries; Guaranty Requirements. Promptly upon the formation or acquisition of any Subsidiary, the Loan Parties shall provide the Bank notice thereof (at which time Schedule 6.2 shall be deemed amended to include reference to such Subsidiary). The payment and performance of the Secured Obligations of the Borrower shall at all times be guaranteed by the Subsidiaries of the Borrower pursuant to Section 11 hereof or pursuant to one or more Guaranty Agreements in form and substance reasonably acceptable to the Bank, as the same may be amended, modified or supplemented from time to time. The Loan Parties shall, and shall cause their Subsidiaries to, timely comply with the requirements of Sections 10 and 11 with respect to any Subsidiary that is required to become a Guarantor hereunder. Except for Foreign Subsidiaries existing on the Closing Date and identified on Schedule 6.2, no Loan Party, nor shall it permit any of its Subsidiaries to, form or acquire any Foreign Subsidiary.

Section 8.19. Change in the Nature of Business. No Loan Party shall, nor shall it permit any of its Subsidiaries to, engage in any business or activity if as a result the general nature of the business of such Loan Party or any of its Subsidiaries would be changed in any material respect from the general nature of the business engaged in by it as of the Closing Date.

Section 8.20. Use of Proceeds. The Borrower shall use the credit extended under this Agreement solely for the purposes set forth in, or otherwise permitted by, Section 6.4.

Section 8.21. No Restrictions. Except as provided herein, no Loan Party shall, nor shall it permit any of its Subsidiaries to, directly or indirectly create or otherwise cause or suffer to exist or become effective any consensual encumbrance or restriction of any kind on the ability of any Loan Party or any Subsidiary of a Loan Party to: (a) pay dividends or make any other distribution on any Subsidiary's capital stock or other equity interests owned by such Loan Party or any other Subsidiary, (b) pay any indebtedness owed to any Loan Party or any other Subsidiary, (c) make loans or advances to any Loan Party or any Subsidiary, (d) transfer any of its Property to any Loan Party or any other Subsidiary, or (e) guarantee the Secured Obligations and/or grant Liens on its assets to the Bank as required by the Loan Documents.

Section 8.22. Subordinated Debt. No Loan Party shall, nor shall it permit any of its Subsidiaries to, (a) amend or modify any of the terms or conditions relating to Subordinated Debt, (b) make any voluntary prepayment of Subordinated Debt or effect any voluntary redemption thereof, or (c) make any payment on account of Subordinated Debt which is prohibited under the terms of any instrument or agreement subordinating the same to the Obligations. Notwithstanding the foregoing, the Loan Parties may agree to a decrease in the interest rate applicable thereto or to a deferral of repayment of any of the principal of or interest on the Subordinated Debt beyond the current due dates therefor.

Section 8.23. Financial Covenants. (a) *Total Leverage Ratio.* As of the last day of each Fiscal Quarter, the Borrower shall not permit the Total Leverage Ratio to be greater than 2.00 to 1.00.

(b) *Tangible Net Worth.* The Borrower shall at all times maintain Tangible Net Worth of the Borrower and its Subsidiaries determined on a consolidated basis in an amount not less than (i) \$16,472,908 plus (ii) for the first Fiscal Quarter of 2014, 50% of Net Income, and for each Fiscal Quarter thereafter, 50% of Net Income if such Net Income is a positive amount (*i.e.*, there shall be no reduction to the minimum amount of Tangible Net Worth required to be maintained hereunder for any Fiscal Quarter in which Net Income is less than zero).

(c) *Fixed Charge Coverage Ratio.* As of the last day of each Fiscal Quarter, the Borrower shall maintain a Fixed Charge Coverage Ratio of not less than 1.25 to 1.00.

Section 8.24. Modification of Certain Documents. No Loan Party shall do any of the following:

(a) waive or otherwise modify any term of any Constituent Document of, or otherwise change the capital structure of, any Loan Party (including the terms of any of their outstanding Voting Stock), in each case except for those modifications and waivers that (x) do not elect, or permit the election, to treat the Voting Stock of any limited liability company (or similar entity) as certificated unless such certificates are delivered to the Bank to the extent they represent Voting Stock pledged under the Security Agreement and (y) do not affect the interests of the Bank under the Loan Documents or in the Collateral in a materially adverse manner; and

(b) permit the Obligations to cease qualifying as “Senior Debt”, “Designated Senior Debt” or a similar term under and as defined in any documentation governing any Subordinated Debt.

Section 8.24. Post-Closing Covenant. Notwithstanding anything to the contrary contained in any Loan Document, the Borrower shall deliver, upon request of the Bank, landlord’s waivers, in form and substance reasonably satisfactory to the Bank, with respect to the Loan Parties’ leased property.

SECTION 9. EVENTS OF DEFAULT AND REMEDIES.

Section 9.1. Events of Default. Any one or more of the following shall constitute an “Event of Default” hereunder:

(a) default in the payment when due of all or any part of the principal of any Loan (whether at the stated maturity thereof or at any other time provided for in this Agreement) or of any Reimbursement Obligation, or default for a period of three (3) Business Days in the payment when due of any interest, fee or other Obligation payable hereunder or under any other Loan Document;

(b) default in the observance or performance of any covenant set forth in Sections 8.1, 8.5, 8.7, 8.8, 8.9, 8.10, 8.11, 8.12, 8.13, 8.14, 8.15, 8.17, 8.18, 8.19, 8.21, 8.22, 8.23 or 8.24 of this Agreement or of any provision in any Loan Document dealing with the use, disposition or remittance of the proceeds of Collateral or requiring the maintenance of insurance thereon;

(c) default in the observance or performance of any other provision hereof or of any other Loan Document which is not remedied within thirty (30) days after the earlier of (i) the date on which such failure shall first become known to any Responsible Officer of any Loan Party or (ii) written notice thereof is given to the Borrower by the Bank;

(d) any representation or warranty made herein or in any other Loan Document or in any certificate furnished to the Bank pursuant hereto or thereto or in connection with any transaction contemplated hereby or thereby proves untrue in any material respect as of the date of the issuance or making or deemed making thereof;

(e) (i) any event occurs or condition exists (other than those described in subsections (a) through (d) above) which is specified as an event of default under any of the other Loan Documents, or (ii) any of the Loan Documents shall for any reason not be or shall cease to be in full force and effect or is declared to be null and void, or (iii) any of the Collateral Documents shall for any reason fail to create a valid and perfected first priority Lien in favor of the Bank in any Collateral purported to be covered thereby except as expressly permitted by the terms hereof, or (iv) any Loan Party takes any action for the purpose of terminating, repudiating or rescinding any Loan Document executed by it or any of its obligations thereunder, or (v) any Loan Party or any Subsidiary of a Loan Party makes any payment on account of any Subordinated Debt which is prohibited under the terms of any instrument subordinating such Subordinated Debt to any Secured Obligations, or any subordination provision in any document or instrument (including, without limitation, any intercreditor or subordination agreement) relating to any Subordinated Debt shall cease to be in full force and effect, or any Person (including the holder of any Subordinated Debt) shall contest in any manner the validity, binding nature or enforceability of any such provision;

(f) default shall occur under any Material Indebtedness issued, assumed or guaranteed by any Loan Party or any Subsidiary of a Loan Party, or under any indenture, agreement or other instrument under which the same may be issued, and such default shall continue for a period of

time sufficient to permit the acceleration of the maturity of any such Material Indebtedness (whether or not such maturity is in fact accelerated), or any such Material Indebtedness shall not be paid when due (whether by demand, lapse of time, acceleration or otherwise);

(g) (i) any judgment or judgments, writ or writs or warrant or warrants of attachment, or any similar process or processes, shall be entered or filed against any Loan Party or any Subsidiary of a Loan Party, or against any of their respective Property, in an aggregate amount for all such Persons in excess of \$250,000 (except to the extent fully covered by insurance pursuant to which the insurer has accepted liability therefor in writing), and which remains undischarged, unvacated, unbonded or unstayed for a period of 30 days, or any action shall be legally taken by a judgment creditor to attach or levy upon any Property of any Loan Party or any Subsidiary of a Loan Party to enforce any such judgment, or (ii) any Loan Party or any Subsidiary of a Loan Party shall fail within thirty (30) days to discharge one or more non-monetary judgments or orders which, individually or in the aggregate, could reasonably be expected to have a Material Adverse Effect, which judgments or orders, in any such case, are not stayed on appeal or otherwise being appropriately contested in good faith by proper proceedings diligently pursued;

(h) any Loan Party or any Subsidiary of a Loan Party, or any member of its Controlled Group, shall fail to pay when due an amount or amounts aggregating for all such Persons in excess of \$250,000 which it shall have become liable to pay to the PBGC or to a Plan under Title IV of ERISA; or notice of intent to terminate a Plan or Plans having aggregate Unfunded Vested Liabilities in excess of \$250,000 (collectively, a "Material Plan") shall be filed under Title IV of ERISA by any Loan Party or any Subsidiary of a Loan Party, or any other member of its Controlled Group, any plan administrator or any combination of the foregoing; or the PBGC shall institute proceedings under Title IV of ERISA to terminate or to cause a trustee to be appointed to administer any Material Plan or a proceeding shall be instituted by a fiduciary of any Material Plan against any Loan Party or any Subsidiary of a Loan Party, or any member of its Controlled Group, to enforce Section 515 or 4219(c)(5) of ERISA and such proceeding shall not have been dismissed within thirty (30) days thereafter; or a condition shall exist by reason of which the PBGC would be entitled to obtain a decree adjudicating that any Material Plan must be terminated;

(i) any Change of Control shall occur;

(j) any Loan Party or any Subsidiary of a Loan Party shall (i) have entered involuntarily against it an order for relief under the United States Bankruptcy Code, as amended, (ii) not pay, or admit in writing its inability to pay, its debts generally as they become due, (iii) make an assignment for the benefit of creditors, (iv) apply for, seek, consent to or acquiesce in, the appointment of a receiver, custodian, trustee, examiner, liquidator or similar official for it or any substantial part of its Property, (v) institute any

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proceeding seeking to have entered against it an order for relief under the United States Bankruptcy Code, as amended, to adjudicate it insolvent, or seeking dissolution, winding up, liquidation, reorganization, arrangement, adjustment or composition of it or its debts under any law relating to bankruptcy, insolvency or reorganization or relief of debtors or fail to file an answer or other pleading denying the material allegations of any such proceeding filed against it, (vi) take any corporate or similar action in furtherance of any matter described in parts (i) through (v) above, or (vii) fail to contest in good faith any appointment or proceeding described in Section 9.1(k); or

(k) a custodian, receiver, trustee, examiner, liquidator or similar official shall be appointed for any Loan Party or any Subsidiary of a Loan Party, or any substantial part of any of its Property, or a proceeding described in Section 9.1(j)(v) shall be instituted against any Loan Party or any Subsidiary of a Loan Party, and such appointment continues undischarged or such proceeding continues undismissed or unstayed for a period of 60 days.

Section 9.2. Non-Bankruptcy Defaults. When any Event of Default (other than those described in subsection (j) or (k) of Section 9.1 with respect to the Borrower) has occurred and is continuing, the Bank may, by written notice to the Borrower: (a) terminate the remaining Commitments and all other obligations of the Bank hereunder on the date stated in such notice (which may be the date thereof); (b) declare the principal of and the accrued interest on all outstanding Loans to be forthwith due and payable and thereupon all outstanding Loans, including both principal and interest thereon, shall be and become immediately due and payable together with all other amounts payable under the Loan Documents without further demand, presentment, protest or notice of any kind; and (c) demand that the Borrower immediately deliver to the Bank Cash Collateral in an amount equal to 105% of the aggregate amount of each Letter of Credit then outstanding, and the Borrower agrees to immediately make such payment and acknowledges and agrees that the Bank would not have an adequate remedy at law for failure by the Borrower to honor any such demand and that the Bank shall have the right to require the Borrower to specifically perform such undertaking whether or not any drawings or other demands for payment have been made under any Letter of Credit. In addition, the Bank may exercise all rights and remedies available to it under the Loan Documents or applicable law or equity when any such Event of Default has occurred and is continuing.

Section 9.3. Bankruptcy Defaults. When any Event of Default described in subsections (j) or (k) of Section 9.1 with respect to the Borrower has occurred and is continuing, then all outstanding Loans shall immediately become due and payable together with all other amounts payable under the Loan Documents without presentment, demand, protest or notice of any kind, the obligation of the Bank to extend further credit pursuant to any of the terms hereof shall immediately terminate and the Borrower shall immediately deliver to the Bank Cash Collateral in an amount equal to 105% of the aggregate amount of each Letter of Credit then outstanding, the Borrower acknowledging and agreeing that the Bank would not have an adequate remedy at law for failure by the Borrower to honor any such demand and that the Bank shall have the right to require the Borrower to specifically perform such undertaking whether or not any draws or other demands for payment have been made under any of the Letters of Credit. In addition, the Bank may exercise all rights and remedies available to it under the Loan Documents or applicable law or equity when any such Event of Default has occurred and is continuing.

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Section 9.4. Collateral for Undrawn Letters of Credit. (a) If the prepayment of the amount available for drawing under any or all outstanding Letters of Credit is required under any of Sections 2.3(b), 2.8(b), 9.2 or 9.3 above, the Borrower shall forthwith pay the amount required to be so prepaid, to be held by the Bank as provided in subsection (b) below.

(b) All amounts prepaid pursuant to subsection (a) above shall be held by the Bank in one or more separate collateral accounts (each such account, and the credit balances, properties, and any investments from time to time held therein, and any substitutions for such account, any certificate of deposit or other instrument evidencing any of the foregoing and all proceeds of and earnings on any of the foregoing being collectively called the "Collateral Account")

as security for, and for application by the Bank (to the extent available) to, the reimbursement of any payment under any Letter of Credit then or thereafter made by the Bank, and to the payment of the unpaid balance of all other Secured Obligations. The Collateral Account shall be held in the name of and subject to the exclusive dominion and control of the Bank. If and when requested by the Borrower, the Bank shall invest funds held in the Collateral Account from time to time in direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America with a remaining maturity of one year or less, *provided* that the Bank is irrevocably authorized to sell investments held in the Collateral Account when and as required to make payments out of the Collateral Account for application to amounts due and owing from the Borrower to the Bank. If the Borrower shall have made payment of all obligations referred to in subsection (a) above required under Section 2.8(b), at the request of the Borrower the Bank shall release to the Borrower amounts held in the Collateral Account so long as at the time of the release and after giving effect thereto no Default exists. After all Letters of Credit have expired or been cancelled and the expiration or termination of all Commitments, at the request of the Borrower, the Bank shall release any remaining amounts held in the Collateral Account following payment in full in cash of all Secured Obligations.

Section 9.5. Post-Default Collections. Anything contained herein or in the other Loan Documents to the contrary notwithstanding (including, without limitation, Section 2.8(b)), all payments and collections received in respect of the Obligations and all proceeds of the Collateral and payments made under or in respect of the Guaranty Agreements received, in each instance, by the Bank after acceleration or the final maturity of the Obligations or termination of the Commitments as a result of an Event of Default shall be remitted to the Bank and applied in the Bank's discretion.

SECTION 10. THE GUARANTEES.

Section 10.1. The Guarantees. To induce the Bank to provide the credits described herein and in consideration of benefits expected to accrue to the Borrower by reason of the Commitments and for other good and valuable consideration, receipt of which is hereby acknowledged, the Borrower and each Subsidiary party hereto (including any Subsidiary executing an Additional Guarantor Supplement in the form attached hereto as Exhibit F or such other form acceptable to the Bank) and the Borrower (as to the Secured Obligations of another

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Loan Party) hereby unconditionally and irrevocably guarantees jointly and severally to the Bank and its Affiliates, the due and punctual payment of all present and future Secured Obligations, including, but not limited to, the due and punctual payment of principal of and interest on the Loans, the Reimbursement Obligations, and the due and punctual payment of all other Obligations now or hereafter owed by the Borrower under the Loan Documents and the due and punctual payment of all Hedging Liability and Bank Product Obligations, in each case as and when the same shall become due and payable, whether at stated maturity, by acceleration, or otherwise, according to the terms hereof and thereof (including all interest, costs, fees, and charges after the entry of an order for relief against the Borrower or such other obligor in a case under the United States Bankruptcy Code or any similar proceeding, whether or not such interest, costs, fees and charges would be an allowed claim against the Borrower or any such obligor in any such proceeding); *provided, however*, that, with respect to any Guarantor, its Guarantee of Hedging Liability of any Loan Party shall exclude all Excluded Swap Obligations. In case of failure by the Borrower or other obligor punctually to pay any Secured Obligations guaranteed hereby, each Guarantor hereby unconditionally agrees to make such payment or to cause such payment to be made punctually as and when the same shall become due and payable, whether at stated maturity, by acceleration, or otherwise, and as if such payment were made by the Borrower or such obligor.

Section 10.2. Guarantee Unconditional. The obligations of each Guarantor under this Section 10 shall be unconditional and absolute and, without limiting the generality of the foregoing, shall not be released, discharged, or otherwise affected by:

- (a) any extension, renewal, settlement, compromise, waiver, or release in respect of any obligation of any Loan Party or other obligor or of any other guarantor under this Agreement or any other Loan Document or by operation of law or otherwise;
- (b) any modification or amendment of or supplement to this Agreement or any other Loan Document or any agreement relating to Hedging Liability or Bank Product Obligations;
- (c) any change in the corporate existence, structure, or ownership of, or any insolvency, bankruptcy, reorganization, or other similar proceeding affecting, any Loan Party or other obligor, any other guarantor, or any of their respective assets, or any resulting release or discharge of any obligation of any Loan Party or other obligor or of any other guarantor contained in any Loan Document;
- (d) the existence of any claim, set-off, or other rights which any Loan Party or other obligor or any other guarantor may have at any time against the Bank or any other Person, whether or not arising in connection herewith;
- (e) any failure to assert, or any assertion of, any claim or demand or any exercise of, or failure to exercise, any rights or remedies against any Loan Party or other obligor, any other guarantor, or any other Person or Property;

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- (f) any application of any sums by whomsoever paid or howsoever realized to any obligation of any Loan Party or other obligor, regardless of what obligations of any Loan Party or other obligor remain unpaid;
- (g) any invalidity or unenforceability relating to or against any Loan Party or other obligor or any other guarantor for any reason of this Agreement or of any other Loan Document or any agreement relating to Hedging Liability or Bank Product Obligations or any provision of applicable law or regulation purporting to prohibit the payment by any Loan Party or other obligor or any other guarantor of the principal of or interest on any Loan or any Reimbursement Obligation or any other amount payable under the Loan Documents or any agreement relating to Hedging Liability or Bank Product Obligations; or
- (h) any other act or omission to act or delay of any kind by the Bank or any other Person or any other circumstance whatsoever that might, but for the provisions of this subsection, constitute a legal or equitable discharge of the obligations of any Guarantor under this Section 10.

Section 10.3. Discharge Only upon Payment in Full; Reinstatement in Certain Circumstances. Each Guarantor's obligations under this Section 10 shall remain in full force and effect until the Commitments are terminated, all Letters of Credit have expired, and the principal of and interest on the Loans

and all other amounts payable by the Borrower and the other Loan Parties under this Agreement and all other Loan Documents and, if then outstanding and unpaid, all Hedging Liability and Bank Product Obligations shall have been paid in full. If at any time any payment of the principal of or interest on any Loan or any Reimbursement Obligation or any other amount payable by any Loan Party or other obligor or any guarantor under the Loan Documents or any agreement relating to Hedging Liability or Bank Product Obligations is rescinded or must be otherwise restored or returned upon the insolvency, bankruptcy, or reorganization of such Loan Party or other obligor or of any guarantor, or otherwise, each Guarantor's obligations under this Section 10 with respect to such payment shall be reinstated at such time as though such payment had become due but had not been made at such time.

Section 10.4. Subrogation. Each Guarantor agrees it will not exercise any rights which it may acquire by way of subrogation by any payment made hereunder, or otherwise, until all the Secured Obligations shall have been paid in full subsequent to the termination of all the Commitments and expiration of all Letters of Credit. If any amount shall be paid to a Guarantor on account of such subrogation rights at any time prior to the later of (x) the payment in full of the Secured Obligations and all other amounts payable by the Loan Parties hereunder and the other Loan Documents and (y) the termination of the Commitments and expiration of all Letters of Credit, such amount shall be held in trust for the benefit of the Bank (and its Affiliates) and shall forthwith be paid to the Bank (and its Affiliates) or be credited and applied upon the Secured Obligations, whether matured or unmatured, in accordance with the terms of this Agreement.

Section 10.5. Subordination. Each Guarantor (each referred to herein as a "Subordinated Creditor") hereby subordinates the payment of all indebtedness, obligations, and liabilities of the

Borrower or other Loan Party owing to such Subordinated Creditor, whether now existing or hereafter arising, to the indefeasible payment in full in cash of all Secured Obligations. During the existence of any Event of Default, subject to Section 10.4, any such indebtedness, obligation, or liability of the Borrower or other Loan Party owing to such Subordinated Creditor shall be enforced and performance received by such Subordinated Creditor as trustee for the benefit of the holders of the Secured Obligations and the proceeds thereof shall be paid over to the Bank for application to the Secured Obligations (whether or not then due), but without reducing or affecting in any manner the liability of such Guarantor under this Section 10.

Section 10.6. Waivers. Each Guarantor irrevocably waives acceptance hereof, presentment, demand, protest, and any notice not provided for herein, as well as any requirement that at any time any action be taken by the Bank or any other Person against the Borrower or any other Loan Party or other obligor, another guarantor, or any other Person.

Section 10.7. Limit on Recovery. Notwithstanding any other provision hereof, the right of recovery against each Guarantor under this Section 10 shall not exceed \$1.00 less than the lowest amount which would render such Guarantor's obligations under this Section 10 void or voidable under applicable law, including, without limitation, fraudulent conveyance law.

Section 10.8. Stay of Acceleration. If acceleration of the time for payment of any amount payable by the Borrower or other Loan Party or other obligor under this Agreement or any other Loan Document, or under any agreement relating to Hedging Liability or Bank Product Obligations, is stayed upon the insolvency, bankruptcy or reorganization of the Borrower or such other Loan Party or obligor, all such amounts otherwise subject to acceleration under the terms of this Agreement or the other Loan Documents, or under any agreement relating to Hedging Liability or Bank Product Obligations, shall nonetheless be payable by the Guarantors hereunder forthwith on demand by the Bank.

Section 10.9. Benefit to Guarantors. The Loan Parties are engaged in related businesses and integrated to such an extent that the financial strength and flexibility of the Borrower and the other Loan Parties has a direct impact on the success of each other Loan Party. Each Guarantor will derive substantial direct and indirect benefit from the extensions of credit hereunder, and each Guarantor acknowledges that this guarantee is necessary or convenient to the conduct, promotion and attainment of its business.

Section 10.10. Keepwell. Each Qualified ECP Guarantor hereby jointly and severally absolutely, unconditionally and irrevocably undertakes to provide such funds or other support as may be needed from time to time by each other Loan Party to honor all of its obligations under this Guaranty in respect of Swap Obligations (provided, however, that each Qualified ECP Guarantor shall only be liable under this Section for the maximum amount of such liability that can be hereby incurred without rendering its obligations under this Section, or otherwise under this Guaranty, voidable under applicable law relating to fraudulent conveyance or fraudulent transfer, and not for any greater amount). The obligations of each Qualified ECP Guarantor under this Section shall remain in full force and effect until discharged in accordance with Section 10.3. Each Qualified ECP Guarantor intends that this Section constitute, and this Section shall be deemed to constitute, a "keepwell, support, or other agreement" for the benefit of each other Loan Party for all purposes of Section 1a(18)(A)(v)(II) of the Commodity Exchange Act.

SECTION 11. COLLATERAL.

Section 11.1. Collateral. The Secured Obligations shall be secured by valid, perfected, and enforceable Liens on all right, title, and interest of each Loan Party in all of its real property, personal property, and fixtures, whether now owned or hereafter acquired or arising, and all proceeds thereof; *provided, however,* that: (i) the Collateral shall not include Excluded Property, (ii) until an Event of Default has occurred and is continuing and thereafter until otherwise required by the Bank, Liens on vehicles or other goods which are subject to a certificate of title law need not be perfected provided that the total value of such property at any one time not so perfected shall not exceed \$500,000 in the aggregate, and (iii) the Collateral need not include (or be perfected if a Lien is granted) those assets of any Loan Party as to which the Bank in its sole discretion determines that the cost of obtaining a security interest in or perfection thereof are excessive in relation to the value of the security to be afforded thereby. Each Loan Party acknowledges and agrees that the Liens on the Collateral shall be granted to the Bank and shall be valid and perfected first priority Liens (to the extent perfection by filing, registration, recordation, possession or control is required herein or in any other Loan Document) subject to the proviso appearing at the end of the preceding sentence and to Liens permitted by Section 8.8, in each case pursuant to one or more Collateral Documents from such Persons, each in form and substance satisfactory to the Bank.

Section 11.2. Depository Banks. Within one hundred eighty (180) days of the Closing Date, each Loan Party shall maintain the Bank (or one of its Affiliates) as its primary depository bank, including for its principal operating, administrative, cash management, lockbox arrangements, collection activity, and other deposit accounts for the conduct of its business. Except for Excluded Deposit Accounts, all deposit accounts shall be maintained with the Bank or

such other bank(s) reasonably acceptable to the Bank subject to deposit account control agreements in favor of the Bank on terms reasonably satisfactory to the Bank (all such deposit accounts maintained with the Bank or with such other bank(s) subject to a deposit account control agreement being hereinafter collectively referred to as the "Assigned Accounts"). Each Loan Party shall make such arrangements as may be reasonably requested by the Bank to assure that all proceeds of the Collateral are deposited (in the same form as received) in one or more Assigned Accounts. Any proceeds of Collateral received by any Loan Party shall be promptly deposited into an Assigned Account and, until so deposited, shall be held by it in trust for the Bank. Each Loan Party acknowledges and agrees that the Bank has (and is hereby granted to the extent it does not already have) a Lien on each Assigned Account and all funds contained therein to secure the Secured Obligations. The Bank agrees with the Loan Parties that if and so long as no Default has occurred or is continuing, amounts on deposit in the Assigned Accounts will (subject to the rules and regulations as from time to time in effect applicable to such demand deposit accounts) be made available to the relevant Loan Party for use in the conduct of its business. Upon the occurrence of a Default, the Bank may apply the funds on deposit in any and all such Assigned Accounts to the Secured Obligations (whether or not then due).

Section 11.3. Liens on Real Property. In the event that any Loan Party owns or hereafter acquires any real property (other than Excluded Property), such Loan Party shall execute and deliver to the Bank a mortgage or deed of trust acceptable in form and substance to the Bank for the purpose of granting to the Bank (or a security trustee therefor) a Lien on such real property to secure the Secured Obligations, shall pay all taxes, costs, and expenses incurred by the Bank in recording such mortgage or deed of trust, and shall supply to the Bank at the Borrower's cost and expense a survey, environmental report, hazard insurance policy, appraisal report, and a mortgagee's policy of title insurance from a title insurer acceptable to the Bank insuring the validity of such mortgage or deed of trust and its status as a first Lien (subject to Liens permitted by this Agreement) on the real property encumbered thereby and such other instrument, documents, certificates, and opinions reasonably required by the Bank in connection therewith.

Section 11.4. Further Assurances. Each Loan Party agrees that it shall, from time to time at the request of the Bank, execute and deliver such documents and do such acts and things as the Bank may reasonably request in order to provide for or perfect or protect such Liens on the Collateral. In the event any Loan Party forms or acquires any other Subsidiary after the date hereof, except as otherwise provided in the definition of Guarantor, the Loan Parties shall promptly upon such formation or acquisition cause such newly formed or acquired Subsidiary to execute a Guaranty Agreement and such Collateral Documents as the Bank may then require, and the Loan Parties shall also deliver to the Bank, or cause such Subsidiary to deliver to the Bank, at the Borrower's cost and expense, such other instruments, documents, certificates, and opinions reasonably required by the Bank in connection therewith.

SECTION 12. MISCELLANEOUS.

Section 12.1. Notices. (a) *Notices Generally.* Except in the case of notices and other communications expressly permitted to be given by telephone (and except as provided in subsection (b) below), all notices and other communications provided for herein shall be in writing and shall be delivered by hand or overnight courier service, mailed by certified or registered mail or sent by facsimile or email as follows:

- (i) if to the Borrower or any other Loan Party, to it at Willdan Group, Inc., 2401 East Katella Avenue, Suite 300, Anaheim, California 92806, Attention of Stacy McLaughlin (Telephone No. (714) 940-6349), email: smclaughlin@willdan.com; and
- (ii) if to the Bank, to BMO Harris Bank N.A. at 111 West Monroe, Chicago, Illinois 60603, Attention of Jennifer Guidi (Telephone No. (312) 461-2272), email: Jennifer.Guidi@bmo.com.

Notices sent by hand or overnight courier service, or mailed by certified or registered mail, shall be deemed to have been given when received; notices sent by facsimile shall be deemed to have been given when sent (except that, if not given during normal business hours for the recipient, shall be deemed to have been given at the opening of business on the next business day for the recipient). Notices delivered through electronic communications, to the extent provided in subsection (b) below, shall be effective as provided in said subsection (b).

(b) *Electronic Communications.* The Bank or the Borrower may, in its discretion, agree to accept notices and other communications to it hereunder by electronic communications pursuant to procedures approved by it; *provided* that approval of such procedures may be limited to particular notices or communications. Unless the Bank otherwise prescribes, (i) notices and other communications sent to an e-mail address shall be deemed received upon the sender's receipt of an acknowledgement from the intended recipient (such as by the "return receipt requested" function, as available, return e-mail or other written acknowledgement), and (ii) notices or communications posted to an Internet or intranet website shall be deemed received upon the deemed receipt by the intended recipient, at its e-mail address as described in the foregoing clause (i), of notification that such notice or communication is available and identifying the website address therefor; *provided* that, for both clauses (i) and (ii) above, if such notice, email or other communication is not sent during the normal business hours of the recipient, such notice or communication shall be deemed to have been sent at the opening of business on the next business day for the recipient.

(c) *Change of Address, etc.* Any party hereto may change its address or facsimile number for notices and other communications hereunder by notice to the other parties hereto.

Section 12.2. Amendments, Etc. No amendment, modification, termination or waiver of any provision of this Agreement or of any other Loan Document, nor consent to any departure by the Borrower therefrom, shall in any event be effective unless the same shall be in writing and signed by the Bank. No notice to or demand on the Borrower in any case shall entitle the Borrower to any other or further notice or demand in similar or other circumstances.

Section 12.3. Costs and Expenses; Indemnification. (a) *Costs and Expenses.* The Borrower shall pay (i) all reasonable out-of-pocket expenses incurred by the Bank and its Affiliates (including the reasonable fees, charges and disbursements of counsel for the Bank), and shall pay all fees and time charges and disbursements for attorneys who may be employees of the Bank, in connection with the preparation, negotiation, execution, delivery and administration of this Agreement and the other Loan Documents, or any amendments, modifications or waivers of the provisions hereof or thereof (whether or not the transactions contemplated hereby or thereby shall be consummated), including, without limitation, such fees and expenses incurred in connection with (x) the creation, perfection or protection of the Liens under the Loan Documents (including all title insurance fees and all search, filing and recording fees) and (y) environmental assessments, insurance reviews, collateral audits and valuations, and field exams as provided herein, (ii) all reasonable out-of-pocket expenses incurred by the Bank in connection with the issuance, amendment, renewal or extension of any Letter of Credit or any demand for payment

thereunder, and (iii) all out-of-pocket expenses incurred by the Bank (including the fees, charges and disbursements of any counsel for the Bank), and shall pay all fees and time charges for attorneys who may be employees of the Bank, in connection with the enforcement or protection of its rights (A) in connection with this Agreement and the other Loan Documents, including its rights under this Section, or (B) in connection with the Loans made or Letters of Credit issued hereunder, including all such out-of-pocket expenses incurred during any workout, restructuring or negotiations in respect of such Loans or Letters of Credit (including all such costs and expenses incurred in connection with any proceeding under the United States Bankruptcy Code involving the Borrower or any other Loan Party as a debtor thereunder).

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(b) *Indemnification by the Loan Parties.* Each Loan Party shall indemnify the Bank and its Related Parties (each such Person being called an "Indemnitee") against, and hold each Indemnitee harmless from, any and all losses, claims, damages, liabilities and related expenses (including the fees, charges and disbursements of any counsel for any Indemnitee), and shall indemnify and hold harmless each Indemnitee from all fees and time charges and disbursements for attorneys who may be employees of any Indemnitee, incurred by any Indemnitee or asserted against any Indemnitee by any Person (including any third party or the Borrower or any other Loan Party) arising out of, in connection with, or as a result of (i) the execution or delivery of this Agreement, any other Loan Document or any agreement or instrument contemplated hereby or thereby, the performance by the parties hereto of their respective obligations hereunder or thereunder or the consummation of the transactions contemplated hereby or thereby, the administration and enforcement of this Agreement and the other Loan Documents (including all such costs and expenses incurred in connection with any proceeding under the United States Bankruptcy Code involving the Borrower or any other Loan Party as a debtor thereunder), (ii) any Loan or Letter of Credit or the use or proposed use of the proceeds therefrom (including any refusal by the Bank to honor a demand for payment under a Letter of Credit if the documents presented in connection with such demand do not strictly comply with the terms of such Letter of Credit), (iii) any Environmental Claim or Environmental Liability, including with respect to the actual or alleged presence or Release of Hazardous Materials on or from any property owned or operated by any Loan Party or any of its Subsidiaries, related in any way to any Loan Party or any of its Subsidiaries, or (iv) any actual or prospective claim, litigation, investigation or proceeding relating to any of the foregoing, whether based on contract, tort or any other theory, whether brought by a third party or by the Borrower or any other Loan Party, and regardless of whether any Indemnitee is a party thereto (including, without limitation, any settlement arrangement arising from or relating to the foregoing); *provided* that such indemnity shall not, as to any Indemnitee, be available to the extent that such losses, claims, damages, liabilities or related expenses (x) are determined by a court of competent jurisdiction by final and nonappealable judgment to have resulted from the gross negligence or willful misconduct of such Indemnitee or (y) result from a claim brought by the Borrower or any other Loan Party against an Indemnitee for breach in bad faith of such Indemnitee's obligations hereunder or under any other Loan Document, if the Borrower or such Loan Party has obtained a final and nonappealable judgment in its favor on such claim as determined by a court of competent jurisdiction. This subsection (b) shall not apply with respect to Taxes other than any Taxes that represent losses, claims, damages, etc. arising from any non-Tax claim.

(c) *Waiver of Consequential Damages, Etc.* To the fullest extent permitted by applicable law, the Loan Parties shall not assert, and hereby waives, any claim against any Indemnitee, on any theory of liability, for special, indirect, consequential or punitive damages (as opposed to direct or actual damages) arising out of, in connection with, or as a result of, this Agreement, any other Loan Document or any agreement or instrument contemplated hereby, the transactions contemplated hereby or thereby, any Loan or Letter of Credit, or the use of the proceeds thereof. No Indemnitee referred to in subsection (b) above shall be liable for any damages arising from the use by unintended recipients of any information or other materials distributed by it through telecommunications, electronic or other information transmission systems in connection with this Agreement or the other Loan Documents or the transactions contemplated hereby or thereby.

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(d) *Payments.* All amounts due under this Section shall be payable promptly after demand therefor.

(e) *Survival.* Each party's obligations under this Section shall survive the termination of the Loan Documents and payment of the obligations hereunder.

Section 12.4. No Waiver, Cumulative Remedies. No delay or failure on the part of the Bank or on the part of the holder or holders of any of the Obligations in the exercise of any power or right under any Loan Document shall operate as a waiver thereof or as an acquiescence in any default, nor shall any single or partial exercise of any power or right preclude any other or further exercise thereof or the exercise of any other power or right. The rights and remedies hereunder of the Bank and of the holder or holders of any of the Obligations are cumulative to, and not exclusive of, any rights or remedies which any of them would otherwise have.

Section 12.5. Right of Setoff. In addition to any rights now or hereafter granted under the Loan Documents or applicable law and not by way of limitation of any such rights, if an Event of Default shall have occurred and be continuing, the Bank and each of its Affiliates is hereby authorized at any time and from time to time, to the fullest extent permitted by applicable law, to set off and apply any and all deposits (general or special, time or demand, provisional or final, in whatever currency) at any time held, and other obligations (in whatever currency) at any time owing, by the Bank or any such Affiliate, to or for the credit or the account of the Borrower or any other Loan Party against any and all of the obligations of the Borrower or such Loan Party now or hereafter existing under this Agreement or any other Loan Document to such the Bank or their its Affiliates, irrespective of whether or not the Bank or such Affiliate shall have made any demand under this Agreement or any other Loan Document and although such obligations of the Borrower or such Loan Party may be contingent or unmatured or are owed to a branch, office or Affiliate of the Bank different from the branch, office or Affiliate holding such deposit or obligated on such indebtedness. The rights of the Bank and its respective Affiliates under this Section are in addition to other rights and remedies (including other rights of setoff) that the Bank or its respective Affiliates may have. The Bank agrees to notify the Borrower promptly after any such setoff and application; *provided* that the failure to give such notice shall not affect the validity of such setoff and application.

Section 12.6. Survival of Representations. All representations and warranties made herein or in any other Loan Document or in certificates given pursuant hereto or thereto shall survive the execution and delivery of this Agreement and the other Loan Documents, and shall continue in full force and effect with respect to the date as of which they were made as long as any credit is in use or available hereunder.

Section 12.7. Survival of Indemnities. All indemnities and other provisions relative to reimbursement to the Bank of amounts sufficient to protect the yield of the Bank with respect to the Loans and Letters of Credit, including, but not limited to, Sections 4.1, 4.4, 4.5, and 12.3, shall survive the termination of this Agreement and the other Loan Documents and the payment of the Obligations.

Section 12.8. Counterparts; Integration; Effectiveness. This Agreement may be executed in counterparts (and by different parties hereto in different counterparts), each of which shall constitute an original, but all of which when taken together shall constitute a single contract. This Agreement and the other Loan Documents, and any separate letter agreements with respect to fees payable to the Bank, constitute the entire contract among the parties relating to the subject matter hereof and supersede any and all previous agreements and understandings, oral or written, relating to the subject matter hereof. Except as provided in Section 7.2, this Agreement shall become effective when it shall have been executed by the Bank and when the Bank shall have received counterparts hereof that, when taken together, bear the signatures of each of the other parties hereto. Delivery of an executed counterpart of a signature page of this Agreement by facsimile or in electronic (e.g., “pdf” or “tif”) format shall be effective as delivery of a manually executed counterpart of this Agreement.

Section 12.9. Headings. Section headings used in this Agreement are for reference only and shall not affect the construction of this Agreement.

Section 12.10. Severability of Provisions. Any provision of any Loan Document which is unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such unenforceability without invalidating the remaining provisions hereof or affecting the validity or enforceability of such provision in any other jurisdiction. All rights, remedies and powers provided in this Agreement and the other Loan Documents may be exercised only to the extent that the exercise thereof does not violate any applicable mandatory provisions of law, and all the provisions of this Agreement and other Loan Documents are intended to be subject to all applicable mandatory provisions of law which may be controlling and to be limited to the extent necessary so that they will not render this Agreement or the other Loan Documents invalid or unenforceable.

Section 12.11. Construction. The parties acknowledge and agree that the Loan Documents shall not be construed more favorably in favor of any party hereto based upon which party drafted the same, it being acknowledged that all parties hereto contributed substantially to the negotiation of the Loan Documents. The provisions of this Agreement relating to Subsidiaries shall only apply during such times as the Borrower has one or more Subsidiaries. NOTHING CONTAINED HEREIN SHALL BE DEEMED OR CONSTRUED TO PERMIT ANY ACT OR OMISSION WHICH IS PROHIBITED BY THE TERMS OF ANY COLLATERAL DOCUMENT, THE COVENANTS AND AGREEMENTS CONTAINED HEREIN BEING IN ADDITION TO AND NOT IN SUBSTITUTION FOR THE COVENANTS AND AGREEMENTS CONTAINED IN THE COLLATERAL DOCUMENTS.

Section 12.12. Excess Interest. Notwithstanding any provision to the contrary contained herein or in any other Loan Document, no such provision shall require the payment or permit the collection of any amount of interest in excess of the maximum amount of interest permitted by applicable law to be charged for the use or detention, or the forbearance in the collection, of all or any portion of the Loans or other obligations outstanding under this Agreement or any other Loan Document (“Excess Interest”). If any Excess Interest is provided for, or is adjudicated to be provided for, herein or in any other Loan Document, then in such event (a) the provisions of this Section shall govern and control, (b) neither the Borrower nor any guarantor or endorser shall be obligated to pay any Excess Interest, (c) any Excess Interest that the Bank may have received

hereunder shall, at the option of the Bank, be (i) applied as a credit against the then outstanding principal amount of Obligations hereunder and accrued and unpaid interest thereon (not to exceed the maximum amount permitted by applicable law), (ii) refunded to the Borrower, or (iii) any combination of the foregoing, (d) the interest rate payable hereunder or under any other Loan Document shall be automatically subject to reduction to the maximum lawful contract rate allowed under applicable usury laws (the “Maximum Rate”), and this Agreement and the other Loan Documents shall be deemed to have been, and shall be, reformed and modified to reflect such reduction in the relevant interest rate, and (e) neither the Borrower nor any guarantor or endorser shall have any action against the Bank for any damages whatsoever arising out of the payment or collection of any Excess Interest. Notwithstanding the foregoing, if for any period of time interest on any of Borrower’s Obligations is calculated at the Maximum Rate rather than the applicable rate under this Agreement, and thereafter such applicable rate becomes less than the Maximum Rate, the rate of interest payable on the Borrower’s Obligations shall remain at the Maximum Rate until the Bank has received the amount of interest which the Bank would have received during such period on the Borrower’s Obligations had the rate of interest not been limited to the Maximum Rate during such period.

Section 12.13. No Advisory or Fiduciary Responsibility. In connection with all aspects of each transaction contemplated hereby (including in connection with any amendment, waiver or other modification hereof or of any other Loan Document), each Loan Party acknowledges and agrees, and acknowledges its Affiliates’ understanding, that: (a) (i) no fiduciary, advisory or agency relationship between any Loan Party and its Subsidiaries and the the Bank is intended to be or has been created in respect of the transactions contemplated hereby or by the other Loan Documents, irrespective of whether the Bank has advised or is advising any Loan Party or any of its Subsidiaries on other matters, (ii) the arranging and other services regarding this Agreement provided by the Bank are arm’s-length commercial transactions between such Loan Parties and their Affiliates, on the one hand, and the Bank, on the other hand, (iii) each Loan Party has consulted its own legal, accounting, regulatory and tax advisors to the extent that it has deemed appropriate and (iv) each Loan Party is capable of evaluating, and understands and accepts, the terms, risks and conditions of the transactions contemplated hereby and by the other Loan Documents; and (b) (i) the Bank is and has been acting solely as a principal and, except as expressly agreed in writing by the relevant parties, has not been, is not, and will not be acting as an advisor, agent or fiduciary for any Loan Party or any of its Affiliates, or any other Person; (ii) the Bank has no obligation to any Loan Party or any of its Affiliates with respect to the transactions contemplated hereby except those obligations expressly set forth herein and in the other Loan Documents; and (iii) the Bank and its respective Affiliates may be engaged, for their own accounts or the accounts of customers, in a broad range of transactions that involve interests that differ from those of any Loan Party and its Affiliates, and the Bank has no obligation to disclose any of such interests to any Loan Party or its Affiliates. To the fullest extent permitted by law, each Loan Party hereby waives and releases any claims that it may have against the Bank with respect to any breach or alleged breach of agency or fiduciary duty in connection with any aspect of any transaction contemplated hereby.

Section 12.14. Binding Nature; Governing Law; Jurisdiction; Consent to Service of Process. (a) THIS AGREEMENT, THE NOTES AND THE OTHER LOAN DOCUMENTS (EXCEPT AS OTHERWISE SPECIFIED THEREIN), AND THE RIGHTS AND DUTIES OF THE PARTIES HERETO, SHALL BE CONSTRUED AND DETERMINED IN ACCORDANCE WITH THE LAWS OF THE STATE OF ILLINOIS WITHOUT REGARD TO CONFLICTS OF LAW PRINCIPLES THAT WOULD REQUIRE APPLICATION OF THE LAWS OF ANOTHER JURISDICTION.

(b) Each party hereto hereby irrevocably and unconditionally submits, for itself and its property, to the nonexclusive jurisdiction of the United States District Court for the Northern District of Illinois and of any Illinois State court sitting in the City of Chicago, and any appellate court from any thereof, in any action or proceeding arising out of or relating to any Loan Document, or for recognition or enforcement of any judgment, and each party hereto hereby irrevocably and unconditionally agrees that all claims in respect of any such action or proceeding may be heard and determined in such Illinois State court or, to the extent permitted by applicable Legal Requirements, in such federal court. Each party hereto hereby agrees that a final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by applicable Legal Requirements. Nothing in this Agreement or any other Loan Document or otherwise shall affect any right that the Bank may otherwise have to bring any action or proceeding relating to this Agreement or any other Loan Document against the Borrower or any Guarantor or its respective properties in the courts of any jurisdiction.

(c) Each Loan Party hereby irrevocably and unconditionally waives, to the fullest extent permitted by applicable Legal Requirements, any objection which it may now or hereafter have to the laying of venue of any suit, action or proceeding arising out of or relating to this Agreement or any other Loan Document in any court referred to in Section 12.14(b). Each party hereto hereby irrevocably waives, to the fullest extent permitted by applicable Legal Requirements, the defense of an inconvenient forum to the maintenance of such action or proceeding in any such court.

(d) Each party to this Agreement irrevocably consents to service of process in any action or proceeding arising out of or relating to any Loan Document, in the manner provided for notices (other than teletype or e-mail) in Section 12.1. Nothing in this Agreement or any other Loan Document will affect the right of any party to this Agreement to serve process in any other manner permitted by applicable Legal Requirements.

Section 12.15. Waiver of Jury Trial. EACH PARTY HERETO HEREBY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LEGAL REQUIREMENTS, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY LEGAL PROCEEDING DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO ANY LOAN DOCUMENT OR THE TRANSACTIONS CONTEMPLATED THEREBY (WHETHER BASED ON CONTRACT, TORT OR ANY OTHER THEORY). EACH PARTY HERETO (A) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER AND (B) ACKNOWLEDGES THAT IT AND THE OTHER PARTIES HERETO HAVE BEEN INDUCED TO ENTER INTO THIS AGREEMENT BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION.

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Section 12.16. USA Patriot Act. The Bank hereby notifies the Borrower that pursuant to the requirements of the USA Patriot Act (Title III of Pub. L. 107-56 (signed into law October 26, 2001)) (the "Act"), it is required to obtain, verify, and record information that identifies the Borrower, which information includes the name and address of the Borrower and other information that will allow the Bank to identify the Borrower in accordance with the Act.

Section 12.17. Confidentiality. The Bank agrees to maintain the confidentiality of the Information (as defined below), except that Information may be disclosed (a) to its Affiliates and to its Related Parties (it being understood that the Persons to whom such disclosure is made will be informed of the confidential nature of such Information and instructed to keep such Information confidential); (b) to the extent required or requested by any regulatory authority purporting to have jurisdiction over such Person or its Related Parties (including any self-regulatory authority, such as the National Association of Insurance Commissioners); (c) to the extent required by applicable laws or regulations or by any subpoena or similar legal process; (d) to any other party hereto; (e) in connection with the exercise of any remedies hereunder or under any other Loan Document or any action or proceeding relating to this Agreement or any other Loan Document or the enforcement of rights hereunder or thereunder; (f) subject to an agreement containing provisions substantially the same as those of this Section, to any actual or prospective party (or its Related Parties) to any swap, derivative or other transaction under which payments are to be made by reference to the Borrower and its obligations, this Agreement or payments hereunder; (g) on a confidential basis to (i) any rating agency in connection with rating any Loan Party or its Subsidiaries or the Facilities or (ii) the CUSIP Service Bureau or any similar agency in connection with the issuance and monitoring of CUSIP numbers with respect to the Facilities; (h) with the consent of the Borrower; or (i) to the extent such Information (x) becomes publicly available other than as a result of a breach of this Section, or (y) becomes available to the Bank or any of its respective Affiliates on a nonconfidential basis from a source other than the Borrower. For purposes of this Section, "Information" means all information received from a Loan Party or any of its Subsidiaries relating to a Loan Party or any of its Subsidiaries or any of their respective businesses, other than any such information that is available to the Bank on a nonconfidential basis prior to disclosure by a Loan Party or any of its Subsidiaries; provided that, in the case of information received from a Loan Party or any of its Subsidiaries after the date hereof, such information is clearly identified at the time of delivery as confidential. Any Person required to maintain the confidentiality of Information as provided in this Section shall be considered to have complied with its obligation to do so if such Person has exercised the same degree of care to maintain the confidentiality of such Information as such Person would accord to its own confidential information.

[SIGNATURE PAGES TO FOLLOW]

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This Credit Agreement is entered into between us for the uses and purposes hereinabove set forth as of the date first above written.

"BORROWER"

WILLDAN GROUP, INC.

By /s/ Thomas D. Brisbin

Name Thomas D. Brisbin

Title President and Chief Executive Officer

"GUARANTORS"

ELECTROTEC OF NY ELECTRICAL INC.

By /s/ Thomas D. Brisbin

Name Thomas D. Brisbin

Title Chairman of the Board

PUBLIC AGENCY RESOURCES

By /s/ Thomas D. Brisbin

Name Thomas D. Brisbin

Title Chairman of the Board

WILLDAN ENERGY SOLUTIONS

By /s/ Thomas D. Brisbin

Name Thomas D. Brisbin

Title Chairman of the Board

WILLDAN ENGINEERING

By /s/ Thomas D. Brisbin

Name Thomas D. Brisbin

Title Chairman of the Board

[Signature Page to Credit Agreement]

WILLDAN ENGINEERS AND CONSTRUCTORS

By /s/ Thomas D. Brisbin

Name Thomas D. Brisbin

Title Chairman of the Board

WILLDAN FINANCIAL SERVICES

By /s/ Thomas D. Brisbin

Name Thomas D. Brisbin

Title Chairman of the Board

WILLDAN HOMELAND SOLUTIONS

By /s/ Thomas D. Brisbin

Name Thomas D. Brisbin

Title Chairman of the Board

WILLDAN INFRASTRUCTURE

By /s/ Thomas D. Brisbin

Name Thomas D. Brisbin

Title Chairman of the Board

WILLDAN LIGHTING & ELECTRIC, INC.

By /s/ Thomas D. Brisbin

Name Thomas D. Brisbin

Title Chairman of the Board

WILLDAN LIGHTING & ELECTRIC OF CALIFORNIA

By /s/ Thomas D. Brisbin

Name Thomas D. Brisbin

Title Chairman of the Board

WILLDAN LIGHTING & ELECTRIC OF WASHINGTON, INC.

By /s/ Thomas D. Brisbin
Name Thomas D. Brisbin
Title Chairman of the Board

“BANK”
BMO HARRIS BANK N.A.

By /s/ Brian Russ
Name Brian Russ
Title Vice President

EXHIBIT A
NOTICE OF BORROWING

Date: _____,

To: BMO Harris Bank N.A., as lender under the Credit Agreement dated as of March 24, 2014 (as extended, renewed, amended or restated from time to time, the “Credit Agreement”), by and among Willdan Group, Inc. (the “Borrower”), the Guarantors party thereto, and BMO Harris Bank N.A. (the “Bank”)

Ladies and Gentlemen:

The Borrower refers to the Credit Agreement, the terms defined therein being used herein as therein defined, and hereby gives the Bank notice irrevocably, pursuant to Section 2.6 of the Credit Agreement, of the Borrowing specified below:

1. The Business Day of the proposed Borrowing is _____, _____.
2. The aggregate amount of the proposed Borrowing is \$ _____.
3. The Borrowing is being advanced under the [Revolving] [Delayed Draw Term Loan] Facility.
4. The Borrowing is to be comprised of \$ _____ of [Base Rate] [Eurodollar] Loans.
5. **The duration of the Interest Period for the Eurodollar Loans included in the Borrowing shall be _____ months.]**

The Borrower hereby certifies that the following statements are true on the date hereof, and will be true on the date of the proposed Borrowing, before and after giving effect thereto and to the application of the proceeds therefrom:

(a) the representations and warranties contained in Section 6 of the Credit Agreement are true and correct in all material respects (where not already qualified by materiality, otherwise in all respects) as though made on and as of such date (except to the extent such representations and warranties relate to an earlier date, in which case they are true and correct in all material respects (where not already qualified by materiality, otherwise in all respects) as of such earlier date); and

(b) no Default has occurred and is continuing or would result from such proposed Borrowing.

WILLDAN GROUP, INC.

By _____

EXHIBIT B

NOTICE OF CONTINUATION/CONVERSION

Date: March 24, 2014

To: BMO Harris Bank N.A., as lender under the Credit Agreement dated as of March 24, 2014 (as extended, renewed, amended or restated from time to time, the "Credit Agreement"), by and among Willdan Group, Inc. (the "Borrower"), the Guarantors party thereto, and BMO Harris Bank N.A. (the "Bank")

Ladies and Gentlemen:

The Borrower refers to the Credit Agreement, the terms defined therein being used herein as therein defined, and hereby gives the Bank notice irrevocably, pursuant to Section 2.6 of the Credit Agreement, of the [conversion] [continuation] of the Loans specified herein, that:

1. The conversion/continuation Date is _____, 201 .
2. The aggregate amount of the [Revolving] [Delayed Draw Term] Loans to be [converted] [continued] is \$ _____.
3. The Loans are to be [converted into] [continued as] [Eurodollar] [Base Rate] Loans.
4. [If applicable:] The duration of the Interest Period for the [Revolving] [Delayed Draw Term] Loans included in the [conversion] [continuation] shall be _____ months.

WILLDAN GROUP, INC.

By _____
Name _____
Title _____

EXHIBIT C-1

DELAYED DRAW TERM NOTE

U.S. \$2,500,000

March 24, 2014

FOR VALUE RECEIVED, the undersigned, WILLDAN GROUP, INC., a Delaware corporation (the "Borrower"), hereby promises to pay to BMO Harris Bank N.A. (the "Lender") or its registered assigns at the principal office of the Lender in Chicago, Illinois (or such other location as the Lender may designate to the Borrower), in immediately available funds, the principal sum of Two Million Five Hundred Thousand and 00/100 Dollars (\$2,500,000) or, if less, the aggregate unpaid principal amount of all Delayed Draw Term Loans made or maintained by the Lender to the Borrower pursuant to the Credit Agreement, in installments in the amounts called for by Section 2.7(a) of the Credit Agreement, together with interest on the principal amount of such Delayed Draw Term Loan from time to time outstanding hereunder at the rates, and payable in the manner and on the dates, specified in the Credit Agreement.

This Delayed Draw Term Note (this "Note") is the Delayed Draw Term Note referred to in the Credit Agreement dated as of March 24, 2014, by and among the Borrower, the Guarantors party thereto, and the Lender (as extended, renewed, amended or restated from time to time, the "Credit Agreement"), and this Note and the holder hereof are entitled to all the benefits and security provided for thereby or referred to therein, to which Credit Agreement reference is hereby made for a statement thereof. All defined terms used in this Note, except terms otherwise defined herein, shall have the same meaning as in the Credit Agreement. This Note shall be governed by and construed in accordance with the internal laws of the State of Illinois.

Voluntary prepayments may be made hereon, certain prepayments are required to be made hereon, and this Note may be declared due prior to the expressed maturity hereof, all in the events, on the terms and in the manner as provided for in the Credit Agreement.

The Borrower hereby waives demand, presentment, protest or notice of any kind hereunder.

WILLDAN GROUP, INC.

By _____
Name _____
Title _____

EXHIBIT C-2

REVOLVING NOTE

U.S. \$7,500,000

March 24, 2014

FOR VALUE RECEIVED, the undersigned, WILLDAN GROUP, INC., a Delaware corporation (the "Borrower"), hereby promises to pay to BMO Harris Bank N.A. (the "Lender") or its registered assigns on the Revolving Credit Termination Date of the hereinafter defined Credit Agreement, at the principal office of the Lender in Chicago Illinois (or such other location as the Lender may designate to the Borrower), in immediately available funds, the principal sum of Seven Million Five Hundred Thousand and 00/100 Dollars (\$7,500,000) or, if less, the aggregate unpaid principal amount of all Revolving Loans made by the Lender to the Borrower pursuant to the Credit Agreement, together with interest on the principal amount of each Revolving Loan from time to time outstanding hereunder at the rates, and payable in the manner and on the dates, specified in the Credit Agreement.

This Revolving Note (this "Note") is the Revolving Note referred to in the Credit Agreement dated as of March 24, 2014, by and among the Borrower, the Guarantors party thereto, and the Lender (as extended, renewed, amended or restated from time to time, the "Credit Agreement"), and this Note and the holder hereof are entitled to all the benefits and security provided for thereby or referred to therein, to which Credit Agreement reference is hereby made for a statement thereof. All defined terms used in this Note, except terms otherwise defined herein, shall have the same meaning as in the Credit Agreement. This Note shall be governed by and construed in accordance with the internal laws of the State of Illinois.

Voluntary prepayments may be made hereon, certain prepayments are required to be made hereon, and this Note may be declared due prior to the expressed maturity hereof, all in the events, on the terms and in the manner as provided for in the Credit Agreement.

The Borrower hereby waives demand, presentment, protest or notice of any kind hereunder.

WILLDAN GROUP, INC.

By _____
Name _____
Title _____

EXHIBIT D

WILLDAN GROUP, INC.

BORROWING BASE CERTIFICATE

To: BMO Harris Bank N.A., as lender under the Credit Agreement dated as of March 24, 2014 (as extended, renewed, amended or restated from time to time, the "Credit Agreement"), by and among Willdan Group, Inc. (the "Borrower"), the Guarantors party thereto, and BMO Harris Bank N.A. (the "Bank")

This Borrowing Base Certificate is furnished to the Bank pursuant to the Credit Agreement. Unless otherwise defined herein, the terms used in this Borrowing Base Certificate and on any attachments to this Borrowing Base Certificate shall have the meanings ascribed thereto in the Credit Agreement.

The computations set forth in this Borrowing Base Certificate and on any attachments to this Borrowing Base Certificate are, to the knowledge of the Borrower, true, complete and correct as of the date of this Certificate and have been made in accordance with the relevant sections of the Credit Agreement.

SEE ATTACHED WORKSHEET FOR BORROWING BASE CALCULATION.

In the event of a conflict between the attached calculations and any certifications relating thereto and the Credit Agreement and related definitions used in calculating the Borrowing Base, the Credit Agreement and such related definitions shall govern and control.

Dated as of this day of , 201 .

WILLDAN GROUP, INC.

By _____
Name _____
Title _____

WILLDAN GROUP, INC.

**BORROWING BASE CERTIFICATE WORKSHEET
FOR CREDIT AGREEMENT DATED AS OF MARCH 24, 2014**

A. RECEIVABLES IN BORROWING BASE

1. Gross Receivables
 - Less
 - (a) Ineligible sales
 - (b) Owed by an account debtor who is an Affiliate
 - (c) Owed by an account debtor who is in an insolvency or reorganization proceeding
 - (d) Credits/allowances
 - (e) Unpaid more than 90 days from due date
 - (f) Otherwise ineligible
2. Total Deductions (sum of lines A1a - A1f)
3. Eligible Receivables (line A1 minus line A2)
4. Eligible Receivables in Borrowing Base (line A3 x .75)

B. INVENTORY IN BORROWING BASE

1. Gross inventory of Finished Goods
 2. Less
 - (a) Finished Goods not located at approved locations
 - (b) Obsolete, slow moving, or not merchantable
 - (c) Otherwise ineligible
 3. Total Deductions (sum of lines B2a - B2c above)
-

4. Eligible Inventory (line B1 minus line B3)
5. Eligible Inventory in Borrowing Base (line B4 x .50)

C. RETAINAGE IN BORROWING BASE

1. Eligible Retainage
2. Eligible Retainage Base (line C1 x .50)
3. Eligible Retainage Base in Borrowing Base (line C2 x .75)

D. TOTAL BORROWING BASE

1. Line A4
2. Line B5
3. Line C3
4. Sum of Lines D1, D2 and D3 (Borrowing Base)

E. REVOLVING FACILITY ADVANCES

1. Revolving Loans
2. Letters of Credit
3. Total Outstandings (Sum of lines E1 and E2)

E. AVAILABLE BORROWING BASE COLLATERAL

EXHIBIT E

WILLDAN GROUP, INC.

COMPLIANCE CERTIFICATE

To: BMO Harris Bank N.A., as lender under the Credit Agreement dated as of March 24, 2014 (as extended, renewed, amended or restated from time to time, the "Credit Agreement"), by and among Willdan Group, Inc. (the "Borrower"), the Guarantors party thereto, and BMO Harris Bank N.A. (the "Bank")

This Compliance Certificate is furnished to the Bank pursuant to the Credit Agreement. Unless otherwise defined herein, the terms used in this Compliance Certificate have the meanings ascribed thereto in the Credit Agreement.

THE BORROWER HEREBY CERTIFIES THAT:

1. I am the duly elected _____ of Willdan Group, Inc.;
2. I have reviewed the terms of the Credit Agreement and I have made, or have caused to be made under my supervision, a detailed review of the transactions and conditions of the Borrower and its Subsidiaries during the accounting period covered by the attached financial statements;
3. The examinations described in paragraph 2 did not disclose, and I have no knowledge of, the existence of any condition or the occurrence of any event which constitutes a Default during or at the end of the accounting period covered by the attached financial statements or as of the date of this Compliance Certificate, except as set forth below;
4. The financial statements required by Section 8.5 of the Credit Agreement and being furnished to the Bank concurrently with this Compliance Certificate are true, correct and complete as of the date and for the periods covered thereby; and
5. The Schedule I hereto sets forth financial data and computations evidencing the Borrower's compliance with certain covenants of the Credit Agreement, all of which data and computations are, to the best of my knowledge, true, complete and correct and have been made in accordance with the relevant Sections of the Credit Agreement.

Described below are the exceptions, if any, to paragraph 3 by listing, in detail, the nature of the condition or event, the period during which it has existed and the action which the Borrower has taken, is taking, or proposes to take with respect to each such condition or event:

The foregoing certifications, together with the computations set forth in Schedule I hereto and the financial statements delivered with this Compliance Certificate in support hereof, are made and delivered this _____ day of _____, 201_____.

WILLDAN GROUP, INC.

By _____
Name _____
Title _____

**SCHEDULE I
TO COMPLIANCE CERTIFICATE**

WILLDAN GROUP, INC.

**COMPLIANCE CALCULATIONS
FOR CREDIT AGREEMENT DATED AS OF MARCH 24, 2014**

CALCULATIONS AS OF _____, 201_____

A. Total Leverage Ratio (Section 8.23(a))

1. Total Funded Debt _____ \$
2. Net Income for past 4 quarters _____

3.	Interest Expense for past 4 quarters	
4.	Income taxes for past 4 quarters	
5.	Depreciation and Amortization Expense for past 4 quarters	
6.	Non-cash charges acceptable to Bank for past 4 quarters	
7.	Non-cash charges acceptable to Bank for past 4 quarters	
8.	Sum of Lines A2, A3, A4, A5 and A6 minus Line A7 (“EBITDA”)	
9.	Ratio of Line A1 to A8	:1.0
10.	Line A9 ratio must not exceed	2.00:1.0
11.	The Borrower is in compliance (circle yes or no)	yes/no

B. Tangible Net Worth (Section 8.23(b))

1.	Tangible Net Worth	\$
2.	Line B1 shall not be less than	\$
3.	The Borrower is in compliance (circle yes or no)	yes/no

C. Fixed Charge Coverage Ratio (Section 8.23(c))

1.	Line A8 above	\$
2.	Rent Expense for past 4 quarters	\$
3.	Unfinanced Capital Expenditures for past 4 quarters	\$
4.	Line C1 plus Line C2 minus Line C3	\$
5.	Principal payments for past 4 quarters	\$
6.	Interest Expense paid in cash for past 4 quarters	\$
7.	Income taxes paid in cash for past 4 quarters	\$
8.	Restricted Payments paid in cash for past 4 quarters	\$
9.	Rent Expense for past 4 quarters	\$
10.	Sum of Lines C5, C6, C7, C8 and C9	\$
11.	Ratio of Line C4 to Line C10	:1.0
12.	Line C11 ratio must not be less than	1.25:1.0
13.	The Borrower is in compliance (circle yes or no)	yes/no

EXHIBIT F

ADDITIONAL GUARANTOR SUPPLEMENT

Date: _____, 201

To: BMO Harris Bank N.A., as lender under the Credit Agreement dated as of March 24, 2014 (as extended, renewed, amended or restated from time to time, the “*Credit Agreement*”), by and among Willdan Group, Inc. (the “*Borrower*”), the Guarantors party thereto, and BMO Harris Bank N.A. (the “*Bank*”)

Ladies and Gentlemen:

Reference is made to the Credit Agreement described above. Terms not defined herein which are defined in the Credit Agreement shall have for the purposes hereof the meaning provided therein. The undersigned, **[name of Subsidiary Guarantor]**, a **[jurisdiction of incorporation or organization]** hereby elects to be a “*Guarantor*” for all purposes of the Credit Agreement, effective from the date hereof. The undersigned confirms that the representations and warranties set forth in Section 6 of the Credit Agreement are true and correct **[in all material respects (where not already qualified by materiality, otherwise in all respects)]** as to the undersigned as of the date hereof (except to the extent such representations and warranties relate to an earlier date, in which case they are true and correct in all material respects (where not already qualified by materiality, otherwise in all respects) as of such earlier date) and the undersigned shall comply with each of the covenants set forth in Section 8 of the Credit Agreement applicable to it.

Without limiting the generality of the foregoing, the undersigned hereby agrees to perform all the obligations of a Guarantor under, and to be bound in all respects by the terms of, the Credit Agreement, including without limitation Section 10 thereof, to the same extent and with the same force and effect as if the undersigned were a signatory party thereto.

The undersigned acknowledges that this Agreement shall be effective upon its execution and delivery by the undersigned to the Bank, and it shall not be necessary for the Bank or any of its Affiliates entitled to the benefits hereof, to execute this Agreement or any other acceptance hereof. **[This Agreement may be executed in any number of counterparts, and by the different parties on different counterpart signature pages, all of which taken together shall constitute one and the same agreement. Any of the parties hereto may execute this Amendment by signing any such counterpart and each of such counterparts shall for all purposes be deemed to be an original.]** Delivery of a counterpart **[hereof/this Agreement]** by facsimile transmission or by e-mail transmission of an Adobe portable document format file (also known as a “PDF” file) shall be effective as delivery of a manually executed counterpart hereof. This Agreement shall be construed in accordance with and governed by the internal laws of the State of Illinois.

Very truly yours,

[NAME OF SUBSIDIARY GUARANTOR]

By _____

Name _____

Title _____

SCHEDULE 1.1

FISCAL QUARTERS

FISCAL QUARTER	LAST DAY OF SUCH FISCAL QUARTER
4th Fiscal Quarter of 2013	December 27, 2013
1st Fiscal Quarter of 2014	March 28, 2014
2nd Fiscal Quarter of 2014	June 27, 2014
3rd Fiscal Quarter of 2014	September 26, 2014
4th Fiscal Quarter of 2014	January 2, 2015

SCHEDULE 6.2

SUBSIDIARIES

NAME	JURISDICTION OF ORGANIZATION	PERCENTAGE OWNERSHIP	OWNER
Electrotec of NY Electrical Inc.	New York	100%	Willdan Lighting & Electric, Inc.
Public Agency Resources	California	100%	Willdan Group, Inc.
Willdan Energy Solutions	California	100%	Willdan Group, Inc.
Willdan Engineering	California	100%	Willdan Group, Inc.
Willdan Engineers and Constructors	California	100%	Willdan Group, Inc.
Willdan Financial Services	California	100%	Willdan Group, Inc.
Willdan Homeland Solutions	California	100%	Willdan Group, Inc.
Willdan Infrastructure	California	100%	Willdan Group, Inc.
Willdan Lighting & Electric, Inc.	Delaware	100%	Willdan Energy Solutions
Willdan Lighting & Electric of California	California	100%	Willdan Lighting & Electric, Inc.
Willdan Lighting & Electric of Washington, Inc.	Washington	100%	Willdan Lighting & Electric, Inc.

SCHEDULE 6.2

PERMITTED INVESTMENTS

None.

SECURITY AGREEMENT

This Security Agreement (the “*Agreement*”) is dated as of March 24, 2014, by and among Willdan Group, Inc., a Delaware corporation (the “*Borrower*”), the other parties executing this Agreement under the heading “*Debtors*” (the Borrower and such other parties, along with any parties who execute and deliver to the Secured Party referred to herein an agreement attached hereto as Schedule H, being hereinafter referred to collectively as the “*Debtors*” and individually as a “*Debtor*”), each with its mailing address as set forth in Section 13(b) hereof, and BMO Harris Bank N.A., a national banking association (the “*Secured Party*”), with its mailing address as set forth in Section 13(b) hereof. The term “*Debtor*” and “*Debtors*” as used herein shall mean and include the Debtors collectively and also each individually, with all grants, representations, warranties and covenants of and by the Debtors, or any of them, herein contained to constitute joint and several grants, representations, warranties and covenants of and by the Debtors; *provided, however*, that unless the context in which the same is used shall otherwise require, any grant, representation, warranty or covenant contained herein related to the Collateral shall be made by each Debtor only with respect to the Collateral owned by it or represented by such Debtor as owned by it.

PRELIMINARY STATEMENT

A. The Borrower, the other Debtors party hereto and the Secured Party have entered into a Credit Agreement dated as of March 24, 2014 (the Credit Agreement, as the same may be amended or modified from time to time, including amendments and restatements thereof in its entirety, being referred to herein as the “*Credit Agreement*”) pursuant to which the Secured Party may from time to time extend credit or otherwise make financial accommodations available to or for the account of the Borrower.

B. The Debtors (other than the Borrower) are subsidiaries or affiliates of the Borrower.

C. Each Debtor provides each of the other Debtors with substantial financial, management, administrative, and technical support.

D. The interdependent nature of the businesses of the Debtors is such that the viability of each Debtor is dependent upon the continued success of the other Debtors and, upon the continuation of such Debtor’s business relationships with the other Debtors, and the continuation thereof necessitates the Borrower’s access to credit and other financial accommodations from the Secured Party.

E. As a condition to extending credit or otherwise making financial accommodations available to or for the account of the Borrower (whether under the Credit Agreement or otherwise), the Secured Party requires, among other things, that each Debtor grant the Secured Party a security interest in such Debtor’s personal property described herein subject to the terms and conditions hereof.

NOW, THEREFORE, in consideration of the benefits accruing to the Debtors, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

Section 1. Terms defined in Credit Agreement. Except as otherwise provided in Section 2 below, all capitalized terms used herein without definition shall have the same meanings herein as such terms have in the Credit Agreement. The term “*Debtor*” and “*Debtors*” as used herein shall mean and include the Debtors collectively and also each individually, with all grants, representations, warranties, and covenants of and by the Debtors, or any of them, herein contained to constitute joint and several grants, representations, warranties, and covenants of and by the Debtors; *provided, however*, that unless the context in which the same is used shall otherwise require, any grant, representation, warranty or covenant contained herein related to the Collateral shall be made by each Debtor only with respect to the Collateral owned by it or represented by such Debtor as owned by it.

Section 2. Grant of Security Interest. Each Debtor hereby grants to the Secured Party (for the benefit of itself and as representative for the benefit of its affiliates) a lien on and security interest in, and acknowledges and agrees that the Secured Party has and shall continue to have a continuing lien on and security interest in, all right, title, and interest of each Debtor, whether now owned or existing or hereafter created, acquired or arising, in and to all of the following:

- (a) Accounts (including all Health-Care-Insurance Receivables, if any);
- (b) Chattel Paper;
- (c) Instruments (including Promissory Notes);
- (d) Documents;
- (e) General Intangibles (including Payment Intangibles and Software, patents, trademarks, tradestyles, copyrights, and all other intellectual property rights, including all applications, registration, and licenses therefor, and all goodwill of the business connected therewith or represented thereby);
- (f) Letter-of-Credit Rights;
- (g) Supporting Obligations;
- (h) Deposit Accounts;
- (i) Investment Property (including certificated and uncertificated Securities, Securities Accounts, Security Entitlements, Commodity Accounts, and Commodity Contracts);
- (j) Inventory;

(k) Equipment (including all software, whether or not the same constitutes embedded software, used in the operation thereof);

(l) Fixtures;

(m) Commercial Tort Claims (as described on Schedule F hereto or on one or more supplements to this Agreement);

(n) Rights to merchandise and other Goods (including rights to returned or repossessed Goods and rights of stoppage in transit) which is represented by, arises from, or relates to any of the foregoing;

(o) Monies, personal property, and interests in personal property of such Debtor of any kind or description now held by the Secured Party or at any time hereafter transferred or delivered to, or coming into the possession, custody, or control of, the Secured Party, or any agent or affiliate of the Secured Party, whether expressly as collateral security or for any other purpose (whether for safekeeping, custody, collection or otherwise), and all dividends and distributions on or other rights in connection with any such property;

(p) Supporting evidence and documents relating to any of the above-described property, including, without limitation, computer programs, disks, tapes and related electronic data processing media, and all rights of such Debtor to retrieve the same from third parties, written applications, credit information, account cards, payment records, correspondence, delivery and installation certificates, invoice copies, delivery receipts, notes, and other evidences of indebtedness, insurance certificates and the like, together with all books of account, ledgers, and cabinets in which the same are reflected or maintained;

(q) Accessions and additions to, and substitutions and replacements of, any and all of the foregoing; and

(r) Proceeds and products of the foregoing, and all insurance of the foregoing and proceeds thereof;

all of the foregoing being herein sometimes referred to as the “*Collateral*”; *provided however* that “*Collateral*” shall not include any Excluded Property. All terms which are used in this Agreement which are defined in the Uniform Commercial Code of the State of Illinois as in effect from time to time (“*UCC*”) shall have the same meanings herein as such terms are defined in the UCC, unless this Agreement shall otherwise specifically provide. For purposes of this Agreement, the term “*Receivables*” means all rights to the payment of a monetary obligation, whether or not earned by performance, and whether evidenced by an Account, Chattel Paper, Instrument, General Intangible, or otherwise.

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Section 3. Obligations Hereby Secured. This Agreement is made and given to secure, and shall secure, the prompt payment and performance of (a) any and all indebtedness, obligations, and liabilities of whatsoever kind and nature of the Debtors, and any of them, to the Secured Party and to any of its affiliates (whether arising before or after the filing of a petition in bankruptcy), whether direct or indirect, absolute or contingent, due or to become due, and whether now existing or hereafter arising and howsoever held, evidenced, or acquired, and whether several, joint, or joint and several, including without limitation all “*Obligations*,” “*Hedging Liability*,” and “*Bank Product Liability*,” as such terms are defined in the Credit Agreement, all obligations with respect to Loans made and to be made under the Credit Agreement (whether or not evidenced by Notes issued thereunder), all obligations of the Borrower to reimburse the Secured Party for the amount of all drawings on all Letters of Credit issued pursuant to the Credit Agreement and all other obligations of the Borrower under all Applications for Letters of Credit, all other obligations of the Borrower and the other Debtors under the Loan Documents, all obligations of the Debtors, and of any of them individually, with respect to any Hedging Liability and the agreements relating thereto, all obligations of the Debtors, and of any of them individually, with respect to any Bank Product Liability and the agreements relating thereto, and all obligations of the Debtors, and of any of them individually, arising under any guaranty issued by it relating to the foregoing or any part thereof, in each case whether now existing or hereafter arising (and whether arising before or after the filing of a petition in bankruptcy and including all interest, costs, fees, and charges after the entry of an order for relief against a Debtor in a case under Title 11 of the United States Bankruptcy Code or any similar proceeding, whether or not such interest, costs, fees and charges would be an allowed claim against such Debtor in such proceeding), due or to become due, direct or indirect, absolute or contingent, and howsoever evidenced, held or acquired and (b) any and all expenses and charges, legal or otherwise, suffered or incurred by the Secured Party in collecting or enforcing any of such indebtedness, obligations, and liabilities or in realizing on or protecting or preserving any security therefor, including, without limitation, the lien and security interest granted hereby (all of the indebtedness, obligations, liabilities, expenses, and charges described above being hereinafter referred to as the “*Secured Obligations*”). Notwithstanding anything in this Agreement to the contrary, the right of recovery against any Debtor (other than the Borrower to which this limitation shall not apply) under this Agreement shall not exceed \$1.00 less than the lowest amount that would render such Debtor’s obligations under this Agreement void or voidable under applicable law, including fraudulent conveyance law.

Section 4. Covenants, Agreements, Representations and Warranties. The Debtors hereby covenant and agree with, and represents and warrants to, the Secured Party that:

(a) Each Debtor is duly organized and validly existing in good standing under the laws of the jurisdiction of its organization. Each Debtor is the sole and lawful owner of its Collateral, and has full right, power, and authority to enter into this Agreement and to perform each and all of the matters and things herein provided for. The execution and delivery of this Agreement, and the observance and performance of each of the matters and things herein set forth, will not (i) contravene or constitute a default under any provision of law or any judgment, injunction, order, or decree binding upon any Debtor or any provision of any Debtor’s organizational documents (e.g., charter, articles or certificate of incorporation and by-laws, articles or certificate of formation and limited liability company operating agreement, partnership agreement, or other similar organizational documents) or any covenant, indenture, or agreement of or affecting any Debtor or any of its property or (ii) result in the creation or imposition of any lien or encumbrance on any property of any Debtor except for the lien and security interest granted to the Secured Party hereunder.

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(b) Each Debtor’s respective chief executive office is at the location listed under Column 2 on Schedule A attached hereto opposite such Debtor’s name; and such Debtor has no other executive offices or places of business other than those listed under Column 3 on *Schedule A* attached hereto opposite

such Debtor's name. The Collateral owned or leased by each Debtor is and shall remain in such Debtor's possession or control at the locations listed under Columns 2 and 3 on Schedule A attached hereto opposite such Debtor's name (collectively for each Debtor, as such locations may be amended or supplemented from time to time with written notice to the Secured Party as provided below, the "*Permitted Collateral Locations*") other than (i) Collateral that is temporarily located at job sites in the ordinary course of business and (ii) Collateral aggregating less than \$100,000 in fair market value outstanding at any one time. If for any reason any Collateral is at any time kept or located at a location other than a Permitted Collateral Location, the Secured Party shall nevertheless have and retain a lien on and security interest therein. The Debtors own and shall at all times own all Permitted Collateral Locations, except to the extent otherwise disclosed under Columns 2 and 3 on Schedule A. No Debtor shall move its chief executive office or maintain a place of business at a location other than those specified under Columns 2 or 3 on Schedule A or permit the Collateral to be located at a location other than those specified under Columns 2 or 3 on Schedule A, in each case without first providing the Secured Party 30 days' prior written notice of such Debtor's intent to do so (at which time Schedule A will be deemed amended or supplemented with such additional or modified locations); *provided* that each Debtor shall at all times maintain its chief executive office and, unless otherwise specifically agreed to in writing by the Secured Party, Permitted Collateral Locations in the United States of America and, with respect to any new chief executive office or place of business or location of Collateral, such Debtor shall have taken all action reasonably requested by the Secured Party to maintain the lien and security interest of the Secured Party in the Collateral at all times fully perfected and in full force and effect.

(c) Each Debtor's legal name, jurisdiction of organization and organizational number (if any) are correctly set forth under Column 1 on Schedule A of this Agreement. No Debtor has transacted business at any time during the immediately preceding five-year period, and does not currently transact business, under any other legal names or trade names other than the prior legal names and trade names (if any) set forth on Schedule B attached hereto. No Debtor shall change its jurisdiction of organization without the Secured Party's prior written consent. No Debtor shall change its legal name or transact business under any other trade name without first giving 30 days' prior written notice of its intent to do so to the Secured Party.

(d) The Collateral and every part thereof is and shall be free and clear of all security interests, liens (including, without limitation, mechanics', laborers' and statutory liens), attachments, levies, and encumbrances of every kind, nature and description, whether voluntary or involuntary, except for the lien and security interest of the Secured Party therein and as otherwise permitted by Section 8.8 of the Credit Agreement. Each Debtor shall warrant and defend the Collateral against any claims and demands of all persons at any time claiming the same or any interest in the Collateral adverse to the Secured Party.

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(e) Each Debtor shall promptly pay when due all taxes, assessments, and governmental charges and levies upon or against such Debtor or any of its Collateral, in each case before the same become delinquent and before penalties accrue thereon, unless and to the extent that the same are being contested in good faith by appropriate proceedings which prevent foreclosure or other realization upon any of the Collateral and preclude interference with the operation of such Debtor's business in the ordinary course, and such Debtor shall have established adequate reserves therefor.

(f) No Debtor shall use, manufacture, sell, or distribute any Collateral in violation of any statute, ordinance, or other governmental requirement. No Debtor shall waste or destroy the Collateral or any part thereof or be negligent in the care or use of any Collateral. Each Debtor shall perform in all material respects its obligations under any contract or other agreement constituting part of the Collateral, it being understood and agreed that the Secured Party has no responsibility to perform such obligations.

(g) Subject to Sections 5(b), 7(b), 7(c), and 8(c) hereof and the terms of the Credit Agreement (including, without limitation, Section 8.10 thereof), no Debtor shall, without the Secured Party's prior written consent, sell, assign, mortgage, lease, or otherwise dispose of the Collateral or any interest therein.

(h) The Debtors shall at all times insure the Collateral consisting of tangible personal property against such risks and hazards as other persons similarly situated insure against, and including in any event loss or damage by fire, theft, burglary, pilferage, loss in transit and such other hazards as the Secured Party may reasonably specify. All insurance required hereby shall be maintained in amounts and under policies and with insurers reasonably acceptable to the Secured Party, and all such policies shall contain lender loss payable clauses naming the Secured Party as loss payee as its interest may appear (and, if the Secured Party requests, naming the Secured Party as an additional insured therein) in a form reasonably acceptable to the Secured Party. All premiums on such insurance shall be paid by the Debtors. Certificates of insurance evidencing compliance with the foregoing and, at the Secured Party's request, the policies of such insurance shall be delivered by the Debtors to the Secured Party. All insurance required hereby shall provide that any loss shall be payable to the Secured Party notwithstanding any act or negligence of any Debtor, shall provide that no cancellation thereof shall be effective until at least 30 days after receipt by the relevant Debtor and the Secured Party of written notice thereof, and shall be reasonably satisfactory to the Secured Party in all other respects. In case of any material loss, damage to or destruction of the Collateral or any part thereof, the relevant Debtor shall promptly give written notice thereof to the Secured Party generally describing the nature and extent of such damage or destruction. In case of any loss, damage to or destruction of the Collateral or any part thereof, the relevant Debtor, whether or not the insurance proceeds, if any, received on account of such damage or destruction shall be sufficient for that purpose, at such Debtor's cost and expense, shall promptly repair or replace the Collateral so lost, damaged, or destroyed, except to the extent such Collateral, prior to its loss, damage, or destruction, had become uneconomical, obsolete, or worn out and is not necessary for or of importance to the proper conduct of such Debtor's business in the ordinary course. In the event any Debtor shall receive any proceeds of such insurance, such Debtor shall immediately pay over such proceeds to the Secured Party. Each Debtor hereby authorizes the Secured Party, at the Secured Party's

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option, to adjust, compromise, and settle any losses under any insurance afforded at any time during the existence of any Event of Default or any other event or condition which with the lapse of time or the giving of notice, or both, would constitute an Event of Default, and each Debtor does hereby irrevocably constitute the Secured Party, and each of its nominees, officers, agents, attorneys, and any other person whom the Secured Party may designate, as such Debtor's attorneys-in-fact, with full power and authority to effect such adjustment, compromise, and/or settlement and to endorse any drafts drawn by an insurer of the Collateral or any part thereof and to do everything necessary to carry out such purposes and to receive and receipt for any unearned premiums due under policies of such insurance. Unless the Secured Party elects to adjust, compromise, or settle losses as aforesaid, any adjustment, compromise, and/or settlement of any losses under any insurance shall be made by the relevant Debtor subject to final approval of the Secured Party (regardless of whether or not an Event of Default shall have occurred) in the case of losses exceeding \$250,000. Net insurance proceeds received by the Secured Party under the provisions hereof or under any policy of insurance covering the Collateral or any part thereof shall be applied to the reduction of the Secured Obligations (whether or not then due); *provided, however*, that the Secured Party agrees to release such insurance proceeds to the relevant Debtor for replacement or restoration of the portion of the Collateral lost, damaged, or destroyed if, but only if, (i) at the time of release no Event of Default, or any other event or condition which with

the lapse of time or the giving of notice, or both, would constitute an Event of Default, exists, (ii) written application for such release is received by the Secured Party from such Debtor within 30 days of receipt of such proceeds, and (iii) the Secured Party has received evidence reasonably satisfactory to it that the Collateral lost, damaged or destroyed has been or will be replaced or restored to its condition immediately prior to the loss, destruction or other event giving rise to the payment of such insurance proceeds. All insurance proceeds shall be subject to the lien and security interest of the Secured Party hereunder.

UNLESS THE DEBTORS PROVIDE THE SECURED PARTY WITH EVIDENCE OF THE INSURANCE COVERAGE REQUIRED BY THIS AGREEMENT, THE SECURED PARTY MAY PURCHASE INSURANCE AT THE DEBTORS' EXPENSE TO PROTECT THE SECURED PARTY'S INTERESTS IN THE COLLATERAL. THIS INSURANCE MAY, BUT NEED NOT, PROTECT THE DEBTORS' INTERESTS IN THE COLLATERAL. THE COVERAGE PURCHASED BY THE SECURED PARTY MAY NOT PAY ANY CLAIMS THAT ANY DEBTOR MAKES OR ANY CLAIM THAT IS MADE AGAINST ANY DEBTOR IN CONNECTION WITH THE COLLATERAL. THE RELEVANT DEBTOR MAY LATER CANCEL ANY SUCH INSURANCE PURCHASED BY THE SECURED PARTY, BUT ONLY AFTER PROVIDING THE SECURED PARTY WITH EVIDENCE THAT SUCH DEBTOR HAS OBTAINED INSURANCE AS REQUIRED BY THIS AGREEMENT. IF THE SECURED PARTY PURCHASES INSURANCE FOR THE COLLATERAL, THE DEBTORS WILL BE RESPONSIBLE FOR THE COSTS OF THAT INSURANCE, INCLUDING INTEREST AND ANY OTHER CHARGES THAT THE SECURED PARTY MAY IMPOSE IN CONNECTION WITH THE PLACEMENT OF THE INSURANCE, UNTIL THE EFFECTIVE DATE OF THE CANCELLATION OR EXPIRATION OF THE INSURANCE. THE COSTS OF THE INSURANCE MAY BE ADDED TO THE SECURED OBLIGATIONS SECURED HEREBY. THE COSTS OF THE INSURANCE MAY BE MORE THAN THE COST OF INSURANCE THE DEBTORS MAY BE ABLE TO OBTAIN ON THEIR OWN.

(i) Each Debtor shall at all times allow the Secured Party and its representatives free access to and right of inspection of the Collateral; *provided* that, unless the Secured Party believes in good faith an Event of Default, or any other event or condition which with the lapse of time or the giving of notice, or both, would constitute an Event of Default, exists, any such access or inspection shall only be required during the relevant Debtor's normal business hours.

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(j) If any Collateral is in the possession or control of any of any Debtor's agents or processors and the Secured Party so requests, such Debtor agrees to notify such agents or processors in writing of the Secured Party's security interest therein and instruct them to hold all such Collateral for the Secured Party's account and subject to the Secured Party's instructions. Each Debtor shall, upon the request of the Secured Party, authorize and instruct all bailees and other parties, if any, at any time processing, labeling, packaging, holding, storing, shipping, or transferring all or any part of the Collateral to permit the Secured Party and its representatives to examine and inspect any of the Collateral then in such party's possession and to verify from such party's own books and records any information concerning the Collateral or any part thereof which the Secured Party or its representatives may seek to verify. As to any premises not owned by a Debtor wherein any of the Collateral is located, the relevant Debtor shall, at the Secured Party's request, cause each party having any right, title or interest in, or lien on, any of such premises to enter into an agreement (any such agreement to contain a legal description of such premises) whereby such party disclaims any right, title and interest in, and lien on, the Collateral and allows the removal of such Collateral by the Secured Party and is otherwise in form and substance reasonably acceptable to the Secured Party; *provided, however*, that no such agreement need be obtained with respect to any one location wherein the value of the Collateral as to which such agreement has not been obtained aggregates less than \$250,000 at any one time.

(k) Each Debtor agrees from time to time to deliver to the Secured Party such evidence of the existence, identity, and location of its Collateral and of its availability as collateral security pursuant hereto (including, without limitation, schedules describing all Receivables created or acquired by such Debtor, copies of customer invoices or the equivalent, and original shipping or delivery receipts for all merchandise and other goods sold or leased or services rendered, together with such Debtor's warranty of the genuineness thereof, and reports stating the book value of Inventory and Equipment by major category and location), in each case as the Secured Party may reasonably request. The Secured Party shall have the right to verify all or any part of the Collateral in any manner, and through any medium, which the Secured Party considers appropriate (including, without limitation, the verification of Collateral by use of a fictitious name), and each Debtor agrees to furnish all assistance and information, and perform any acts, which the Secured Party may reasonably require in connection therewith. Each Debtor shall promptly notify the Secured Party of any Collateral that such Debtor has determined to have been rendered obsolete, stating the prior book value of such Collateral, its type and location.

(l) Each Debtor shall comply in all material respects with the terms and conditions of all leases, easements, right-of-way agreements, and other similar agreements binding upon such Debtor or affecting the Collateral or any part thereof, and all orders, ordinances, laws, and statutes of any city, state, or other governmental entity, department, or agency having jurisdiction with respect to the premises wherein such Collateral is located or the conduct of business thereon.

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(m) Schedule C attached hereto contains a true, complete, and current listing of all patents, trademarks, tradestyles, copyrights, and other intellectual property rights (including all registrations and applications therefor) owned by the Debtors as of the date hereof that are registered with any governmental authority. The Debtors shall promptly notify the Secured Party in writing of any additional intellectual property rights acquired or arising after the date hereof, and shall submit to the Secured Party a supplement to Schedule C to reflect such additional rights (provided any Debtor's failure to do so shall not impair the Secured Party's security interest therein). Each Debtor owns or possesses rights to use all franchises, licenses, patents, trademarks, trade names, tradestyles, copyrights, and rights with respect to the foregoing which are required to conduct its business. No event has occurred which permits, or after notice or lapse of time or both would permit, the revocation or termination of any such rights, and the Debtors are not liable to any person for infringement under applicable law with respect to any such rights as a result of its business operations.

(n) Schedule F attached hereto contains a true, complete and current listing of all Commercial Tort Claims held by the Debtors as of the date hereof, each described by reference to the specific incident giving rise to the claim. Each Debtor agrees to execute and deliver to the Secured Party a supplement to this Agreement in the form attached hereto as Schedule G, or in such other form acceptable to the Secured Party, promptly upon becoming aware of any other Commercial Tort Claim held or maintained by such Debtor arising after the date hereof (provided such Debtor's failure to do so shall not impair the Secured Party's security interest therein).

(o) Each Debtor agrees to execute and deliver to the Secured Party such further agreements, assignments, instruments, and documents and to do all such other things as the Secured Party may reasonably deem necessary or appropriate to assure the Secured Party its lien and security interest hereunder, including, without limitation, (i) such financing statements, and amendments thereof or supplements thereto, and such other instruments and documents as the Secured Party may from time to time reasonably require in order to comply with the UCC and any other applicable law, (ii) such agreements with respect to

patents, trademarks, copyrights, and similar intellectual property rights as the Secured Party may from time to time reasonably require to comply with the filing requirements of the United States Patent and Trademark Office and the United States Copyright Office, and (iii) such control agreements with respect to all Deposit Accounts, Investment Property, Letter-of-Credit Rights, and electronic Chattel Paper, and to cause the relevant depository institutions, financial intermediaries, and issuers to execute and deliver such control agreements, as the Secured Party may from time to time reasonably require. Each Debtor hereby agrees that a carbon, photographic, or other reproduction of this Agreement or any such financing statement is sufficient for filing as a financing statement by the Secured Party without notice thereof to such Debtor wherever the Secured Party in its sole discretion desires to file the same. Each Debtor hereby authorizes the Secured Party to file any and all financing statements covering the Collateral or any part thereof as the Secured Party may require, including financing statements describing the Collateral as "all assets" or "all personal property" or words of like meaning. The Secured Party may order lien searches from time to time against each Debtor and the Collateral, and the Debtor shall promptly reimburse the Secured Party for all reasonable costs and expenses incurred in connection with such lien searches. In the event for any reason the law of any jurisdiction other than Illinois becomes or is applicable to the Collateral or any part thereof, or to any of the Secured Obligations, each Debtor agrees to execute and deliver all such instruments and documents and to do all such other things as the Secured Party in its sole discretion deems necessary or appropriate to preserve, protect, and enforce the lien and security interest of the Secured Party under the law of such other jurisdiction. Each Debtor agrees to mark its books and records to reflect the lien and security interest of the Secured Party in the Collateral.

(p) On failure of any Debtor to perform any of the covenants and agreements herein contained, the Secured Party may, at its option, perform the same and in so doing may expend such sums as the Secured Party may reasonably deem advisable in the performance thereof, including, without limitation, the payment of any insurance premiums, the payment of any taxes, liens, and encumbrances, expenditures made in defending against any adverse claims, and all other expenditures which the Secured Party may be compelled to make by operation of law or which the Secured Party may make by agreement or otherwise for the protection of the security hereof. All such sums and amounts so expended shall be repayable by the relevant Debtor immediately without notice or demand, shall constitute additional Secured Obligations secured hereunder and shall bear interest from the date said amounts are expended at the rate per annum (computed on the basis of a 360-day year for the actual number of days elapsed) determined by adding 2.0% per annum to the Base Rate from time to time in effect plus the Applicable Margin from time to time in effect for Base Rate Loans under the Revolving Facility, with any change in such rate per annum as so determined by reason of a change in such Base Rate to be effective on the date of such change in said Base Rate (such rate per annum as so determined being hereinafter referred to as the "Default Rate"). No such performance of any covenant or agreement by the Secured Party on behalf of any Debtor, and no such advancement or expenditure therefor, shall relieve the Debtor of any default under the terms of this Agreement or in any way obligate the Secured Party to take any further or future action with respect thereto. The Secured Party, in making any payment hereby authorized, may do so according to any bill, statement, or estimate procured from the appropriate public office or holder of the claim to be discharged without inquiry into the accuracy of such bill, statement, or estimate or into the validity of any tax assessment, sale, forfeiture, tax lien, or title or claim. The Secured Party, in performing any act hereunder, shall be the sole judge of whether any Debtor is required to perform same under the terms of this Agreement. The Secured Party is hereby authorized to charge any account of the relevant Debtor maintained with the Secured Party for the amount of such sums and amounts so expended.

Section 5. Special Provisions Re: Receivables. (a) As of the time any Receivable owned by a Debtor becomes subject to the security interest provided for hereby, and at all times thereafter, such Debtor shall be deemed to have warranted as to each and all of such Receivables that all warranties of such Debtor set forth in this Agreement are true and correct with respect to each such Receivable; that each Receivable and all papers and documents relating thereto are genuine and in all respects what they purport to be; that each Receivable is valid and subsisting; that no such Receivable is evidenced by any Instrument or Chattel Paper unless such Instrument or Chattel Paper has theretofore been endorsed by such Debtor and delivered to the Secured Party (except that, prior to the occurrence of an Event of Default and thereafter until otherwise notified by the Secured Party, such Debtor will not be required to endorse and deliver to the Secured Party any such Instrument or Chattel Paper if and only so long as the aggregate outstanding balance of all such Instruments and Chattel Paper not so endorsed and delivered to the Secured Party hereunder is less than \$250,000 at any one time outstanding); that no surety bond was required or given in connection with such Receivable or the contracts or purchase orders out of

which the same arose; that the amount of the Receivable represented as owing is the correct amount actually and unconditionally owing, except for normal cash discounts on normal trade terms in the ordinary course of business; and that the amount of such Receivable represented as owing is not disputed and is not subject to any set-offs, credits, deductions, or countercharges other than those arising in the ordinary course of such Debtor's business which are disclosed to the Secured Party in writing promptly upon such Debtor becoming aware thereof. Without limiting the foregoing, if any Receivable arises out of a contract with the United States of America, or any state or political subdivision thereof, or any department, agency, or instrumentality of any of the foregoing, each Debtor agrees to notify the Secured Party and, at the Secured Party's request, execute whatever instruments and documents are required by the Secured Party in order that such Receivable shall be assigned to the Secured Party and that proper notice of such assignment shall be given under the federal Assignment of Claims Act (or any successor statute) or any similar state or local statute, as the case may be.

(b) Unless and until an Event of Default occurs, any merchandise or other goods which are returned by a customer or account debtor or otherwise recovered may be resold by a Debtor in the ordinary course of its business as presently conducted in accordance with Section 7(b) hereof; and, during the existence of any Event of Default, such merchandise and other goods shall be set aside at the request of the Secured Party and held by the relevant Debtor as trustee for the Secured Party and shall remain part of the Secured Party's Collateral. Unless and until an Event of Default occurs, the Debtors may settle and adjust disputes and claims with its customers and account debtors, handle returns and recoveries, and grant discounts, credits, and allowances in the ordinary course of its business as presently conducted for amounts and on terms which the relevant Debtor in good faith considers advisable; and, during the existence of any Event of Default, at the Secured Party's request, the Debtors shall notify the Secured Party promptly of all returns and recoveries and, on the Secured Party's request, deliver any such merchandise or other goods to the Secured Party. During the existence of any Event of Default, at the Secured Party's request, the Debtor shall also notify the Secured Party promptly of all disputes and claims and settle or adjust them at no expense to the Secured Party, but no discount, credit, or allowance other than on normal trade terms in the ordinary course of business as presently conducted shall be granted to any customer or account debtor and no returns of merchandise or other goods shall be accepted by any Debtor without the Secured Party's consent. The Secured Party may, at all times during the existence of any Event of Default, settle or adjust disputes and claims directly with customers or account debtors for amounts and upon terms which the Secured Party considers advisable.

(c) Unless delivered to the Secured Party or its agent, all tangible Chattel Paper and Instruments shall contain a legend acceptable to the Secured Party indicating that such Chattel Paper or Instrument is subject to the security interest of the Secured Party contemplated by this Agreement.

(b) Upon the occurrence of any Event of Default or of any event or condition which with the lapse of time or the giving of notice, or both, would constitute an Event of Default, whether or not the Secured Party has exercised any or all of its rights under other provisions of this Section 6, in the event the Secured Party requests any Debtor to do so:

- (i) all Instruments and Chattel Paper at any time constituting part of the Receivables or any other Collateral (including any postdated checks) shall, upon receipt by such Debtor, be immediately endorsed to and deposited with the Secured Party; and/or
- (ii) such Debtor shall instruct all customers and account debtors to remit all payments in respect of Receivables or any other Collateral to a lockbox or lockboxes under the sole custody and control of the Secured Party and which are maintained at post office(s) in Chicago, Illinois selected by the Secured Party.

(c) Upon the occurrence of any Event of Default or of any event or condition which with the lapse of time or the giving of notice, or both, would constitute an Event of Default, whether or not the Secured Party has exercised any or all of its rights under other provisions of this Section 6, the Secured Party or its designee may notify the Debtors' customers and account debtors at any time that Receivables or any other Collateral have been assigned to the Secured Party or of the Secured Party's security interest therein, and either in its own name, or the relevant Debtor's name, or both, demand, collect (including, without limitation, through a lockbox analogous to that described in Section 6(b)(ii) hereof), receive, receipt for, sue for, compound, and give acquittance for any or all amounts due or to become due on Receivables or any other Collateral, and in the Secured Party's discretion file any claim or take any other action or proceeding which the Secured Party may deem reasonably necessary or appropriate to protect or realize upon the security interest of the Secured Party in the Receivables or any other Collateral.

(d) Any proceeds of Receivables or other Collateral transmitted to or otherwise received by the Secured Party pursuant to any of the provisions of Sections 6(b) or 6(c) hereof may be handled and administered by the Secured Party in and through a remittance account at the Secured Party, and the Debtors acknowledge that the maintenance of such remittance account by the Secured Party is solely for the Secured Party's convenience and that the Debtors do not have any right, title, or interest in such remittance account. The Secured Party may, after the occurrence and during the continuation of any Event of Default or of any event or condition which with the lapse of time or the giving of notice, or both, would constitute an Event of Default, apply all or any part of any proceeds of Receivables or other Collateral received by it from any source to the payment of the Secured Obligations (whether or not then due and payable), such applications to be made in such amounts, in such manner and order and at such intervals as the Secured Party may from time to time in its discretion determine, but not less often than once each week. The Secured Party need not apply or give credit for any item included in proceeds of Receivables or other Collateral until the Secured Party has received final payment therefor at its office in cash or final solvent credits current in Chicago, Illinois, acceptable to the Secured Party as such. However, if the Secured Party does give credit for any item prior to receiving final payment therefor and the Secured Party fails to receive such final payment or an item is charged back to the Secured Party for any reason, the Secured Party may at

its election in either instance charge the amount of such item back against the remittance account or any account of the relevant Debtor maintained with the Secured Party, together with interest thereon at the Default Rate. Concurrently with each transmission of any proceeds of Receivables or other Collateral to the remittance account, each Debtor shall furnish the Secured Party with a report in such form as the Secured Party shall reasonably require identifying the particular Receivable or other Collateral from which the same arises or relates. Unless and until an Event of Default or an event or condition which with the lapse of time or the giving of notice, or both, would constitute an Event of Default shall have occurred and be continuing, the Secured Party will release proceeds of Collateral which the Secured Party has not applied to the Secured Obligations as provided above from the remittance account from time to time promptly after receipt thereof. Each Debtor hereby indemnifies the Secured Party from and against all liabilities, damages, losses, actions, claims, judgments, costs, expenses, charges and attorneys' fees suffered or incurred by the Secured Party because of the maintenance of the foregoing arrangements; *provided, however*, that no Debtor shall be required to indemnify the Secured Party for any of the foregoing to the extent they arise solely from the gross negligence or willful misconduct of the Secured Party (as determined by a court of competent jurisdiction by final and nonappealable judgment). The Secured Party shall have no liability or responsibility to any Debtor for accepting any check, draft or other order for payment of money bearing the legend "payment in full" or words of similar import or any other restrictive legend or endorsement whatsoever or be responsible for determining the correctness of any remittance.

Section 7. *Special Provisions Re: Inventory and Equipment.* (a) Each Debtor shall at its own cost and expense maintain, keep and preserve the Inventory in good and merchantable condition and keep and preserve the Equipment in good repair, working order and condition, ordinary wear and tear excepted, and, without limiting the foregoing, make all necessary and proper repairs, replacements and additions to the Equipment so that the efficiency thereof shall be fully preserved and maintained.

(b) Each Debtor may, until an Event of Default has occurred and is continuing and thereafter until otherwise notified by the Secured Party, use, consume and sell the Inventory in the ordinary course of its business, but a sale in the ordinary course of business shall not under any circumstance include any transfer or sale in satisfaction, partial or complete, of a debt owing by such Debtor.

(c) Each Debtor may, until an Event of Default has occurred and is continuing and thereafter until otherwise notified by the Secured Party, sell or otherwise dispose of Equipment to the extent permitted by Section 8.10 of the Credit Agreement.

(d) As of the time any Inventory or Equipment becomes subject to the security interest provided for hereby and at all times thereafter, the relevant Debtor shall be deemed to have warranted as to any and all of such Inventory and Equipment that all warranties of such Debtor set forth in this Agreement are true and correct with respect to such Inventory and Equipment; that all of such Inventory and Equipment is located at a location set forth pursuant to Section 4(b) hereof; and that, in the case of Inventory, such Inventory is new and unused and in good and merchantable condition. Each Debtor warrants and agrees that no Inventory owned by it is or will be consigned to any other person without the Secured Party's prior written consent.

(e) Upon the Secured Party's request, each Debtor shall at its own cost and expense cause the lien of the Secured Party in and to any portion of the Collateral subject to a certificate of title law to be duly noted on such certificate of title or to be otherwise filed in such manner as is prescribed by law in order to perfect such lien and shall cause all such certificates of title and evidences of lien to be deposited with the Secured Party.

(f) Except for Equipment from time to time located on the real estate described on Schedule D attached hereto and as otherwise disclosed to the Secured Party in writing, none of the Equipment is or will be attached to real estate in such a manner that the same may become a fixture.

(g) If any of the Inventory is at any time evidenced by a document of title, such document shall be promptly delivered by the relevant Debtor to the Secured Party except to the extent the Secured Party specifically requests such Debtor not to do so with respect to any such document.

Section 8. Special Provisions Re: Investment Property and Deposits. (a) Unless and until an Event of Default has occurred and is continuing and thereafter until notified to the contrary by the Secured Party pursuant to Section 10(d) hereof:

(i) the Debtors shall be entitled to exercise all voting and/or consensual powers pertaining to the Investment Property or any part thereof, for all purposes not inconsistent with the terms of this Agreement or any other document evidencing or otherwise relating to any Secured Obligations; and

(ii) the Debtors shall be entitled to receive and retain all cash dividends paid upon or in respect of the Investment Property.

(b) All Investment Property (including all securities, certificated or uncertificated, securities accounts, and commodity accounts) of the Debtors on the date hereof is listed and identified on Schedule E attached hereto and made a part hereof. Each Debtor shall promptly notify the Secured Party of any other Investment Property acquired or maintained by such Debtor after the date hereof, and shall submit to the Secured Party a supplement to Schedule E to reflect such additional rights (provided such Debtor's failure to do so shall not impair the Secured Party's security interest therein). Certificates for all certificated securities now or at any time constituting Investment Property shall be promptly delivered by the Debtors to the Secured Party duly endorsed in blank for transfer or accompanied by an appropriate assignment or assignments or an appropriate undated stock power or powers, in every case sufficient to transfer title thereto, including, without limitation, all stock received in respect of a stock dividend or resulting from a split-up, revision, or reclassification of the Investment Property or any part thereof or received in addition to, in substitution of, or in exchange for the Investment Property or any part thereof as a result of a merger, consolidation, or otherwise. With respect to any uncertificated securities or any Investment Property held by a securities intermediary, commodity intermediary, or other financial intermediary of any kind, at the Secured Party's request, the Debtors shall execute and deliver, and shall cause any such issuer or intermediary to execute and deliver, an agreement among the relevant Debtor, the Secured Party, and such issuer or intermediary in form and

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substance reasonably satisfactory to the Secured Party which provides, among other things, for the intermediary's agreement that it shall comply with entitlement orders, and apply any value distributed on account of any such Investment Property, as directed by the Secured Party without further consent by any Debtor. The Secured Party may at any time, after the occurrence of an Event of Default or an event or condition which with the lapse of time or the giving of notice, or both, would constitute an Event of Default, cause to be transferred into its name or the name of its nominee or nominees all or any part of the Investment Property hereunder.

(c) Unless and until an Event of Default, or an event or condition which with the lapse of time or the giving of notice, or both, would constitute an Event of Default, has occurred and is continuing, the Debtors may sell or otherwise dispose of any Investment Property to the extent permitted by the Credit Agreement, *provided* that no Debtor shall sell or otherwise dispose of any capital stock or of other equity interests in any direct or indirect subsidiary without the prior written consent of the Secured Party. After the occurrence and during the continuation of any Event of Default or of any event or condition which with the lapse of time or the giving of notice, or both, would constitute an Event of Default, no Debtor shall sell all or any part of the Investment Property without the prior written consent of the Secured Party.

(d) The Debtors represent that on the date of this Agreement, none of the Investment Property consists of margin stock (as such term is defined in Regulation U of the Board of Governors of the Federal Reserve System) except to the extent the Debtors have delivered to the Secured Party a duly executed and completed Form U-1 with respect to such stock. If at any time the Investment Property or any part thereof consists of margin stock, the Debtors shall promptly so notify the Secured Party and deliver to the Secured Party a duly executed and completed Form U-1 and such other instruments and documents reasonably requested by the Secured Party in form and substance reasonably satisfactory to the Secured Party.

(e) Notwithstanding anything to the contrary contained herein, in the event any Investment Property is subject to the terms of a separate security agreement in favor of the Secured Party, the terms of such separate security agreement shall govern and control unless otherwise agreed to in writing by the Secured Party.

(f) All Deposit Accounts of the Debtors on the date hereof are listed and identified (by account number and depository institution) on Schedule E attached hereto and made a part hereof. Each Debtor shall promptly notify the Secured Party of any other Deposit Account opened or maintained by such Debtor after the date hereof, and shall submit to the Secured Party a supplement to Schedule E to reflect such additional accounts (provided such Debtor's failure to do so shall not impair the Secured Party's security interest therein). With respect to any Deposit Account maintained by a depository institution other than the Secured Party, and as a condition to the establishment and maintenance of any such Deposit Account except as otherwise agreed to in writing by the Secured Party, such Debtor, the depository institution, and the Secured Party shall execute and deliver an account control agreement in form and substance reasonably satisfactory to the Secured Party which provides, among other things, for the depository institution's agreement that it will comply with instructions originated by the Secured Party directing the disposition of the funds in the Deposit Account without further consent by such Debtor.

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Section 9. Power of Attorney. In addition to any other powers of attorney contained herein, each Debtor hereby appoints the Secured Party, its nominee, and any other person whom the Secured Party may designate, as such Debtor's attorney-in-fact, with full power and authority upon the occurrence

and during the continuation of any Event of Default to sign such Debtor's name on verifications of Receivables and other Collateral; to send requests for verification of Collateral to such Debtor's customers, account debtors, and other obligors; to exercise all voting rights with respect to the Investment Property or other Collateral or any part thereof; to endorse or sign such Debtor's name on assignments, stock powers or other instruments of transfer and any checks, notes, acceptances, money orders, drafts, and any other forms of payment or security that may come into the Secured Party's possession or on any assignments, stock powers, or other instruments of transfer relating to the Collateral or any part thereof; to sign such Debtor's name on any invoice or bill of lading relating to any Collateral, on claims to enforce collection of any Collateral, on notices to and drafts against customers and account debtors and other obligors, on schedules and assignments of Collateral, on notices of assignment and on public records; to notify the post office authorities to change the address for delivery of such Debtor's mail to an address designated by the Secured Party; to receive, open and dispose of all mail addressed to such Debtor; and to do all things necessary to carry out this Agreement. Each Debtor hereby ratifies and approves all acts of any such attorney and agrees that neither the Secured Party nor any such attorney will be liable for any acts or omissions or for any error of judgment or mistake of fact or law other than such person's gross negligence or willful misconduct (as determined by a court of competent jurisdiction by final and nonappealable judgment); *provided* that in no event shall it be liable for any punitive, exemplary, indirect or consequential damages. The Secured Party may file one or more financing statements disclosing its security interest in any or all of the Collateral without the relevant Debtor's signature appearing thereon. Each Debtor also hereby grants the Secured Party a power of attorney to execute any such financing statements, or amendments and supplements to financing statements, on behalf of such Debtor without notice thereof to such Debtor. The foregoing powers of attorney, being coupled with an interest, are irrevocable until the Secured Obligations have been fully paid and satisfied and all agreements of the Secured Party to extend credit to or for the account of the Borrower have expired or otherwise have been terminated.

Section 10. Defaults and Remedies. (a) The occurrence of any one or more of the following events shall constitute an "Event of Default" hereunder:

- (i) default for a period of 2 days in the payment when due (whether by demand, lapse of time, acceleration or otherwise) of the Secured Obligations or any part thereof; or
- (ii) default in the observance or performance of any covenant set forth in Sections 6(b), 8(b), or 8(f) hereof or of any provision hereof requiring the maintenance of insurance on the Collateral or dealing with the use or remittance of proceeds of Collateral; or
- (iii) default in the observance or performance of any other provision hereof which is not remedied within 30 days after the earlier of (a) the date on which such default shall first become known to any officer of any Debtor or (b) written notice thereof is given to the Debtors by the Secured Party; or

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(iv) any representation or warranty made by any Debtor herein, or in any statement or certificate furnished by it pursuant hereto, or in connection with any loan or extension of credit made to or on behalf of or at the request of any Debtor by the Secured Party, shall be false in any material respect as of the date of the issuance or making thereof; or

(v) any event shall occur or condition shall exist which is specified as an "Event of Default" under the Credit Agreement, regardless of whether or not the Credit Agreement remains in effect, or any other default shall occur in the observance or performance of any terms or provisions of any instrument or document evidencing or securing any Secured Obligations or setting forth terms and conditions applicable thereto or otherwise relating thereto, or this Agreement shall for any reason not be or shall cease to be in full force and effect or is declared to be null and void.

(b) Upon the occurrence and during the continuation of any Event of Default, the Secured Party shall have, in addition to all other rights provided herein or by law, the rights and remedies of a secured party under the UCC (regardless of whether the UCC is the law of the jurisdiction where the rights or remedies are asserted and regardless of whether the UCC applies to the affected Collateral), and further the Secured Party may, without demand and without advertisement, notice, hearing, or process of law, all of which the Debtors hereby waive, at any time or times, sell and deliver all or any part of the Collateral (and any other property of the Debtors attached thereto or found therein) held by or for it at public or private sale, for cash, upon credit, or otherwise, at such prices and upon such terms as the Secured Party deems advisable, in its sole discretion. In the exercise of any such remedies, the Secured Party may sell the Collateral as a unit even though the sales price thereof may be in excess of the amount remaining unpaid on the Secured Obligations. Also, if less than all the Collateral is sold, the Secured Party shall have no duty to marshal or apportion the part of the Collateral so sold as between the Debtors, or any of them, but may sell and deliver any or all of the Collateral without regard to which of the Debtors are the owners thereof. In addition to all other sums due the Secured Party hereunder, the Debtors shall pay the Secured Party all costs and expenses incurred by the Secured Party, including attorneys' fees and court costs, in obtaining, liquidating or enforcing payment of Collateral or the Secured Obligations or in the prosecution or defense of any action or proceeding by or against the Secured Party or any Debtor concerning any matter arising out of or connected with this Agreement or the Collateral or the Secured Obligations, including, without limitation, any of the foregoing arising in, arising under or related to a case under the United States Bankruptcy Code (or any successor statute). Any requirement of reasonable notice shall be met if such notice is personally served on or mailed, postage prepaid, to each Debtor in accordance with Section 13(b) hereof at least 10 days before the time of sale or other event giving rise to the requirement of such notice; *provided however*, no notification need be given to any Debtor if such Debtor has signed, after an Event of Default has occurred, a statement renouncing any right to notification of sale or other intended disposition. The Secured Party shall not be obligated to make any sale or other disposition of the Collateral regardless of notice having been given. The Secured Party may be the purchaser at any such sale. Each

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Debtor hereby waives all of its rights of redemption from any such sale. The Secured Party may postpone or cause the postponement of the sale of all or any portion of the Collateral by announcement at the time and place of such sale, and such sale may, without further notice, be made at the time and place to which the sale was postponed or the Secured Party may further postpone such sale by announcement made at such time and place. The Secured Party has no obligation to prepare the Collateral for sale. The Secured Party may sell or otherwise dispose of the Collateral without giving any warranties as to the Collateral or any part thereof, including disclaimers of any warranties of title or the like, and each Debtor acknowledges and agrees that the absence of such warranties shall not render the disposition commercially unreasonable.

(c) Without in any way limiting the foregoing, upon the occurrence and during the continuation of any Event of Default, the Secured Party shall have the right, in addition to all other rights provided herein or by law, to take physical possession of any and all of the Collateral and anything found therein, the right for that purpose to enter without legal process any premises where the Collateral may be found (provided such entry be done lawfully), and the right to maintain such possession on the relevant Debtor's premises (each Debtor hereby agreeing to lease such premises without cost or expense to the Secured

Party or its designee if the Secured Party so requests) or to remove the Collateral or any part thereof to such other places as the Secured Party may desire. Upon the occurrence and during the continuation of any Event of Default, the Secured Party shall have the right to exercise any and all rights with respect to all Deposit Accounts of each Debtor including, without limitation, the right to direct the disposition of the funds in each Deposit Account and to collect, withdraw, and receive all amounts due or to become due or payable under each such Deposit Account. Upon the occurrence and during the continuation of any Event of Default, each Debtor shall, upon the Secured Party's demand, promptly assemble the Collateral and make it available to the Secured Party at a place designated by the Secured Party. If the Secured Party exercises its right to take possession of the Collateral, the relevant Debtor shall also at its expense perform any and all other steps requested by the Secured Party to preserve and protect the security interest hereby granted in the Collateral, such as placing and maintaining signs indicating the security interest of the Secured Party, appointing overseers for the Collateral, and maintaining Collateral records.

(d) Without in any way limiting the foregoing, upon the occurrence and during the continuation of any Event of Default, all rights of each Debtor to exercise the voting and/or consensual powers which it is entitled to exercise pursuant to Section 8(a)(i) hereof and/or to receive and retain the distributions which it is entitled to receive and retain pursuant to Section 8(a)(ii) hereof, shall, at the option of the Secured Party, cease and thereupon become vested in the Secured Party, which, in addition to all other rights provided herein or by law, shall then be entitled solely and exclusively to exercise all voting and other consensual powers pertaining to the Investment Property (including, without limitation, the right to deliver notice of control with respect to any Investment Property held in a securities account or commodity account and deliver all entitlement orders with respect thereto) and/or to receive and retain the distributions which any Debtor would otherwise have been authorized to retain pursuant to Section 8(a)(ii) hereof and shall then be entitled solely and exclusively to exercise any and all rights of conversion, exchange, or subscription or any other rights, privileges, or options pertaining to any Investment Property as if the Secured Party were the absolute owner thereof. Without limiting the foregoing, the Secured Party shall have the right to exchange, at its

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discretion, any and all of the Investment Property upon the merger, consolidation, reorganization, recapitalization, or other readjustment of the respective issuer thereof or upon the exercise by or on behalf of any such issuer or the Secured Party of any right, privilege, or option pertaining to any Investment Property and, in connection therewith, to deposit and deliver any and all of the Investment Property with any committee, depository, transfer agent, registrar, or other designated agency upon such terms and conditions as the Secured Party may determine. In the event the Secured Party in good faith believes any of the Collateral constitutes restricted securities within the meaning of any applicable securities laws, any disposition thereof in compliance with such laws shall not render the disposition commercially unreasonable.

(e) EACH DEBTOR HEREBY IRREVOCABLY CONSTITUTES AND APPOINTS THE SECURED PARTY AS ITS PROXY AND ATTORNEY-IN-FACT WITH RESPECT TO ITS INVESTMENT PROPERTY AND OTHER COLLATERAL, INCLUDING THE RIGHT TO VOTE SUCH INVESTMENT PROPERTY AND OTHER COLLATERAL, WITH FULL POWER OF SUBSTITUTION TO DO SO. IN ADDITION TO THE RIGHT TO VOTE ANY SUCH INVESTMENT PROPERTY AND OTHER COLLATERAL, THE APPOINTMENT OF THE SECURED PARTY AS PROXY AND ATTORNEY-IN-FACT SHALL INCLUDE THE RIGHT TO EXERCISE ALL OTHER RIGHTS, POWERS, PRIVILEGES AND REMEDIES TO WHICH A HOLDER OF SUCH INVESTMENT PROPERTY AND OTHER COLLATERAL WOULD BE ENTITLED (INCLUDING GIVING OR WITHHOLDING WRITTEN CONSENTS OF SHAREHOLDERS OR OTHER EQUITY HOLDERS, CALLING SPECIAL MEETINGS OF SHAREHOLDERS OR OTHER EQUITY HOLDERS AND VOTING AT SUCH MEETINGS). SUCH PROXY SHALL BE EFFECTIVE, AUTOMATICALLY AND WITHOUT THE NECESSITY OF ANY ACTION (INCLUDING ANY TRANSFER OF ANY SUCH INVESTMENT PROPERTY AND OTHER COLLATERAL ON THE RECORD BOOKS OF THE ISSUER THEREOF) BY ANY PERSON (INCLUDING THE ISSUER OF SUCH INVESTMENT PROPERTY AND OTHER COLLATERAL OR ANY OFFICER OR AGENT THEREOF), UPON THE OCCURRENCE OF AN EVENT OF DEFAULT. EACH DEBTOR HEREBY RATIFIES AND APPROVES ALL ACTS OF ANY SUCH ATTORNEY AND AGREES THAT NEITHER THE SECURED PARTY NOR ANY SUCH ATTORNEY WILL BE LIABLE FOR ANY ACTS OR OMISSIONS OR FOR ANY ERROR OF JUDGMENT OR MISTAKE OF FACT OR LAW OTHER THAN SUCH PERSON'S GROSS NEGLIGENCE OR WILLFUL MISCONDUCT AS FINALLY DETERMINED BY A COURT OF COMPETENT JURISDICTION; PROVIDED THAT, IN NO EVENT SHALL THEY BE LIABLE FOR ANY PUNITIVE, EXEMPLARY, INDIRECT OR CONSEQUENTIAL DAMAGES. THE FOREGOING POWERS OF ATTORNEY AND PROXY, BEING COUPLED WITH AN INTEREST, ARE IRREVOCABLE UNTIL THE SECURED OBLIGATIONS HAVE BEEN FULLY PAID AND SATISFIED AND ALL COMMITMENTS OF THE LENDERS TO EXTEND CREDIT TO OR FOR THE ACCOUNT OF THE BORROWER UNDER THE CREDIT AGREEMENT HAVE EXPIRED OR OTHERWISE TERMINATED.

(f) Without in any way limiting the foregoing, each Debtor hereby grants to the Secured Party a royalty-free irrevocable license and right to use all of such Debtor's patents, patent applications, patent licenses, trademarks, trademark registrations, trademark licenses, trade names, trade styles, copyrights, copyright applications, copyright licenses, and similar intangibles in connection with any foreclosure or other realization by the Secured Party on all or any part of the Collateral. The license and right granted the Secured Party hereby shall be without any royalty or fee or charge whatsoever.

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(g) The powers conferred upon the Secured Party hereunder are solely to protect its interest in the Collateral and shall not impose on it any duty to exercise such powers. The Secured Party shall be deemed to have exercised reasonable care in the custody and preservation of the Collateral in its possession or control if such Collateral is accorded treatment substantially equivalent to that which the Secured Party accords its own property, consisting of similar type assets, it being understood, however, that the Secured Party shall have no responsibility for ascertaining or taking any action with respect to calls, conversions, exchanges, maturities, tenders, or other matters relating to any such Collateral, whether or not the Secured Party has or is deemed to have knowledge of such matters. This Agreement constitutes an assignment of rights only and not an assignment of any duties or obligations of the Debtors, or any of them, in any way related to the Collateral, and the Secured Party shall have no duty or obligation to discharge any such duty or obligation. The Secured Party shall have no responsibility for taking any necessary steps to preserve rights against any parties with respect to any Collateral or initiating any action to protect the Collateral against the possibility of a decline in market value. Neither the Secured Party nor any party acting as attorney for the Secured Party shall be liable for any acts or omissions or for any error of judgment or mistake of fact or law other than their gross negligence or willful misconduct (as determined by a court of competent jurisdiction by final and nonappealable judgment).

(h) Failure by the Secured Party to exercise any right, remedy, or option under this Agreement or any other agreement between the Debtors, or any of them, and the Secured Party or provided by law, or delay by the Secured Party in exercising the same, shall not operate as a waiver; and no waiver by the Secured Party shall be effective unless it is in writing and then only to the extent specifically stated. The rights and remedies of the Secured Party under this Agreement shall be cumulative and not exclusive of any other right or remedy which the Secured Party may have. For purposes of this Agreement, an Event of Default shall be construed as continuing after its occurrence until waived in writing by the Secured Party.

Section 11. Application of Proceeds. The proceeds and avails of the Collateral at any time received by the Secured Party after the occurrence and during the continuation of any Event of Default shall, when received by the Secured Party in cash or its equivalent, be applied by the Secured Party as follows:

(i) first, to the payment and satisfaction of all sums paid and costs and expenses incurred by the Secured Party hereunder or otherwise in connection herewith, including such monies paid or incurred in connection with protecting, preserving or realizing upon the Collateral or enforcing any of the terms hereof, including attorneys' fees and court costs, together with any interest thereon (but without preference or priority of principal over interest or of interest over principal), to the extent the Secured Party is not reimbursed therefor by the Debtors; and

(ii) second, to the payment and satisfaction of the remaining Secured Obligations, whether or not then due (in whatever order the Secured Party elects), both for interest and principal.

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The Debtors shall remain liable to the Secured Party for any deficiency. Any surplus remaining after the full payment and satisfaction of the foregoing shall be returned to the Debtors or to whomsoever the Secured Party reasonably determines is lawfully entitled thereto.

Section 12. Continuing Agreement. This Agreement shall be a continuing agreement in every respect and shall remain in full force and effect until all of the Secured Obligations, both for principal and interest, have been fully paid and satisfied and all agreements of the Secured Party to extend credit to or for the account of the Borrower have expired or otherwise have been terminated. Upon such termination of this Agreement, the Secured Party shall, upon the request and at the expense of the Debtors, forthwith release its security interest hereunder.

Section 13. Miscellaneous. (a) This Agreement cannot be changed or terminated orally. All of the rights, privileges, remedies, and options given to the Secured Party hereunder shall inure to the benefit of its successors and assigns, and all the terms, conditions, covenants, agreements, representations, and warranties of and in this Agreement shall bind the Debtors and their legal representatives, successors and assigns, provided that no Debtor may assign its rights or delegate its duties hereunder without the Secured Party's prior written consent.

(b) Except as otherwise specified herein, all notices hereunder shall be in writing (including, without limitation, notice by telecopy) and shall be given to the relevant party at its address or telecopier number set forth below (or, if no such address is set forth below, at the address of the relevant Debtor as shown on the records of the Secured Party), or such other address or telecopier number as such party may hereafter specify by notice to the other given by courier, by United States certified or registered mail, by telecopy or by other telecommunication device capable of creating a written record of such notice and its receipt. Notices hereunder shall be addressed:

to the Debtors at:
Willdan Group, Inc.
2401 East Katella Avenue, Suite 300
Anaheim, California 92806
Attention: Stacy McLaughlin
Telephone: (714) 940-6349

to the Secured Party at:
BMO Harris Bank N.A.
111 West Monroe Street
Chicago, Illinois 60603
Attention: Jennifer Guidi
Telephone: (312) 461-2272

Each such notice, request or other communication shall be effective (i) if given by telecopier, when such telecopy is transmitted to the telecopier number specified in this Section and a confirmation of such telecopy has been received by the sender, (ii) if given by mail, five (5) days after such communication is deposited in the mail, certified or registered with return receipt requested, addressed as aforesaid or (iii) if given by any other means, when delivered at the addresses specified in this Section.

(c) In the event and to the extent that any provision hereof shall be deemed to be invalid or unenforceable by reason of the operation of any law or by reason of the interpretation placed thereon by any court, this Agreement shall to such extent be construed as not containing such provision, but only as to such locations where such law or interpretation is operative, and the invalidity or unenforceability of such provision shall not affect the validity of any remaining

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provisions hereof, and any and all other provisions hereof which are otherwise lawful and valid shall remain in full force and effect. Without limiting the generality of the foregoing, in the event that this Agreement shall be deemed to be invalid or otherwise unenforceable with respect to any Debtor, such invalidity or unenforceability shall not affect the validity of this Agreement with respect to the other Debtors.

(d) The lien and security interest herein created and provided for stand as direct and primary security for the Secured Obligations of the Borrower arising under or otherwise relating to the Credit Agreement as well as for any of the other Secured Obligations secured hereby. No application of any sums received by the Secured Party in respect of the Collateral or any disposition thereof to the reduction of the Secured Obligations or any part thereof shall in any manner entitle any Debtor to any right, title or interest in or to the Secured Obligations or any collateral or security therefor, whether by subrogation or otherwise, unless and until all Secured Obligations have been fully paid and satisfied and all agreements of the Secured Party to extend credit to or for the account of each Debtor have expired or otherwise have been terminated. Each Debtor acknowledges that the lien and security interest hereby created and provided are absolute and unconditional and shall not in any manner be affected or impaired by any acts or omissions whatsoever of the Secured Party or any other holder of any Secured Obligations, and without limiting the generality of the foregoing, the lien and security interest hereof shall not be impaired by any acceptance by the Secured Party or any other holder of any Secured Obligations of any other security for or guarantors upon any of the Secured Obligations or by any failure, neglect or omission on the part of the Secured Party or any other holder of any Secured Obligations to realize upon or protect any of the Secured Obligations or any collateral or security therefor. The lien and security interest hereof shall not in any manner be impaired or affected by (and the Secured Party, without notice to anyone, is hereby authorized to make from time to time) any sale, pledge, surrender, compromise, settlement, release, renewal, extension, indulgence, alteration, substitution, exchange, change in, modification or disposition of any of the Secured Obligations or of any collateral or security therefor, or of any guaranty thereof, or of any instrument or agreement setting forth the terms and conditions pertaining to any of the foregoing. The Secured Party may at its discretion at any time grant credit to any Debtor without notice to the other Debtors in such amounts and on such terms as the Secured Party may elect (all of such to constitute additional Secured Obligations hereby secured) without in any manner impairing the lien

and security interest created and provided for herein. In order to realize hereon and to exercise the rights granted the Secured Party hereunder and under applicable law, there shall be no obligation on the part of the Secured Party or any other holder of any Secured Obligations at any time to first resort for payment to any one or more Debtors or to any guaranty of the Secured Obligations or any portion thereof or to resort to any other collateral, security, property, liens or any other rights or remedies whatsoever, and the Secured Party shall have the right to enforce this Agreement against any Debtor or any of its Collateral irrespective of whether or not other proceedings or steps seeking resort to or realization upon or from any of the foregoing are pending.

(e) In the event the Secured Party shall at any time in its discretion permit a substitution of Debtors hereunder or a party shall wish to become a Debtor hereunder, such substituted or additional Debtor shall, upon executing an agreement in the form attached hereto as Schedule H, become a party hereto and be bound by all the terms and conditions hereof to the same extent as

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though such Debtor had originally executed this Agreement and, in the case of a substitution, in lieu of the Debtor being replaced. Any such agreement shall contain information as to such Debtor necessary to update Schedule A, B, C, D, E, and F hereto with respect to it. No such substitution shall be effective absent the written consent of the Secured Party nor shall it in any manner affect the obligations of the other Debtors hereunder.

(f) This Agreement, and the rights and duties of the parties hereto, shall be construed and determined in accordance with the laws of the State of Illinois without regard to conflicts of law principles that would require application of the laws of another jurisdiction. The headings in this Agreement are for convenience of reference only and shall not limit or otherwise affect the meaning of any provision hereof.

(g) This Agreement may be executed in counterparts (and by different parties hereto in different counterparts), each of which shall constitute an original, but all of which when taken together shall constitute a single contract. Delivery of an executed counterpart of a signature page of this Agreement by facsimile or in electronic (e.g., "pdf" or "tif") format shall be effective as delivery of a manually executed counterpart of this Agreement. Each Debtor acknowledges that this Agreement is and shall be effective upon its execution and delivery by such Debtor to the Secured Party, and it shall not be necessary for the Secured Party to execute this Agreement or any other acceptance hereof or otherwise to signify or express its acceptance hereof.

(h) Each Debtor hereby submits to the non-exclusive jurisdiction of the United States District Court for the Northern District of Illinois and of any Illinois state court sitting in the City of Chicago for purposes of all legal proceedings arising out of or relating to this Agreement or the transactions contemplated hereby. Each Debtor irrevocably waives, to the fullest extent permitted by law, any objection which it may now or hereafter have to the laying of the venue of any such proceeding brought in such a court and any claim that any such proceeding brought in such a court has been brought in an inconvenient form. THE DEBTORS AND THE SECURED PARTY EACH HEREBY IRREVOCABLY WAIVES ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY.

[SIGNATURE PAGES TO FOLLOW]

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IN WITNESS WHEREOF, the Debtors have caused this Security Agreement to be duly executed and delivered as of the date and year first above written.

WILLDAN GROUP, INC.

By: /s/ Thomas D. Brisbin
Name Thomas D. Brisbin
Title President and Chief Executive Officer

ELECTROTEC OF NY ELECTRICAL INC.

By: /s/ Thomas D. Brisbin
Name Thomas D. Brisbin
Title Chairman of the Board

PUBLIC AGENCY RESOURCES

By: /s/ Thomas D. Brisbin
Name Thomas D. Brisbin
Title Chairman of the Board

WILLDAN ENERGY SOLUTIONS

By: /s/ Thomas D. Brisbin
Name Thomas D. Brisbin
Title Chairman of the Board

WILLDAN ENGINEERING

By: /s/ Thomas D. Brisbin
Name Thomas D. Brisbin
Title Chairman of the Board

[Signature Page to Security Agreement]

WILLDAN ENGINEERS AND CONSTRUCTORS

By: /s/ Thomas D. Brisbin
Name Thomas D. Brisbin
Title Chairman of the Board

WILLDAN FINANCIAL SERVICES

By: /s/ Thomas D. Brisbin
Name Thomas D. Brisbin
Title Chairman of the Board

WILLDAN HOMELAND SOLUTIONS

By: /s/ Thomas D. Brisbin
Name Thomas D. Brisbin
Title Chairman of the Board

WILLDAN INFRASTRUCTURE

By: /s/ Thomas D. Brisbin
Name Thomas D. Brisbin
Title Chairman of the Board

WILLDAN LIGHTING & ELECTRIC, INC.

By: /s/ Thomas D. Brisbin
Name Thomas D. Brisbin
Title Chairman of the Board

WILLDAN LIGHTING & ELECTRIC OF CALIFORNIA

By: /s/ Thomas D. Brisbin
Name Thomas D. Brisbin
Title Chairman of the Board

[Signature Page to Security Agreement]

WILLDAN LIGHTING & ELECTRIC OF WASHINGTON, INC.

By: /s/ Thomas D. Brisbin
Name Thomas D. Brisbin
Title Chairman of the Board

[Signature Page to Security Agreement]

Accepted and agreed to as of the date and year first above written.

BMO HARRIS BANK N.A.

By: /s/ Brian Russ

[Signature Page to Security Agreement]

SCHEDULE A

LOCATIONS

COLUMN 1

COLUMN 2

COLUMN 3

**NAME OF DEBTOR (AND
STATE OF ORGANIZATION
AND ORGANIZATIONAL
REGISTRATION NUMBER)**

**CHIEF EXECUTIVE OFFICE
(AND NAME OF RECORD
OWNER OF SUCH LOCATION)**

**ADDITIONAL PLACES OF
BUSINESS AND COLLATERAL
LOCATIONS (AND NAME OF
RECORD OWNER OF SUCH
LOCATIONS)**

Willdan Group, Inc.
(DE; 4108121)

2401 E. Katella Avenue
Suite 300
Anaheim, CA 92806-5909
(Record Owner: Metroplex Office Investors, LP)

9281 Office Park Circle
Suite 100
Elk Grove, CA 95758-8069
(Record Owner: Jackson II, LLC)

445 North Wells Street
Suite 203
Chicago, IL 60654-4582
(Record Owner: 445 North Wells Limited
Partnership)

One Exchange Plaza
55 Broadway, Suite 1900
New York, NY 10006-3739
(Record Owner: 55 BROADWAY, L.L.C.)

Electrotec of NY Electrical Inc.
(NY; 140310010019)

2401 E. Katella Avenue
Suite 300
Anaheim, CA 92806-5909
(Record Owner: Metroplex Office Investors, LP)

Public Agency Resources
(CA; 2708221)

2401 E. Katella Avenue
Suite 300
Anaheim, CA 92806-5909
(Record Owner: Metroplex Office Investors, LP)

Willdan Energy Solutions
(CA; 2565945)

2401 E. Katella Avenue
Suite 300
Anaheim, CA 92806-5909
(Record Owner: Metroplex Office Investors, LP)

751 North Vernon Avenue
Azusa, CA 91702
(Record Owner: Robert J. & Yolanda Miller,
Trustee of the Miller Family Trust)

6120 Stoneridge Mall Road
Suite 250
Pleasanton, CA 94588
(Record Owner: NPC Holdings, LLC)

3760 Convoy Street
Suite 205

San Diego, CA 92111-9739
(Record Owner: Kearny Mesa
Office Center, LLC)

4449 Easton Way, 2nd Floor
Columbus, OH 43219
(Record Owner: Regus Management Group, LLC)

9601 Katy Freeway, Suite 375
Houston, TX 77024
(Record Owner: Briarhollow LLC)

22122 20th Avenue SE
Building H
Suite 162
Bothell, WA 98021-4442
(Record Owner: Teachers Insurance & Annuity
Association of America)

Willdan Engineering
(CA; 471566)

2401 E. Katella Avenue
Suite 300
Anaheim, CA 92806-5909
(Record Owner: Metroplex Office Investors, LP)

1440 East Missouri Ave
Suite C170
Phoenix, AZ 85014-2460
(Record Owner: Plaza Squaw Peak LLC)

1515 S. Sunkist Street
Suite E
Anaheim CA 92806-5909
(Record Owner: RREEF America REIT II
Portfolio, L.P.)

2014 Tulare Street
Suite 515
Fresno, CA 93721-2011
(Record Owner: T.W. Patterson Investors)

13191 Crossroads Pkwy North
Suite 405
Industry, CA 91746-3443
(Record Owner: RR&C Development Company
and Redlands Joint Venture LLC)

2400 Washington Avenue
Suite 101
Redding, CA 96001-2839
(Record Owner: Northern Valley Catholic Social
Service, Inc)

2240 Douglas Boulevard
Suite 270
Roseville, CA 95661
(Record Owner: Lum Yip Kee, Limited)

650 E. Hospitality Lane

Suite 250
San Bernadino, CA 92408-3835
(Record Owner: Rancon Realty Fund V
Subsidiary, LLC)

374 Poli Street, Suite 101
Ventura, CA 93001-2605
(Record Owner: Sespe Consulting)

9017 S. Pecos Road
Suite 4430
Henderson, NY 89074
(Record Owner: Pecos I-215 Executive Suites,
LLC)

Willdan Engineers and Constructors
(CA; 3122393)

2401 E. Katella Avenue
Suite 300
Anaheim, CA 92806-5909
(Record Owner: Metroplex Office Investors, LP)

Willdan Financial Services
(CA; 1439686)

2401 E. Katella Avenue
Suite 300
Anaheim, CA 92806-5909
(Record Owner: Metroplex Office Investors, LP)

1939 Harrison Street
Suite 430
Oakland, CA 94612-3527
(Record Owner: Park Plaza Oakland LP)

27368 Via Industria, Suite 110
Temecula, CA 92590-4856
(Record Owner: LBUBS 2007-C1 Via Industria
Limited Partnership)

200 South Orange Ave
Suite 1550
Orlando, FL 32801
(Record Owner: Robert W. BAaird & Co.
Incorporated)

3140 Washington Boulevard

Suite 222
Arlington, VA 22201
(Record Owner: Link Locale)

Willdan Homeland Solutions
(CA; 2707895) 2401 E. Katella Avenue
Suite 300
Anaheim, CA 92806-5909
(Record Owner: Metroplex Office Investors, LP)

Willdan Infrastructure
(CA; 3619121) 2401 E. Katella Avenue
Suite 300
Anaheim, CA 92806-5909
(Record Owner: Metroplex Office Investors, LP)

Willdan Lighting & Electric, Inc.
(DE; 5130259) 2401 E. Katella Avenue
Suite 300
Anaheim, CA 92806-5909 333 South Van Brunt Street
Suite C
Englewood, NJ 07631

(Record Owner: Metroplex Office Investors, LP)

(Record Owner: Harco Industries U.S.A., Inc.)

53-10 46th Street
Maspeth, NY 11378
(Record Owner: LNK Properties, LLC)

Willdan Lighting & Electric of California
(CA; 3584997) 2401 E. Katella Avenue
Suite 300
Anaheim, CA 92806-5909
(Record Owner: Metroplex Office Investors, LP)

Willdan Lighting & Electric of Washington, Inc.
(WA; 603321769) 2401 E. Katella Avenue
Suite 300
Anaheim, CA 92806-5909
(Record Owner: Metroplex Office Investors, LP)

SCHEDULE B

OTHER NAMES

A. PRIOR LEGAL NAMES

Willdan Group, Inc.: Willdan Group of Companies

Willdan Engineer: Arroyo Geotechnical, Willdan Geotechnical, Willdan Resource Solutions

B. TRADE NAMES

None.

SCHEDULE C

INTELLECTUAL PROPERTY RIGHTS

FEDERAL TRADEMARK REGISTRATIONS

DEBTOR	MARKS	REG. NO.	GRANTED
Willdan Group, Inc.	Willdan Group, Inc.	3294052	9/18/2007
Willdan Group, Inc.	WWWW Willdan Group, Inc.	3294051	9/18/2007
Willdan Group, Inc.	The Willdan Group of Companies	3287962	9/4/2007
Willdan Group, Inc.	W	3317457	10/23/2007
Willdan Group, Inc.	W	3867937	10/26/2010
Willdan Group, Inc.	Extending Your Reach	3867936	10/26/2010
Willdan Group, Inc.	Willdan	3867935	10/26/2010

U.S. PATENT NUMBERS

None.

U.S. COPYRIGHT NUMBERS

DEBTOR	UNITED STATES COPYRIGHT NO. / APPLICATION NO.	TITLE OF COPYRIGHT	REG. DATE / FILING DATE
Willdan Financial Services	TXu001321711	Computer File	2006-11-13
Willdan Engineering	TXu001334600	Computer File	2006-11-13
Willdan Group, Inc.	TX0002785608	Text	1990-03-27
Willdan Group, Inc.	TX0001117648	Text	1983-02-16

SCHEDULE D

REAL ESTATE LEGAL DESCRIPTIONS

None.

SCHEDULE E

INVESTMENT PROPERTY AND DEPOSITS

A. INVESTMENT PROPERTY

NAME OF DEBTOR	NAME OF SUBSIDIARY ISSUER	TYPE OF ORGANIZATION (E.G., CORPORATION, PARTNERSHIP, LIMITED LIABILITY COMPANY)	JURISDICTION OF ORGANIZATION	NO. OF ISSUED SHARES/UNITS	CERTIFICATE NO. (IF ANY)	PERCENTAGE OF ISSUER'S EQUITY INTERESTS
Willdan Lighting & Electric of California	Electrotec of NY Electrical Inc.	Corporation	New York	1	1	100%
Willdan Group, Inc.	Public Agency Resources	Corporation	California	100	1	100%
Willdan Group, Inc.	Willdan Energy Solutions	Corporation	California	1,000,000	1	100%
Willdan Group, Inc.	Willdan Engineering	Corporation	California	100	121	100%
Willdan Group, Inc.	Willdan Engineers and Constructors	Corporation	California	1	1	100%
Willdan Group, Inc.	Willdan Financial Services	Corporation	California	10,000	11	100%
Willdan Group, Inc.	Willdan Homeland Solutions	Corporation	California	100	1	100%
Willdan Group, Inc.	Willdan Infrastructure	Corporation	California	1	1	100%
Willdan Energy Solutions	Willdan Lighting & Electric, Inc.	Corporation	Delaware	1	1	100%
Willdan Energy Solutions	Willdan Lighting & Electric of California	Corporation	California	100	1	100%
Willdan Energy Solutions	Willdan Lighting & Electric of Washington, Inc.	Corporation	Washington	100	1	100%

B. DEPOSITS

NAME OF LOAN PARTY	TYPE OF ACCOUNT AND ACCOUNT NUMBER (E.G., DEPOSIT ACCOUNT, SECURITIES ACCOUNT OR COMMODITY ACCOUNT)	ACCOUNT NUMBER	ACCOUNT TITLE	NAME AND ADDRESS OF INSTITUTION
Willdan Group, Inc	***	***	***	***
Willdan Group, Inc	***	***	***	***
Willdan Group, Inc	***	***	***	***
Willdan Engineering	***	***	***	***
Willdan Engineering	***	***	***	***

Public Agency Service	***	***	***	***
Willdan Lighting & Electric, Inc	***	***	***	***
Willdan Homeland Solutions	***	***	***	***
Willdan Energy Solutions	***	***	***	***
Pinnacle*	***	***	***	***

* Pinnacle was sold in December 2013 and is in the process of being dissolved.

*** Indicates that certain information contained herein has been omitted and confidentially submitted separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

Willdan Financial Services	***	***	***	***
Willdan Financial Services	***	***	***	***
Willdan Financial Services	***	***	***	***
Willdan Financial Services	***	***	***	***
Willdan Group, Inc	***	***	***	***
ALL	***	***	***	***
Willdan Group, Inc	***	***	***	***
ALL	***	***	***	***
Willdan Group, Inc	***	***	***	***
Willdan Group, Inc	***	***	***	***
Willdan Group, Inc	***	***	***	***
Willdan Group, Inc	***	***	***	***
Willdan Energy Solutions	***	***	***	***
Pinnacle*	***	***	***	***
Public Agency Service	***	***	***	***
Willdan Lighting & Electric, Inc	***	***	***	***
Willdan Engineering	***	***	***	***
Willdan Geotechnical	***	***	***	***

* Pinnacle was sold in December 2013 and is in the process of being dissolved.

*** Indicates that certain information contained herein has been omitted and confidentially submitted separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

Willdan Financial Services	***	***	***	***
Willdan Homeland Solutions	***	***	***	***
Willdan Foundations, Inc	***	***	***	***

*** Indicates that certain information contained herein has been omitted and confidentially submitted separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

SCHEDULE F

COMMERCIAL TORT CLAIMS

None.

SCHEDULE G

SUPPLEMENT TO SECURITY AGREEMENT

THIS SUPPLEMENT TO SECURITY AGREEMENT (the "Supplement") is dated as of this _____ day of _____, 20____, from _____, a(n) _____ corporation/limited liability company/partnership (the "Debtor"), to BMO Harris Bank N.A., a national banking association (the "Secured Party").

PRELIMINARY STATEMENTS

A. The Debtor, certain affiliates of the Debtor and the Secured Party are parties to that certain Security Agreement dated as of March 24, 2014 (such Security Agreement, as the same may from time to time be amended, modified or restated, being hereinafter referred to as the "Security Agreement"). All

capitalized terms used herein without definition shall have the same meanings herein as such terms are defined in the Security Agreement.

B. Pursuant to the Security Agreement, the Debtor granted to the Secured Party, among other things, a continuing security interest in all Commercial Tort Claims.

C. The Debtor has acquired a Commercial Tort Claim, and executes and delivers this Supplement to confirm and assure the Secured Party's security interest therein.

NOW, THEREFORE, in consideration of the benefits accruing to the Debtor, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. In order to secure payment of the Secured Obligations, whether now existing or hereafter arising, the Debtor does hereby grant to the Secured Party a continuing lien on and security interest in the Commercial Tort Claim described below:

2. Schedule F (Commercial Tort Claims) to the Security Agreement is hereby amended to include reference to the Commercial Tort Claim referred to in Section 1 above. The Commercial Tort Claim described herein is in addition to, and not in substitution or replacement for, the Commercial Tort Claims heretofore described in and subject to the Security Agreement, and nothing contained herein shall in any manner impair the priority of the liens and security interests heretofore granted by the Debtor in favor of the Secured Party under the Security Agreement.

3. All capitalized terms used in this Agreement without definition shall have the same meaning herein as such terms have in the Security Agreement, except that any reference to the term "Collateral" and any provision of the Security Agreement providing meaning to such term shall be deemed to include the Commercial Tort Claim referred to in Section 1 above. Except as specifically modified hereby, all of the terms and conditions of the Security Agreement shall stand and remain unchanged and in full force and effect.

4. The Debtor agrees to execute and deliver such further instruments and documents and do such further acts and things as the Secured Party may deem necessary or proper to carry out more effectively the purposes of this Supplement.

5. No reference to this Supplement need be made in the Security Agreement or in any other document or instrument making reference to the Security Agreement, any reference to the Security Agreement in any of such items to be deemed a reference to the Security Agreement as supplemented hereby. The Debtor acknowledges that this Supplement shall be effective upon its execution and delivery by the Debtor to the Secured Party, and it shall not be necessary for the Secured Party to execute this Supplement or any other acceptance hereof or otherwise to signify or express its acceptance hereof.

6. This Agreement may be executed in any number of counterparts, and by the different parties on different counterpart signature pages, all of which taken together shall constitute one and the same agreement. Any of the parties hereto may execute this Agreement by signing any such counterpart and each of such counterparts shall for all purposes be deemed to be an original. Delivery of a counterpart hereof by facsimile transmission or by e-mail transmission of an Adobe portable document format file (also known as a "PDF" file) shall be effective as delivery of a manually executed counterpart hereof. This agreement, and the rights and duties of the parties hereto, shall be construed and determined in accordance with the laws of the State of Illinois without regard to conflicts of law principles that would require application of the laws of another jurisdiction.

[INSERT NAME OF DEBTOR]

By _____
Name _____
Title _____

SCHEDULE H

ASSUMPTION AND SUPPLEMENTAL SECURITY AGREEMENT

THIS ASSUMPTION AND SUPPLEMENTAL SECURITY AGREEMENT (this "Agreement") dated as of this _____ day of _____, 20____ from [new debtor], a _____ corporation/limited liability company/partnership (the "New Debtor"), to BMO Harris Bank N.A., a national banking association (the "Secured Party").

WITNESSETH THAT:

WHEREAS, Willdan Group, Inc., a Delaware corporation (the "Borrower"), and certain other parties have executed and delivered to the Secured Party that certain Security Agreement dated as of March 24, 2014 (such Security Agreement, as the same may from time to time be modified or amended, including supplements thereto which add additional parties as Debtors thereunder, being hereinafter referred to as the "Security Agreement"), pursuant to which such parties (the "Existing Debtors") have granted to the Secured Party a lien on and security interest in each such Existing Debtor's Collateral (as such term is defined in the Security Agreement) to secure the Secured Obligations (as such term is defined in the Security Agreement); and

WHEREAS, the Borrower provides the New Debtor with substantial financial, managerial, administrative, technical and other support and the New Debtor will directly and substantially benefit from credit and other financial accommodations extended and to be extended by the Secured Party to the Borrower;

NOW, THEREFORE, FOR VALUE RECEIVED, and in consideration of advances made or to be made, or credit accommodations given or to be given, to the Borrower by the Secured Party from time to time, the New Debtor hereby agrees as follows:

1. The New Debtor acknowledges and agrees that it shall become a "Debtor" party to the Security Agreement effective upon the date the New Debtor's execution of this Agreement and the delivery of this Agreement to the Secured Party, and that upon such execution and delivery, all references in the Security Agreement to the terms "Debtor" or "Debtors" shall be deemed to include the New Debtor. Without limiting the generality of the foregoing, the New Debtor hereby repeats and reaffirms all grants (including the grant of a lien and security interest), covenants, agreements, representations and warranties contained in the Security Agreement as amended hereby, each and all of which are and shall remain applicable to the Collateral from time to time owned by the New Debtor or in which the New Debtor from time to time has any rights. Without limiting the foregoing, in order to secure payment of the Secured Obligations, whether now existing or hereafter arising, the New Debtor does hereby grant to the Secured Party, and hereby agrees that the Secured Party has and shall continue to have a continuing lien on and security interest in, among other things, all of the New Debtor's Collateral (as such term is defined in the Security Agreement), including, without limitation, all of the New Debtor's Accounts, Chattel Paper, Instruments, Documents, General Intangibles, Letter-of-Credit Rights,

Supporting Obligations, Deposit Accounts, Investment Property, Inventory, Equipment, Fixtures, Commercial Tort Claims, and all Proceeds thereof and all of the other Collateral described in the granting clauses of the Security Agreement, each and all of such granting clauses being incorporated herein by reference with the same force and effect as if set forth in their entirety except that all references in such clauses to the Existing Debtors or any of them shall be deemed to include references to the New Debtor. Nothing contained herein shall in any manner impair the priority of the liens and security interests heretofore granted in favor of the Secured Party under the Security Agreement.

2. Schedules A (Locations), Schedule B (Other Names), Schedule C (Intellectual Property Rights), Schedule D (Real Estate Legal Descriptions), Schedule E (Investment Property and Deposits), and Schedule F (Commercial Tort Claims) to the Security Agreement shall be supplemented by the information stated below with respect to the New Debtor:

SUPPLEMENT TO SCHEDULE A

NAME OF DEBTOR (AND STATE OF ORGANIZATION AND ORGANIZATIONAL REGISTRATION NUMBER)	CHIEF EXECUTIVE OFFICE (AND NAME OF RECORD OWNER OF SUCH LOCATION)	ADDITIONAL PLACES OF BUSINESS AND COLLATERAL LOCATIONS (AND NAME OF RECORD OWNER OF SUCH LOCATIONS)

SUPPLEMENT TO SCHEDULE B

NAME OF DEBTOR	PRIOR LEGAL NAMES AND TRADE NAMES OF SUCH DEBTOR

SUPPLEMENT TO SCHEDULE C

INTELLECTUAL PROPERTY RIGHTS

SUPPLEMENT TO SCHEDULE D

REAL ESTATE LEGAL DESCRIPTIONS

SUPPLEMENT TO SCHEDULE E

INVESTMENT PROPERTY AND DEPOSITS

SUPPLEMENT TO SCHEDULE F

COMMERCIAL TORT CLAIMS

3. The New Debtor hereby acknowledges and agrees that the Secured Obligations are secured by all of the Collateral according to, and otherwise on and subject to, the terms and conditions of the Security Agreement to the same extent and with the same force and effect as if the New Debtor had originally been one of the Existing Debtors under the Security Agreement and had originally executed the same as such an Existing Debtor.

4. All capitalized terms used in this Agreement without definition shall have the same meaning herein as such terms have in the Security Agreement, except that any reference to the term "Debtor" or "Debtors" and any provision of the Security Agreement providing meaning to such term shall be deemed a reference to the Existing Debtors and the New Debtor. Except as specifically modified hereby, all of the terms and conditions of the Security Agreement shall stand and remain unchanged and in full force and effect.

5. The New Debtor agrees to execute and deliver such further instruments and documents and do such further acts and things as the Secured Party may reasonably deem necessary or proper to carry out more effectively the purposes of this Agreement.

6. No reference to this Agreement need be made in the Security Agreement or in any other document or instrument making reference to the Security Agreement, any reference to the Security Agreement in any of such to be deemed a reference to the Security Agreement as modified hereby.

7. This Agreement may be executed in any number of counterparts, and by the different parties on different counterpart signature pages, all of which taken together shall constitute one and the same agreement. Any of the parties hereto may execute this Agreement by signing any such counterpart and each of such counterparts shall for all purposes be deemed to be an original. Delivery of a counterpart hereof by facsimile transmission or by e-mail transmission of an Adobe portable document format file (also known as a "PDF" file) shall be effective as delivery of a manually executed counterpart hereof. This agreement, and the rights and duties of the parties hereto, shall be construed and determined in accordance with the laws of the State of Illinois without regard to conflicts of law principles that would require application of the laws of another jurisdiction.

[INSERT NAME OF NEW DEBTOR]

By _____
Name _____
Title _____

Accepted and agreed to as of the date first above written.

BMO HARRIS BANK N.A.

By _____
Name _____
Title _____

WILLDAN GROUP, INC.

LIST OF SUBSIDIARIES(a)

	<u>Name of Entity</u>	<u>Jurisdiction of Organization</u>	<u>Ownership Interest</u>
1.	Willdan Engineering	California	100% Willdan Group, Inc.
2.	Willdan Infrastructure	California	100% Willdan Group, Inc.
3.	Willdan Energy Solutions	California	100% Willdan Group, Inc.
4.	Public Agency Resources	California	100% Willdan Group, Inc.
5.	Willdan Financial Services	California	100% Willdan Group, Inc.
6.	Willdan Homeland Solutions	California	100% Willdan Group, Inc.

(a) As of December 27, 2013.

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[Exhibit 21.1](#)

[WILLDAN GROUP, INC. LIST OF SUBSIDIARIES\(a\)](#)

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statements on Form S-8 (No. 333-139127, No. 333-152951, No. 333-168787 and No. 333-184823) pertaining to the 2006 Stock Incentive Plan and the 2008 Performance Incentive Plan of Willdan Group, Inc. of our report dated March 25, 2014, with respect to the consolidated financial statements of Willdan Group, Inc. and subsidiaries, included in this Annual Report (Form 10-K) for the year ended December 27, 2013.

/s/ Ernst & Young LLP

Los Angeles, California
March 25, 2014

QuickLinks

[Exhibit 23.1](#)

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

SECTION 302 CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Thomas D. Brisbin, certify that:

1. I have reviewed this report on Form 10-K of Willdan Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 25, 2014

By: /s/ THOMAS D. BRISBIN

Thomas D. Brisbin
President and Chief Executive Officer

QuickLinks

[Exhibit 31.1](#)

[SECTION 302 CERTIFICATION OF CHIEF EXECUTIVE OFFICER](#)

SECTION 302 CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Stacy B. McLaughlin, certify that:

1. I have reviewed this report on Form 10-K of Willdan Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 25, 2014

By: /s/ STACY B. MCLAUGHLIN

Stacy B. McLaughlin
Chief Financial Officer and Vice President

QuickLinks

[Exhibit 31.2](#)

[SECTION 302 CERTIFICATION OF CHIEF FINANCIAL OFFICER](#)

**Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. 1350,
as Adopted Pursuant to § 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Annual Report on Form 10-K of Willdan Group, Inc. (the "Company") for the annual period ended December 27, 2013, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Thomas D. Brisbin, as President and Chief Executive Officer of the Company, and Stacy B. McLaughlin, as Chief Financial Officer, each hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his or her knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ THOMAS D. BRISBIN

Thomas D. Brisbin
President and Chief Executive Officer
March 25, 2014

By: /s/ STACY B. MCLAUGHLIN

Stacy B. McLaughlin
Chief Financial Officer and Vice President
March 25, 2014

This certification accompanies the Report pursuant to § 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of § 18 of the Securities Exchange Act of 1934, as amended. A signed original of this written statement required by § 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

QuickLinks

[Exhibit 32.1](#)

[Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. 1350, as Adopted Pursuant to § 906 of the Sarbanes-Oxley Act of 2002](#)