PLUG POWER INC
Form 424B3
April 07, 2004


Filed pursuant to Rule 424(b)(3)

Registration No. 333-113976

## Prospectus

# PLUG POWER INC.

## 2,400,000 Shares of Common Stock

This prospectus is being delivered in connection with the distribution from time to time by the selling stockholder identified in this prospectus to its stockholders of up to an aggregate amount of 2,400,000 shares of our common stock following the effective date of the registration statement of which this prospectus is a part.

We will not receive any proceeds from the distribution of the shares of common stock covered by this prospectus. The expenses of registering the shares of common stock covered by this prospectus under the Securities Act of 1933, as amended, and the registration or qualification of these shares of common stock under any applicable state securities laws will be paid by the selling stockholder named in this prospectus.

Our common stock is listed on the Nasdaq National Market under the symbol PLUG. The mailing address and telephone number of our principal executive offices are 968 Albany-Shaker Road, Latham, New York 12110 and (518) 782-7700.

**Before investing in our common stock, you should carefully consider those risks that are described in the Risk Factors section beginning on page 3.**

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.**

The date of this prospectus is April 6, 2004.

Table of Contents

## ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement on Form S-3 that we filed with the Securities and Exchange Commission under the Securities Act of 1933, as amended, utilizing a shelf registration process. This prospectus and any accompanying prospectus supplement do not contain all of the information included in the registration statement. For further information, we refer you to the registration statement, including its exhibits. You should read the exhibits carefully for the provisions that may be important to you. Statements contained in this prospectus and any accompanying prospectus supplement about the provisions or contents of any agreement or other document are not necessarily complete. If the SEC s rules and regulations require that such agreement or document be filed as an exhibit to the registration statement, or if we otherwise filed such agreement or document, please see such agreement or document for a complete description of these matters.

This prospectus relates to an aggregate amount of up to 2,400,000 shares of our common stock that the selling stockholder may distribute to its stockholders following the effective date of the registration statement of which this prospectus is a part, as discussed under the heading Plan of Distribution. The selling stockholder intends to distribute the shares to its stockholders on a pro rata basis as a dividend and will not receive any proceeds from such distribution. The selling stockholder will pay all expenses relating to the distribution and registration of the shares. Registration of the shares does not necessarily mean that the selling shareholder will actually distribute the shares. You should read both this prospectus and any prospectus supplement together with additional information described under the heading Where You Can Find Additional Information.

Table of Contents

## PROSPECTUS SUMMARY

*This summary only highlights the more detailed information appearing elsewhere in this prospectus or incorporated by reference in this prospectus. As this is a summary, it may not contain all of the information that is important to you. You should read this entire prospectus carefully before deciding whether to invest in shares of our common stock. Unless the context otherwise requires, all references to Company, Plug Power, we, us, our or similar expressions in this prospectus refer collectively to Plug Power Inc., a Delaware corporation, and its subsidiaries, and their respective predecessor entities for the applicable period, considered as a single enterprise. Further, all references to common stock in this prospectus refer to the common stock, par value $0.01 per share, of Plug Power.*

**Description of Plug Power**

We are a leader in the design and development of on-site energy systems, utilizing proton exchange membrane fuel cell technology, for energy consumers worldwide. We were formed in 1997, as a joint venture between Edison Development Corporation (EDC), a DTE Energy company, and Mechanical Technology Incorporated (MTI). Our strategic partners include GE Fuel Cell Systems, DTE Energy Technologies, Vaillant GmbH, Honda R&D Co., Ltd., Engelhard Corporation and Celanese Ventures GmbH. We are headquartered in Latham, N.Y. with offices in Washington D.C. and the Netherlands.

Our architectured technology platform includes proprietary proton exchange membrane (PEM) fuel cell and fuel processing technologies, from which we expect to offer multiple products. We are currently developing: (1) backup power products for telecommunications, broadband and industrial uninterruptible power supply (UPS) applications; (2) on-site hydrogen generation for a variety of industrial gas applications; (3) combined heat and power products for remote residential and small commercial applications; and (4) battery-replacement modules for material handling equipment.

**The Offering and Plan of Distribution**

This prospectus relates to up to 2,400,000 shares of our common stock that may be distributed by the selling stockholder to its stockholders following the effective date of the registration statement of which this prospectus is a part. (See Plan of Distribution. ) Registration of the shares of common stock does not necessarily mean that all or any portion of the shares will be distributed by the selling stockholder. The selling stockholder has agreed to bear the expenses of the distribution and the registration of the shares of common stock under federal and state securities laws. We will not receive any proceeds from the distribution of any shares of common stock covered by this prospectus.

Table of Contents

## RISK FACTORS

*You should carefully consider the following risks, together with all information included in or incorporated by reference into this prospectus, before investing in shares of our common stock. This section includes or refers to forward-looking statements. You should refer to the explanation of the qualifications and limitations on forward-looking statements discussed on page 12.*

***We may never complete the research and development of commercially viable on-site energy products.***

We are a development stage company. We do not know when or whether we will successfully complete research and development of commercially viable on-site energy products. If we are unable to develop commercially viable on-site energy products, we will not be able to generate sufficient revenue to become profitable. The commercialization of our products depends on our ability to reduce the costs of our components and subsystems and we cannot assure you that we will be able to sufficiently reduce these costs. In addition, the commercialization of our products requires improvement of their overall reliability, efficiency and safety and we cannot assure you that we will be able to develop, acquire or license the technology necessary to achieve such improvement. Although we have sold a limited number of our initial products, we must complete substantial additional research and development before we will be able to manufacture a commercially viable product in commercial quantities. In addition, while we are conducting tests to predict the overall life of our products, we may not have run our products over their projected useful life prior to large-scale commercialization. As a result, we cannot be sure that our products will last as long as predicted, resulting in possible warranty claims and commercial failures.

***We have incurred losses and anticipate continued losses for at least the next several years.***

As of December 31, 2003, we had an accumulated deficit of $308.6 million. We have not achieved profitability in any quarter since our formation and expect to continue to incur net losses until we can produce sufficient revenue to cover our costs, which is not expected to occur for at least the next several years. We anticipate that we will continue to incur losses until we can produce and sell our products on a large-scale and cost-effective basis. However, we cannot predict when we will operate profitably, if ever. Even if we do achieve profitability, we may be unable to sustain or increase our profitability in the future.

***We have only been in business for a short time, and your basis for evaluating us is limited.***

We were formed in June 1997 to further the research and development of stationary fuel cell systems. While we delivered our initial product in the third quarter of 2001, we do not expect to be profitable for at least the next several years. Accordingly, there is only a limited basis upon which you can evaluate our business and prospects. Before investing in our securities, you should consider the challenges, expenses and difficulties that we will face as a development stage company seeking to develop and manufacture new products.

***A viable market for our products may never develop or may take longer to develop than we anticipate.***

Our on-site energy products represent emerging markets, and we do not know the extent to which our targeted distributors and resellers will want to purchase these products and whether end-users will want to use them. If a viable market fails to develop or develops more slowly than we anticipate, we may be unable to recover the losses we will have incurred to develop our products and may be unable to achieve profitability.

The development of a viable market for our products may be impacted by many factors which are out of our control, including:

- the cost competitiveness of our products;
- the future costs of natural gas, propane and other fuels expected to be used by our products;

3

- consumer reluctance to try a new product;
- consumer perceptions of our products safety;
- regulatory requirements;
- barriers to entry created by existing energy providers; and
- the emergence of newer, more competitive technologies and products.

***We have no experience manufacturing our products on a large-scale commercial basis and may be unable to do so.***

To date, we have focused primarily on research, development and low volume manufacturing and have no experience manufacturing our products on a large-scale commercial basis. In 2000, we completed construction of our 50,000 square foot manufacturing facility, and have continued to develop our manufacturing capabilities and processes. We do not know whether or when we will be able to develop efficient, low-cost manufacturing capabilities and processes that will enable us to manufacture our products in commercial quantities while meeting the quality, price, engineering, design and production standards required to successfully market our products. Our failure to develop such manufacturing processes and capabilities could have a material adverse effect on our business, financial condition, results of operations and prospects. Even if we are successful in developing our manufacturing capabilities and processes, we do not know whether we will do so in time to meet our product commercialization schedule or to satisfy the requirements of our distributors or customers.

***We have not fully developed and produced certain products that we have agreed to sell to GE Fuel Cell Systems.***

Our distribution agreement with GE Fuel Cell Systems has been amended on five occasions. In October 2003, we amended our distribution agreement to provide for the ability to sell directly or negotiate nonexclusive distribution rights to third parties for our GenCore backup power product line, and our GenSite hydrogen generation product line. In exchange, starting in the fourth quarter of 2004 for GenCore and in the fourth quarter of 2005 for GenSite, we have agreed to pay a 5% commission, based on sales price, to GEFCS. The distribution agreement expires on December 31, 2014.

We have not developed certain products that meet all specifications required by the multi-generation product plan. There can be no assurance that we will complete development of products meeting specifications required by GE Fuel Cell Systems and deliver them on schedule. Pursuant to the distribution agreement, GE Fuel Cell Systems has the right to provide notice to us if, in its good faith judgment, we have materially deviated from the multi-generation product plan. Should GE Fuel Cell Systems provide such notice, and we cannot mutually agree to a modification to the multi-generation product plan, then GE Fuel Cell Systems has the right to terminate the distribution agreement for cause, subject to our rights to cure. In addition, GE Fuel Cell Systems has the right to terminate the distribution agreement for cause if we fail to provide GE Fuel Cell Systems with products that, in GE Fuel Cell Systems reasonable judgment, are materially competitive with alternative proton exchange membrane fuel cell-powered generator sets, subject to our rights to cure.

GE Energy, the division of General Electric Company which controls GE Fuel Cell Systems through GE MicroGen, Inc., has agreed not to sell or distribute proton exchange membrane fuel cell systems and related components manufactured by parties other than us through any entity other than GE Fuel Cell Systems. GE Energy is not, however, prohibited from developing non-proton exchange membrane fuel cell systems and other distributed energy systems and products that would compete directly or indirectly against our proton exchange membrane fuel cell systems or other products we may manufacture. GE Energy is not required to provide us with any information concerning the developments of such products, or plans or intentions to manufacture such products by GE Energy. The development of different energy product solutions by GE Energy could harm the marketability of our technology by providing potential customers with an alternative to our products.

4

Table of Contents

***Delays in our product development would have a material impact on our commercialization schedule.***

If we experience delays in meeting our development goals or if our products exhibit technical defects or if we are unable to meet cost or performance goals, including power output, useful life and reliability, our commercialization schedule will be delayed. In this event, potential purchasers of our products may choose alternative technologies and any delays could allow potential competitors to gain market advantages. We cannot assure you that we will successfully meet our commercialization schedule in the future.

***We may need to secure additional funding to complete our product development and commercialization plans and we may be unable to raise additional capital.***

Our cash requirements depend on numerous factors, including completion of our product development activities, ability to commercialize our products and market acceptance of our products. We expect to devote substantial capital resources to continue development programs, establish a manufacturing infrastructure and develop manufacturing processes. We may need to raise additional funds to achieve commercialization of our products. However, we do not know whether we will be able to secure additional funding, or funding on acceptable terms, to pursue our commercialization plans. If additional funds are raised through the issuance of equity securities, the percentage ownership of our then current stockholders will be reduced. If adequate funds are not available to satisfy either short-term or long-term capital requirements, we may be required to limit operations in a manner inconsistent with our development and commercialization plans, which could affect operations in future periods.

***We may be unable to establish relationships with third parties for certain aspects of product development, manufacturing, distribution and servicing and the supply of key components for our products.***

We will need to enter into additional strategic relationships in order to complete our current product development and commercialization plans. In particular, we may require one or more partners to assist us in developing commercially viable fuel cell systems that produce in the range of 25 to 100 kW of electric power. We will also require partners to assist in the distribution, servicing and supply of components for our anticipated back-up power and on-site hydrogen generation products, both of which are in development. If we are unable to identify or enter into satisfactory agreements with potential partners, including those relating to the distribution of and service and support for our anticipated back-up power and on-site hydrogen generation products, we may not be able to complete our product development and commercialization plans on schedule or at all. We may also need to scale back these plans in the absence of needed partners, which would adversely affect our future prospects. In addition, any arrangement with a strategic partner may require us to issue a material amount of equity securities to the partner, provide the partner with representation on our board of directors and/or commit significant financial resources to fund our product development efforts in exchange for their assistance or the contribution to us of intellectual property. Any such issuance of equity securities would reduce the percentage ownership of our then current stockholders. While we have entered into relationships with suppliers of some key components for our products, we do not know when or whether we will secure supply relationships for all required components and subsystems for our products, or whether such relationships will be on terms that will allow us to achieve our objectives. Our business, prospects, results of operations and financial condition could be harmed if we fail to secure relationships with entities which can develop or supply the required components for our products and provide the required distribution and servicing support. Additionally, the agreements governing our current relationships allow for termination by our partners under certain circumstances.

***We will rely on our partners to develop and provide components for our products.***

A supplier s failure to develop and supply components in a timely manner or at all, or to develop or supply components that meet our quality, quantity or cost requirements, or our inability to obtain substitute sources of these components on a timely basis or on terms acceptable to us, could harm our ability to manufacture our products. In addition, to the extent that our supply partners use technology or manufacturing processes that are proprietary, we may be unable to obtain comparable components from alternative sources.

Table of Contents

***We face intense competition and may be unable to compete successfully.***

The markets for on-site energy products are intensely competitive. There are a number of companies located in the United States, Canada and abroad that are developing proton exchange membrane and other fuel cell technologies and energy products that compete with our products. Some of our competitors in the fuel cell sector are much larger than we are and may have the manufacturing, marketing and sales capabilities to complete research, development and commercialization of commercially viable fuel cell products more quickly and effectively than we can.

In addition, there are many companies engaged in all areas of traditional and alternative energy generation in the United States, Canada and abroad, including, among others, major electric, oil, chemical, natural gas, batteries, generators and specialized electronics firms, as well as universities, research institutions and foreign government-sponsored companies. These firms are engaged in forms of power generation such as solar and wind power, reciprocating engines and microturbines, as well as traditional grid-supplied electric power. Many of these entities have substantially greater financial, research and development, manufacturing and marketing resources than we do.

***We must lower the cost of our products and demonstrate their reliability.***

Our initial fuel cell systems currently cost significantly more than many established competing technologies. If we are unable to develop products that are competitive with competing technologies in terms of price, reliability and longevity, consumers will be unlikely to buy our products. The price of our products depends largely on material and manufacturing costs. We cannot guarantee that we will be able to lower these costs to the level where we will be able to produce a competitive product or that any product produced using lower cost materials and manufacturing processes will not suffer from a reduction in performance, reliability and longevity.

***Failure of our field tests could negatively impact demand for our products.***

We are currently field-testing a number of our products and we plan to conduct additional field tests in the future. We may encounter problems and delays during these field tests for a number of reasons, including the failure of our technology or the technology of third parties, as well as our failure to maintain and service our products properly. Many of these potential problems and delays are beyond our control. Any problem or perceived problem with our field tests could materially harm our reputation and impair market acceptance of, and demand for, our products.

***Further regulatory changes and electric utility industry restructuring may affect demand for our products.***

The market for electric power generation products is heavily influenced by federal and state governmental regulations and policies concerning the electric utility industry. A change in the current regulatory policies could deter further investment in the research and development of alternative energy sources, including fuel cells, and could result in a significant reduction in the demand for our products. We cannot predict how deregulation or restructuring of the industry will affect the market for our products.

***Our business may become subject to future government regulation, which may impact our ability to market our products.***

Our products will be subject to federal, local, and foreign laws and regulations, including, for example, state and local ordinances relating to building codes, public safety, electrical and gas pipeline connections and related matters. Further, as products are introduced into the market commercially, governments may impose new regulations. We do not know the extent to which any such regulations may impact our ability to distribute, install and service our products. Any regulation of our products, whether at the federal, state, local or foreign level, including any regulations relating to installation and servicing of our products, may increase our costs and the price of our products.

Table of Contents

***Utility companies could place barriers on our entry into the marketplace where customers depend on traditional grid supplied energy.***

Utility companies often charge fees to industrial companies for disconnecting from the grid, for using less electricity or for having the capacity to use power from the grid for back-up purposes, and may charge similar fees to residential customers in the future. The imposition of such fees could increase the cost to grid-connected customers of using our products and could make our products less desirable, thereby harming our revenue and profitability.

***Alternatives to our technology or improvements to traditional energy technologies could make our products less attractive or render them obsolete.***

Our products are among a number of alternative energy products being developed. A significant amount of public and private funding is currently directed toward development of a number of types of distributed generation technology, including microturbines, solar power, wind power and other types of fuel cell technologies. Improvements are also being made to the existing electric transmission system. Technological advances in alternative energy products, improvements in the electric power grid or other fuel cell technologies may make our products less attractive or render them obsolete.

***The hydrocarbon fuels and other raw materials on which our products rely may not be readily available or available on a cost-effective basis.***

Our products depend largely on the availability of natural gas and liquid propane. If these fuels are not readily available, or if their prices are such that energy produced by our products costs more than energy provided by other sources, our products could be less attractive to potential users.

In addition, platinum is a key material in our proton exchange membrane fuel cells. Platinum is a scarce natural resource and we are dependent upon a sufficient supply of this commodity. Any shortages could adversely affect our ability to produce commercially viable fuel cell systems and significantly raise our cost of producing our fuel cell systems.

***Our products use flammable fuels that are inherently dangerous substances.***

Our fuel cell systems use hydrogen, natural gas and liquid propane in catalytic reactions, which produce less heat than a typical gas furnace. While our products do not use these fuels in a combustion process, hydrogen, natural gas and liquid propane are flammable fuels that could leak in a home or office and combust if ignited by another source. Further, while we are not aware of any accidents involving our products, any such accidents involving our products or other products using similar flammable fuels could materially suppress demand for, or heighten regulatory scrutiny of, our products.

***Product liability or defects could negatively impact our results of operations.***

Any liability for damages resulting from malfunctions or design defects could be substantial and could materially adversely affect our business, financial condition, results of operations and prospects. In addition, a well-publicized actual or perceived problem could adversely affect the market s perception of our products resulting in a decline in demand for our products and could divert the attention of our management, which may materially and adversely affect our business, financial condition, results of operations and prospects.

***Future acquisitions may disrupt our business, distract our management and reduce the percentage ownership of our stockholders.***

As part of our business strategy we may engage in acquisitions that we believe will provide us with complementary technologies, products, channels, expertise and/or other valuable assets. However, we may not be able to identify suitable acquisition candidates. If we do identify suitable candidates, we may not be able to

Table of Contents

acquire them on commercially acceptable terms or at all. If we acquire another company, we may not be able to successfully integrate the acquired business into our existing business in a timely and non-disruptive manner. We may have to devote a significant amount of time and management and financial resources to do so. Even with this investment of management and financial resources, an acquisition may not produce the desired revenues, earnings or business synergies. In addition, an acquisition may reduce the percentage ownership of our then current stockholders. If we fail to integrate the acquired business effectively or if key employees of that business leave, the anticipated benefits of the acquisition would be jeopardized. The time, capital and management and other resources spent on an acquisition that fails to meet our expectations could cause our business and financial condition to be materially and adversely affected. In addition, from an accounting perspective, acquisitions can involve non-recurring charges and amortization of significant amounts of intangible assets that could adversely affect our results of operations.

***We may not be able to protect important intellectual property and we could incur substantial costs defending against claims that our products infringe on the proprietary rights of others.***

Proton exchange membrane fuel cell technology was first developed in the 1950s, and fuel processing technology has been practiced on a large scale in the petrochemical industry for decades. Accordingly, we do not believe that we can establish a significant proprietary position in the fundamental component technologies in these areas. However, our ability to compete effectively will depend, in part, on our ability to protect our proprietary system-level technologies, systems designs and manufacturing processes. We rely on patents, trademarks, and other policies and procedures related to confidentiality to protect our intellectual property. However, some of our intellectual property is not covered by any patent or patent application. Moreover, we do not know whether any of our pending patent applications will issue or, in the case of patents issued or to be issued, that the claims allowed are or will be sufficiently broad to protect our technology or processes. Even if all of our patent applications are issued and are sufficiently broad, our patents may be challenged or invalidated. We could incur substantial costs in prosecuting or defending patent infringement suits or otherwise protecting our intellectual property rights. While we have attempted to safeguard and maintain our proprietary rights, we do not know whether we have been or will be completely successful in doing so. Moreover, patent applications filed in foreign countries may be subject to laws, rules and procedures that are substantially different from those of the United States, and any resulting foreign patents may be difficult and expensive to enforce. In addition, we do not know whether the U.S. Patent & Trademark Office will grant federal registrations based on our pending trademark applications. Even if federal registrations are granted to us, our trademark rights may be challenged. It is also possible that our competitors or others will adopt trademarks similar to ours, thus impeding our ability to build brand identity and possibly leading to customer confusion. We could incur substantial costs in prosecuting or defending trademark infringement suits.

Further, our competitors may independently develop or patent technologies or processes that are substantially equivalent or superior to ours. If we are found to be infringing third party patents, we could be required to pay substantial royalties and/or damages, and we do not know whether we will be able to obtain licenses to use such patents on acceptable terms, if at all. Failure to obtain needed licenses could delay or prevent the development, manufacture or sale of our products, and could necessitate the expenditure of significant resources to develop or acquire non-infringing intellectual property.

Asserting, defending and maintaining our intellectual property rights could be difficult and costly and failure to do so may diminish our ability to compete effectively and may harm our operating results. We may need to pursue lawsuits or legal action in the future to enforce our intellectual property rights, to protect our trade secrets and domain names and to determine the validity and scope of the proprietary rights of others. If third parties prepare and file applications for trademarks used or registered by us, we may oppose those applications and be required to participate in proceedings to determine priority of rights to the trademark. Similarly, competitors may have filed applications for patents, may have received patents and may obtain additional patents and proprietary rights relating to products or technology that block or compete with ours. We may have to

Table of Contents

participate in interference proceedings to determine the priority of invention and the right to a patent for the technology. Litigation and interference proceedings, even if they are successful, are expensive to pursue and time consuming, and we could use a substantial amount of our financial resources in either case.

***We rely, in part, on contractual provisions to protect our trade secrets and proprietary knowledge.***

Confidentiality agreements to which we are party may be breached, and we may not have adequate remedies for any breach. Our trade secrets may also be known without breach of such agreements or may be independently developed by competitors. Our inability to maintain the proprietary nature of our technology and processes could allow our competitors to limit or eliminate any competitive advantages we may have.

***We may have difficulty managing change in our operations.***

We continue to undergo rapid change in the scope and breadth of our operations as we advance the development of our products. Such rapid change is likely to place a significant strain on our senior management team and other resources. We will be required to make significant investments in our engineering, logistics, financial and management information systems and to motivate and effectively manage our employees. Our business, prospects, results of operations and financial condition could be harmed if we encounter difficulties in effectively managing the budgeting, forecasting and other process control issues presented by such a rapid change.

***We face risks associated with our plans to market, distribute and service our products internationally.***

We intend to market, distribute and service our products internationally. We have limited experience developing and no experience manufacturing our products to comply with the commercial and legal requirements of international markets. Our success in international markets will depend, in part, on our ability and that of our partners to secure relationships with foreign sub-distributors, and our ability to manufacture products that meet foreign regulatory and commercial requirements. Additionally, our planned international operations are subject to other inherent risks, including potential difficulties in enforcing contractual obligations and intellectual property rights in foreign countries and fluctuations in currency exchange rates.

***Our government contracts could restrict our ability to effectively commercialize our technology.***

Some of our technology has been developed under government funding by the United States and by other countries. The United States government has a non-exclusive, royalty-free, irrevocable world-wide license to practice or have practiced any of our technology developed under contracts funded by the government. In some cases, government agencies in the United States can require us to obtain or produce components for our systems from sources located in the United States rather than foreign countries. Our contracts with government agencies are also subject to the risk of termination at the convenience of the contracting agency, potential disclosure of our confidential information to third parties and the exercise of march-in rights by the government. March-in rights refer to the right of the United States government or government agency to license to others any technology developed under contracts funded by the government if the contractor fails to continue to develop the technology. The implementation of restrictions on our sourcing of components or the exercise of march-in rights could harm our business, prospects, results of operations and financial condition. In addition, under the Freedom of Information Act, any documents that we have submitted to the government or to a contractor under a government funding arrangement are subject to public disclosure that could compromise our intellectual property rights unless such documents are exempted as trade secrets or as confidential information and treated accordingly by such government agencies.

***Our future plans could be harmed if we are unable to attract or retain key personnel.***

We have attracted a highly skilled management team and specialized workforce, including scientists, engineers, researchers and manufacturing and marketing professionals. Our future success will depend, in part, on our ability to attract and retain qualified management and technical personnel. We do not know whether we will be successful in hiring or retaining qualified personnel. Our inability to hire qualified personnel on a timely

Table of Contents

basis, or the departure of key employees, could materially and adversely affect our development and commercialization plans and, therefore, our business, prospects, results of operations and financial condition.

***GE MicroGen and DTE Energy have representatives on our board of directors.***

Under our agreement with GE MicroGen we are required to use our best efforts to cause one individual nominated by GE Energy, an operating business of General Electric Company, to be elected to our board of directors for as long as our distribution agreement with GE Fuel Cell Systems remains in effect. Currently, Richard R. Stewart serves on our board of directors as GE Energy s nominee. In addition, a current employee of DTE Energy, Anthony F. Earley, Jr., and a former employee of DTE Energy, Larry G. Garberding, currently serve on our board of directors. Both GE Fuel Cell Systems and DTE Energy have entered into distribution agreements with us.

***We are subject to a securities class action litigation.***

In September 2000, a shareholder class action complaint was filed in the federal district court for the Eastern District of New York alleging that we and various of our officers and directors violated certain federal securities laws by failing to disclose certain information concerning our products and future prospects.

The action was brought on behalf of a class of purchasers of our stock who purchased the stock between February 14, 2000 and August 2, 2000. Subsequently, fourteen additional complaints with similar allegations and class periods were filed. By order dated October 30, 2000, the court consolidated the complaints into one action, entitled Plug Power Inc. Securities Litigation, CV-00-5553(ERK)(RML). By order dated January 25, 2001, the Court appointed lead plaintiffs and lead plaintiffs counsel. Subsequently, the plaintiffs served a consolidated amended complaint. The consolidated amended complaint extends the class period to begin on October 29, 1999 and alleges claims under the Securities Act and the Exchange Act, and Rule 10b-5 promulgated under the Exchange Act. Subsequently, plaintiffs withdrew their claims under the Securities Act. Plaintiffs allege that the defendants made misleading statements and omissions regarding the state of development of our technology in a registration statement issued in connection with our initial public offering (IPO) and in subsequent press releases. We served our motion to dismiss the claims in May 2001. By order dated January 21, 2003, the Court dismissed all claims relating to pre-IPO press releases, the IPO prospectus and all but three post-IPO press releases. The Court ruled that the three remaining press releases raised questions of fact that could not be resolved on a motion to dismiss. The Court also denied the motion to dismiss the claims against the individual defendants at this time. We believe that the allegations in the consolidated amended complaint are without merit and intend to vigorously defend against the claims. However, litigation is inherently uncertain and there can be no assurances as to the ultimate outcome or effect of these actions. If the plaintiffs were to prevail, such an outcome could have a material adverse effect on our business, financial condition, results of operations and prospects.

***Provisions in our charter documents and Delaware law may prevent or delay an acquisition of us, which could decrease the value of our securities.***

Our certificate of incorporation and bylaws and Delaware law contain provisions that could make it harder for a third party to acquire us without the consent of our board of directors. These provisions include those that:

- authorize the issuance of up to 5,000,000 shares of preferred stock in one or more series without a stockholder vote;

limit stockholders ability to call special meetings;

establish advance notice requirements for nominations for election to our board of directors or for proposing matters that can be acted on by stockholders at stockholder meetings; and

provide for staggered terms for our directors.

Table of Contents

In addition, in certain circumstances, Delaware law also imposes restrictions on mergers and other business combinations between us and any holder of 15% or more of our outstanding common stock.

***Our stock price has been and could remain volatile.***

The market price of our common stock has historically experienced and may continue to experience significant volatility. Since our initial public offering in October 1999, the market price of our common stock has fluctuated from a high of $156.50 per share in the first quarter of 2000 to a low of $3.39 per share in the fourth quarter of 2002. Our progress in developing and commercializing our products, our quarterly operating results, announcements of new products by us or our competitors, our perceived prospects, changes in securities analysts recommendations or earnings estimates, changes in general conditions in the economy or the financial markets, adverse events related to our strategic relationships, significant sales of our common stock by existing stockholders including one or more of our strategic partners and other developments affecting us or our competitors could cause the market price of our common stock to fluctuate substantially. In addition, in recent years, the stock market, and in particular the market for technology-related stocks, has experienced significant price and volume fluctuations. This volatility has affected the market prices of securities issued by many companies for reasons unrelated to their operating performance and may adversely affect the price of our common stock. In addition, we may be subject to additional securities class action litigation as a result of volatility in the price of our common stock, which could result in substantial costs and diversion of management s attention and resources and could harm our stock price, business, prospects, results of operations and financial condition.

***Our failure to comply with Nasdaq s listing standards could result in the delisting of our common stock by Nasdaq from the Nasdaq National Market and severely limit the ability to sell our common stock.***

Our common stock is currently traded on the Nasdaq National Market. Under Nasdaq s listing maintenance standards, if the closing bid price of our common stock is under $1.00 per share for 30 consecutive trading days, Nasdaq will notify us that we may be delisted from the Nasdaq National Market. If the closing bid price of our common stock does not thereafter regain compliance for a minimum of 10 consecutive trading days during the 90 days following notification by Nasdaq, Nasdaq may delist our common stock from trading on the Nasdaq National Market. There can be no assurance that our common stock will remain eligible for trading on the Nasdaq National Market. In addition, if our common stock is delisted, our stockholders would not be able to sell our common stock on the Nasdaq National Market, and their ability to sell any of our common stock would be severely, if not completely, limited.

Table of Contents

**FORWARD-LOOKING STATEMENTS**

This prospectus and the documents incorporated by reference into this prospectus contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, and Section 21E of the Securities Exchange Act of 1934. For this purpose, any statements contained or incorporated by reference herein that are not statements of historical fact may be deemed to be forward-looking statements. Without limiting the foregoing, the words believes, anticipates, estimates, expects, intends, plans, seeks, will, may, should, would, projects and similar expressions or the negative of these terms are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. We cannot assure the future results or outcome of the matters described in any of these statements; rather, these statements are based on current expectations and are subject to risks, uncertainties and changes in condition, significance, value and effect, including those discussed in the section entitled Risk Factors beginning on page 3 of this prospectus and in reports filed from time to time by us with the SEC. Such risks, uncertainties and changes in condition, significance, value and effect could cause our actual results to differ materially from those anticipated events. These risks, uncertainties and changes include, but are not limited to, the following:

- our ability to develop commercially viable on-site energy products;
- the cost and timing of developing our on-site energy products;
- market acceptance of our on-site energy products;
- our ability to perform on our multi-generation product plan in a manner satisfactory to GEFCS;
- our ability to manufacture on-site energy products on a large-scale commercial basis;
- competitive factors, such as price competition and competition from other traditional and alternative energy companies;
- the cost and availability of components and parts for our on-site energy products;
- the ability to raise and provide the necessary capital to develop, manufacture and market our on-site energy products;
- our ability to establish relationships with third parties with respect to product development, manufacturing, distribution and servicing and the supply of key product components;
- our ability to protect our intellectual property;
- our ability to lower the cost of our on-site energy products and demonstrate their reliability;
- the cost of complying with current and future governmental regulations;
- the impact of deregulation and restructuring of the electric utility industry on demand for our on-site energy products;

- fluctuations in the trading price and volume of our common stock; and

- other risks and uncertainties detailed from time to time in our filings with the Securities and Exchange Commission.

Readers should not place undue reliance on the forward-looking statements contained in this prospectus because they involve known and unknown risks, uncertainties and other factors, some of which are beyond our control. We caution you that these forward-looking statements speak only as of the date on which the statements were made and are not guarantees of future performance. We assume no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

## USE OF PROCEEDS

We will not receive any proceeds from the distribution of the shares of our common stock covered by this prospectus.

## SELLING STOCKHOLDER

The following table sets forth the number of shares of common stock beneficially owned by the selling stockholder as of March 25, 2004, the number of shares of common stock covered by this prospectus and the total number of shares of common stock which the selling stockholder will beneficially own upon completion of the intended distribution. Pursuant to Rule 13d-3 of the Securities Exchange Act of 1934, a person is deemed to be the beneficial owner of a security if that person has the right to acquire beneficial ownership of such security within 60 days, including the right to acquire through the exercise of an option or warrant or through the conversion of a security. As of March 25, 2004, the selling stockholder did not have the right to acquire shares of our common stock upon the exercise or conversion of a security within 60 days of such date. This table assumes that the selling stockholder will distribute all of the shares of common stock covered by this prospectus.

The common stock covered by this prospectus may be distributed from time to time by the selling stockholder named below. The amounts and information set forth below are based upon information provided to us by the selling stockholder or its representative as of March 25, 2004, and are accurate to the best of our knowledge. It is possible, however, that the selling stockholder may acquire or dispose of additional shares of our common stock from time to time after the date of this prospectus. The selling stockholder intends to distribute the shares to its stockholders as a dividend and will not receive any proceeds from such distribution.

Other than as described in this paragraph, the selling stockholder has not held any office or position or, to our knowledge, had any material relationship with us or our affiliates within the past three years. George McNamee, has served as Chairman of our Board of Directors since 1997, and has served as Chairman of First Albany Companies Inc. ( First Albany ) since 1984 and as Co-Chief Executive Officer of First Albany from 1993 until 2003. First Albany currently owns 10.3% of Mechanical Technology Inc. ( MTI ) and has beneficially owned between 10.3% and 33.6 % of the outstanding common stock of MTI during the past three years. During that period, MTI has beneficially owned between 7.8% and 31.4%, and currently owns 7.8%, of our outstanding common stock. Mr. McNamee served as the Chief Executive Officer and as a director of MTI from May 1996 until October 2002. Dr. Walter L. Robb served as a member of our board of directors from June 1997 until October 2002 and has served as a director of MTI during the past three years. FAC/Equities, a division of First Albany Corporation which is a wholly-owned subsidiary of First Albany, acted as co-manager of our public offering of common stock which was completed in July 2001.

| | | | Shares of Common Stock to be Beneficially Owned After the Offering(1) | |
|---|---|---|---|---|
| **Selling Stockholder** | **Shares of Common Stock Beneficially Owned as of March 25, 2004** | **Shares of Common Stock Offered Hereby(1)** | **Number** | **Percent** |
| First Albany Companies Inc.<br>30 S. Pearl Street<br>Albany, NY 12207 | 2,721,088 | 2,400,000 | 321,088 | * |

* less than one percent

(1) The share amounts and percentage listed in these columns assume that the selling stockholder will distribute to its stockholders all of the shares of our common stock covered by this prospectus.

Table of Contents

## PLAN OF DISTRIBUTION

The selling stockholder intends to distribute the shares of common stock covered by this prospectus to its stockholders on a pro rata basis, in the form of a dividend or otherwise, following the effective date of the registration statement of which this prospectus is a part. The timing and amount of any such distribution is subject to the discretion of the Board of Directors of the selling stockholder. We cannot assure you that the selling stockholder will distribute all or any portion of the shares covered by this prospectus.

The selling stockholder will pay all expenses in connection with the distribution of the shares covered by this prospectus. We will not receive any proceeds from the distribution of any shares by the selling stockholder.

## WHERE YOU CAN FIND ADDITIONAL INFORMATION

We are subject to the informational requirements of the Securities Exchange Act of 1934, and, in accordance therewith, we file reports, proxy statements and other information with the SEC. You may read and copy any reports or other information we file at the Public Reference Room maintained by the SEC at 450 Fifth Street, N.W., Washington, D.C. 20549. You may also request copies of our filings at the prescribed duplication rates by writing to the SEC s Public Reference Room. You may obtain information regarding the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains an Internet site at http://www.sec.gov containing reports, proxy statements and other information regarding registrants, including Plug Power, that are filed electronically with the SEC. In addition, reports, proxy statements and other information concerning Plug Power may also be inspected at the offices of the National Association of Securities Dealers, Inc., 1735 K Street, N.W. Washington, D.C. 20006.

The SEC allows us to incorporate by reference into this prospectus and any prospectus supplement information that we file with them. Incorporation by reference means that we can disclose important information to you by referring you to other documents that are legally considered to be part of this prospectus and any prospectus supplement. The information incorporated by reference is an important part of this prospectus and any prospectus supplement, and information that we later file with the SEC will automatically update and supersede the information in this prospectus, any prospectus supplement and the documents listed below.

The following documents previously filed by us with the SEC are incorporated by reference into, and made a part of, this prospectus and any prospectus supplement as of their respective dates:

- our Annual Report on Form 10-K for the fiscal year ended December 31, 2003;
- our Proxy Statement filed on April 5, 2004 for our 2004 Annual Meeting of Stockholders; and
- the description of our common stock contained in our registration statement on Form 8-A filed on November 1, 1999, and any amendments or reports filed for the purpose of updating such description.

All future filings we make with the SEC pursuant to Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 prior to the distribution of the securities offered pursuant to this prospectus shall be deemed to be incorporated by reference into this prospectus and any prospectus supplement and shall be a part of this prospectus and any prospectus supplement from the date of filing of such document.

You may request a copy of any or all of the documents that have been incorporated by reference into this prospectus and any prospectus supplement (not including exhibits to such documents unless those exhibits are specifically incorporated by reference into this prospectus and any prospectus supplement), at no cost, by writing us at the following address or telephoning us at the following number:

Plug Power Inc.

968 Albany-Shaker Road

Latham, New York 12110

Attention: David A. Neumann

(518) 782-7700.

**Table of Contents**

## EXPERTS

Our consolidated financial statements as of December 31, 2003 and 2002 and for each of the years in the three-year period ended December 31, 2003 appearing in our Form 10-K for the year ended December 31, 2003, have been incorporated by reference herein in reliance upon the report of KPMG LLP, independent accountants, incorporated herein by reference, and upon the authority of said firm as experts in accounting and auditing.

## LEGAL MATTERS

The validity of the shares offered hereby will be passed upon for us by our counsel, Goodwin Procter LLP, Boston, Massachusetts.

**Table of Contents**

*You should rely only on the information contained in this prospectus, incorporated herein by reference or contained in a prospectus supplement. Neither we nor the selling stockholder has authorized anyone else to provide you with different or additional information. The selling stockholder is not making an offer of these securities in any state where the offer is not permitted. You should not assume that the information in this prospectus, incorporated herein by reference or in any prospectus supplement is accurate as of any date other than the date on the front of those documents.*

**TABLE OF CONTENTS**



## 2,400,000 Shares

# PLUG POWER INC.

## COMMON STOCK

*PROSPECTUS*

**April 6, 2004**

;

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: 7,244,000 and 7,208,000 shares issued and outstanding at October 1, 2010 and January 1, 2010, respectively

72,000

72,000

Additional paid-in capital

33,709,000

| | | |
|---|---|---|
| | | 33,440,000 |
| Accumulated deficit | (1,957,000) | (4,395,000) |
| Total stockholders equity | 31,824,000 | 29,117,000 |
| Total liabilities and stockholders equity | $ 47,726,000 | $ 40,332,000 |

**See accompanying notes to condensed consolidated financial statements.**

1

Table of Contents

**WILLDAN GROUP, INC. AND SUBSIDIARIES**

**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

**(Unaudited)**

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | October 1, 2010 | October 2, 2009 | October 1, 2010 | October 2, 2009 |
| Contract revenue | $ 20,706,000 | $ 14,561,000 | $ 58,024,000 | $ 47,230,000 |
| Direct costs of contract revenue: | | | | |
| Salaries and wages | 5,570,000 | 4,437,000 | 16,196,000 | 13,729,000 |
| Sub-consultant services | 5,433,000 | 1,772,000 | 10,912,000 | 6,380,000 |
| Other direct costs | 448,000 | 306,000 | 3,434,000 | 2,133,000 |
| Total direct costs of contract revenue | 11,451,000 | 6,515,000 | 30,542,000 | 22,242,000 |
| General and administrative expenses: | | | | |
| Salaries and wages, payroll taxes and employee benefits | 4,093,000 | 4,798,000 | 13,019,000 | 15,346,000 |
| Facilities and facility related | 1,117,000 | 1,104,000 | 3,246,000 | 3,340,000 |
| Stock-based compensation | 52,000 | 74,000 | 180,000 | 216,000 |
| Depreciation and amortization | 231,000 | 302,000 | 741,000 | 1,531,000 |
| Lease abandonment (recovery) expense, net | (75,000) | 195,000 | (62,000) | 176,000 |
| Other | 2,443,000 | 2,958,000 | 7,314,000 | 7,902,000 |
| Total general and administrative expenses | 7,861,000 | 9,431,000 | 24,438,000 | 28,511,000 |
| Income (loss) from operations | 1,394,000 | (1,385,000) | 3,044,000 | (3,523,000) |
| Other income (expense): | | | | |
| Interest income | 3,000 | 4,000 | 9,000 | 27,000 |
| Interest expense | (11,000) | (9,000) | (37,000) | (29,000) |
| Other, net | (3,000) | 2,000 | 17,000 | (1,000) |
| Total other income (expense), net | (11,000) | (3,000) | (11,000) | (3,000) |
| Income (loss) before income taxes | 1,383,000 | (1,388,000) | 3,033,000 | (3,526,000) |
| Income tax expense (benefit) | 595,000 | (510,000) | 595,000 | (1,296,000) |
| Net income (loss) | $ 788,000 | $ (878,000) | $ 2,438,000 | $ (2,230,000) |
| Earnings (loss) per share: | | | | |
| Basic and diluted | $ 0.11 | $ (0.12) | $ 0.34 | $ (0.31) |
| Weighted-average shares outstanding: | | | | |
| Basic | 7,236,000 | 7,204,000 | 7,229,000 | 7,187,000 |
| Diluted | 7,318,000 | 7,204,000 | 7,274,000 | 7,187,000 |

**See accompanying notes to condensed consolidated financial statements.**

Table of Contents

**WILLDAN GROUP, INC. AND SUBSIDIARIES**

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

**(Unaudited)**

| | Nine Months Ended October 1, 2010 | Nine Months Ended October 2, 2009 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net income (loss) | $ 2,438,000 | $ (2,230,000) |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | |
| Depreciation and amortization | 752,000 | 1,531,000 |
| Lease abandonment (recovery) expense, net | (62,000) | 176,000 |
| (Gain) loss on sale of equipment | (17,000) | 1,000 |
| Provision for doubtful accounts | 259,000 | 1,071,000 |
| Stock-based compensation | 180,000 | 216,000 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (1,578,000) | 1,737,000 |
| Costs and estimated earnings in excess of billings on uncompleted contracts | (5,259,000) | 801,000 |
| Income tax receivable | (4,000) | (276,000) |
| Other receivables | (165,000) | (12,000) |
| Prepaid expenses and other current assets | 391,000 | 606,000 |
| Other assets | (92,000) | 39,000 |
| Accounts payable | 1,487,000 | (1,098,000) |
| Accrued liabilities | 2,817,000 | (702,000) |
| Billings in excess of costs and estimated earnings on uncompleted contracts | 245,000 | 157,000 |
| Deferred lease obligations | (97,000) | (269,000) |
| Net cash provided by operating activities | 1,295,000 | 1,748,000 |
| | | |
| Cash flows from investing activities: | | |
| Purchase of equipment and leasehold improvements | (363,000) | (157,000) |
| Proceeds from sale of equipment | 31,000 | |
| Payments for business acquisition | (2,103,000) | (2,372,000) |
| Net cash used in investing activities | (2,435,000) | (2,529,000) |
| | | |
| Cash flows from financing activities: | | |
| Changes in excess of outstanding checks over bank balance | 335,000 | 655,000 |
| Payments on notes payable | (20,000) | (35,000) |
| Borrowings under line of credit | 8,970,000 | 1,247,000 |
| Repayments of line of credit | (8,970,000) | (1,247,000) |
| Principal payments on capital lease obligations | (102,000) | (133,000) |
| Proceeds from sales of common stock under employee stock purchase plan | 87,000 | 84,000 |
| Net cash provided by financing activities | 300,000 | 571,000 |
| Net (decrease) increase in cash and cash equivalents | (840,000) | (210,000) |
| Cash and cash equivalents at beginning of the period | 8,445,000 | 8,144,000 |
| Cash and cash equivalents at end of the period | $ 7,605,000 | $ 7,934,000 |
| | | |
| Supplemental disclosures of cash flow information: | | |
| Cash paid during the period for: | | |
| Interest | $ 35,000 | $ 31,000 |
| Income taxes | 5,000 | 1,000 |
| | | |
| Supplemental disclosures of noncash investing and financing activities: | | |

| | | | | |
|---|---|---|---|---|
| Equipment acquired under capital lease obligations | $ | 88,000 | $ | 53,000 |

**See accompanying notes to condensed consolidated financial statements.**

Table of Contents

**WILLDAN GROUP, INC. AND SUBSIDIARIES**
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**October 1, 2010**
**(Unaudited)**

## 1. BASIS OF PRESENTATION, ORGANIZATION AND OPERATIONS OF THE COMPANY

*Basis of Presentation*

The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ( GAAP ) and pursuant to the rules and regulations of the Securities and Exchange Commission and reflect all adjustments, which consist of only normal recurring adjustments, which are, in the opinion of management, necessary for a fair presentation of the consolidated results for the interim periods presented. Results for the interim period are not necessarily indicative of results for the full year. Certain information and footnote disclosures normally included in annual consolidated financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. The consolidated financial statements should be read in conjunction with Willdan Group, Inc. s 2009 Annual Report on Form 10-K filed on March 30, 2010.

*Nature of Business*

Willdan Group, Inc. and subsidiaries ( Willdan Group or the Company ) is a provider of outsourced services to small and mid-sized public agencies and large public utilities in California, New York, Arizona and to a lesser extent, other states throughout the United States. Outsourcing enables these agencies to provide a wide range of specialized services without having to incur and maintain the overhead necessary to develop staffing in-house. The Company provides a broad range of services to public agencies and, to a lesser extent, private industry, including civil engineering, building and safety services, geotechnical engineering, environmental engineering and environmental services, financial and economic consulting, energy efficiency, sustainability, water conservation, renewable energy, disaster preparedness, public safety consulting, management consulting and homeland security. Clients primarily consist of cities, counties, redevelopment agencies, water districts, school districts and universities, state agencies, federal agencies, a variety of other special districts and agencies, private industry and tribal governments.

*Principles of Consolidation*

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

*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 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.

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 up to costs incurred 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.

Table of Contents

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 sub-consultant services and other expenses, including permitted depreciation and amortization, 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, bonus expenses and other 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 nor is depreciation and amortization allocated to direct costs, unless otherwise permitted by contract. The Company expenses direct costs of contract revenue when incurred.

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 monthly basis. Management determines the allowance for doubtful accounts by identifying potentially troubled accounts and by using historical experience applied to an aging of accounts. Credit risk, historically, has been generally minimal with public entities, but disputes may arise related to these receivable amounts or budget constraints could impact the timeliness of receipts. Accounts receivables are written off when deemed uncollectible. Recoveries of accounts receivables previously written off are recorded when received.

The value of retainage is included in accounts receivable in the accompanying consolidated financial statements. Retainage represents the billed amounts that are retained by the customer, in accordance with the terms of the contract, generally until performance is substantially complete and accepted. At October 1, 2010 and January 1, 2010, the Company had retained accounts receivable of approximately $409,000 and $65,000, respectively.

*Fair Value of Financial Instruments*

The Company s financial instruments consist primarily of cash and cash equivalents, accounts receivable, income tax receivable, excess of outstanding checks over bank balance, accounts payable, accrued liabilities, notes payable and purchase price payable. Pursuant to the Financial Accounting Standards Board ( FASB ) Accounting Standards Codification ( ASC ) Topic 820, the fair value of the Company s cash equivalents is determined based on Level 1 inputs, which consist of quoted prices in active markets for identical assets. We believe that the recorded values of all of our other financial instruments approximate their current values because of their nature and respective durations.

*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.

**2. 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 October 1, 2010 was $15.2 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 and $0.7 million in transaction costs. The acquisition cost may further increase by up to $2.8 million if Willdan Energy Solutions achieves certain financial targets over the annual period ending on the last day of the Company s second fiscal quarter in 2011. The Company has recorded $12.5 million of goodwill associated with the acquisition.

Table of Contents

## 3. GOODWILL AND OTHER INTANGIBLE ASSETS

As of October 1, 2010 and January 1, 2010, the Company had $12.5 million and $10.4 million of goodwill, respectively, all of which relates to the Energy Solutions reporting unit, which is a component of the Engineering Services reportable segment.

The changes in the carrying value of goodwill by reporting unit for the fiscal nine months ended October 1, 2010 were as follows:

| | January 1, 2010 | Goodwill Additions | October 1, 2010 |
|---|---|---|---|
| **Reporting Unit:** | | | |
| Energy Solutions | $ 10,371,000 | $ 2,104,000 | $ 12,475,000 |
| | | | |
| Total | $ 10,371,000 | $ 2,104,000 | $ 12,475,000 |

The change in estimate to the carrying value of goodwill for the Energy Solutions reporting unit was a result of the payment of $2.1 million of additional purchase price payable as a result of Willdan Energy Solutions achieving certain financial targets though July 2, 2010, the end of the second earn-out period.

The gross amounts and accumulated amortization of the Company s acquired identifiable intangible assets with finite useful lives as of October 1, 2010 and January 1, 2010, included in intangible assets, net in the accompanying consolidated balance sheets, were as follows:

| | October 1, 2010 | | January 1, 2010 | | |
|---|---|---|---|---|---|
| | Gross Amount | Accumulated Amortization | Gross Amount | Accumulated Amortization | Amortization Period (yrs) |
| Backlog | $ 920,000 | $ 920,000 | $ 920,000 | $ 920,000 | 1 |
| Training materials/courses | 282,000 | 153,000 | 282,000 | 134,000 | 5 |
| Non-compete agreements | 30,000 | 30,000 | 30,000 | 29,000 | 3 |
| | $ 1,232,000 | $ 1,103,000 | $ 1,232,000 | $ 1,083,000 | |

For the fiscal three and nine months ended October 1, 2010, the Company s amortization expense for acquired identifiable intangible assets with finite useful lives was $4,000 and $20,000, respectively, compared to $14,000 and $589,000 for the fiscal three and nine months ended October 2, 2009, respectively. Estimated amortization expense for acquired identifiable intangible assets for the remainder of fiscal 2010 and the succeeding years is as follows:

| | |
|---|---|
| **Fiscal year:** | |
| 2010 | $ 34,000 |
| 2011 | 46,000 |
| 2012 | 37,000 |

| | | |
|---|---|---|
| 2013 | | 12,000 |
| | | |
| | $ | 129,000 |

6

Table of Contents

## 4. EARNINGS PER SHARE (EPS)

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

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

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | October 1, 2010 | October 2, 2009 | October 1, 2010 | October 2, 2009 |
| | (In thousands, except per share data) | | | |
| Net income (loss) | $ 788,000 | $ (878,000) | $ 2,438,000 | $ (2,230,000) |
| Weighted-average common shares outstanding | 7,236,000 | 7,204,000 | 7,229,000 | 7,187,000 |
| Effect of dilutive stock options | 82,000 | | 45,000 | |
| Weighted-average common stock outstanding-diluted | 7,318,000 | 7,204,000 | 7,274,000 | 7,187,000 |
| Earnings (loss) per share: | | | | |
| Basic and diluted | $ 0.11 | $ (0.12) | $ 0.34 | $ (0.31) |

For the three and nine months ended October 1, 2010, 524,000 options were excluded from the calculation of dilutive potential common shares, compared to 566,000 and 591,000 options, respectively, for the same periods last year. 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 periods. Accordingly, the inclusion of these options would have been anti-dilutive.

## 5. EQUIPMENT AND LEASEHOLD IMPROVEMENTS

Equipment and leasehold improvements consist of the following:

| | October 1, 2010 | January 1, 2010 |
|---|---|---|
| Furniture and fixtures | $ 4,366,000 | $ 4,452,000 |
| Computer hardware and software | 5,137,000 | 4,903,000 |
| Leasehold improvements | 800,000 | 748,000 |
| Equipment under capital leases | 770,000 | 719,000 |
| Automobiles, trucks, and field equipment | 350,000 | 424,000 |

| | | | | |
|---|---|---|---|---|
| | | 11,423,000 | | 11,246,000 |
| Accumulated depreciation and amortization | | (10,124,000) | | (9,650,000) |
| Equipment and leasehold improvements, net | $ | 1,299,000 | $ | 1,596,000 |

Table of Contents

## 6. ACCRUED LIABILITIES

Accrued liabilities consist of the following:

| | October 1, 2010 | January 1, 2010 |
|---|---|---|
| Accrued bonuses | $ 177,000 | $ 169,000 |
| Paid leave bank | 1,318,000 | 1,155,000 |
| Compensation and payroll taxes | 1,292,000 | 581,000 |
| Accrued legal | 49,000 | 136,000 |
| Accrued workers compensation insurance | 18,000 | 27,000 |
| Accrued rent | 431,000 | 563,000 |
| Income taxes payable | 699,000 | |
| Employee withholdings | 181,000 | 171,000 |
| Client deposits | 181,000 | 469,000 |
| Other | 2,981,000 | 1,238,000 |
| Total accrued liabilities | $ 7,327,000 | $ 4,509,000 |

## 7. LINE OF CREDIT

Under the terms of the Company s credit agreement with Wells Fargo Bank, National Association ( Wells Fargo ), as amended, the Company can borrow up to $5.0 million from time to time (as may be limited by the covenants in the credit agreement as discussed below) up to and until January 1, 2012. Loans made under the revolving line of credit will accrue interest at either (i) the floating rate equal to the prime rate in effect from time to time or (ii) the fixed rate of 1.75% above LIBOR, at the Company s election. For prime rate loans, the interest rate will be adjusted when each prime rate change by the bank is announced and becomes effective. There were outstanding borrowings of $1.0 million under this agreement, as of October 1, 2010.

Borrowings under the credit agreement are secured by all of the Company s accounts receivable and other rights to payment, general intangibles, inventory and equipment, including those of the Company s subsidiaries. In addition, borrowings under the credit agreement are secured by investments held in a securities account at Wells Fargo that must at all times have a collateral value of at least $5.0 million. Each of the Company s subsidiaries (except Public Agency Resources and Willdan Resource Solutions) has signed an unconditional guaranty of the Company s obligations under the credit agreement.

The credit agreement contains customary representations and affirmative covenants, including a covenant to maintain a tangible net worth of at least $18.0 million at all times. Tangible net worth is defined in the credit agreement as stockholders equity less intangible assets and loans or advances to, or investments in, any related entities or individuals. The impact of any non-cash property lease termination expense of up to $1.0 million in the aggregate recorded during the period from October 1, 2009 through December 31, 2010 will be excluded from the calculation of tangible net worth under the credit agreement. As of October 1, 2010, the Company s tangible net worth as defined under the Company s credit agreement was met.

The credit agreement also includes customary negative covenants, including a covenant that prohibits the incurrence of additional indebtedness by the Company or the Company s subsidiaries other than purchase money indebtedness not to exceed $2.0 million and indebtedness existing on the date of the credit agreement, and a covenant that prohibits payment of dividends on the Company s stock and redemptions, repurchases or other acquisitions of the Company s stock, except that the Company can repurchase stock with an aggregate fair market value up to $5.0 million in any calendar year. In addition, the credit agreement includes customary events of default for a credit facility. Upon a default, the interest rate will be increased by a default rate margin of 4.0%. Upon the occurrence of an event of default under the credit agreement, including a breach of any of the covenants discussed above, Wells Fargo has the option to make any loans then outstanding under the credit agreement immediately due and payable and is no longer obligated to extend further credit to the Company under the credit agreement.

**8. COMMITMENTS**

*Leases*

The Company is obligated under capital leases for certain furniture and office equipment that expire at various dates through the year 2013.

The Company also leases certain office facilities under noncancellable operating leases that expire at various dates through the year 2015 and is committed under noncancellable operating leases for the lease of computer equipment and automobiles through the year 2012.

Table of Contents

*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 has a discretionary bonus plan for employees as determined by the Company s 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 president may declare discretionary bonuses to key employees and all employees are eligible for what the Company refers to as the hot hand bonus program. The Company s compensation committee of the board of directors determines the compensation of the president.

*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. Mrs. Heil is also a member of the Company s board of directors. These benefits relate to past services provided to the Company. Accordingly, there is no unamortized compensation cost for the benefits.

*Additional Purchase Price Payable related to the Willdan Energy Solutions Acquisition*

As discussed in Note 2, if certain financial targets are achieved by Willdan Energy Solutions over the annual period ending on the last day of the Company s second fiscal quarter in 2011, one additional purchase price payment will be paid. The remaining payment cannot exceed $2.8 million, which is the $6.2 million maximum earn-out payments per the purchase agreement, less the earn-out amounts paid through the date hereof.

**9. INCOME TAXES**

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences of temporary differences between the financial reporting basis and tax basis of the Company s assets and liabilities, subject to 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. The Company applied net operating loss carryforwards to the extent of tax expense related to the six months ended July 2, 2010. In the three months ended October 1, 2010, the Company resumed its accrual of income tax expense after utilization of all of its federal net operating loss carryforwards.

**10. SEGMENT INFORMATION**

The Company has three segments: Engineering Services, Public Finance Services and Homeland Security Services.  The Engineering Services segment includes Willdan Engineering, Willdan Geotechnical, Public Agency Resources, Willdan Resource Solutions and Willdan Energy Solutions.  The Engineering Services segment performs services for a broad range of public agency clients and, to a lesser extent, private industry, and offers a full complement of civil and geotechnical engineering, energy efficiency, sustainability, water conservation, construction management, municipal planning services and building and safety services to clients primarily located in California, New York, Arizona and to a lesser extent, other western states.  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 homeland security planning, exercise and training services, management consulting and public safety consulting services to cities, counties and related municipal service agencies.

Table of Contents

The accounting policies applied to determine the segment information are the same as those described in the summary of significant accounting policies, included in the Company s 2009 Annual Report on Form 10-K filed on March 30, 2010. There were no intersegment sales during the fiscal three or nine months ended October 1, 2010 and October 2, 2009. 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.

Financial information with respect to the reportable segments as of and for the fiscal three and nine months ended October 1, 2010 and the fiscal three and nine months ended October 2, 2009 is as follows:

| | Engineering Services | Public Finance Services | Homeland Security Services | Unallocated Corporate | Intersegment | Consolidated Total |
|---|---|---|---|---|---|---|
| **Fiscal Three Months Ended October 1, 2010** | | | | | | |
| Contract revenue | $ 16,836,000 | $ 2,632,000 | $ 1,238,000 | $ | $ | $ 20,706,000 |
| Segment profit before income taxes | 862,000 | 334,000 | 97,000 | 90,000 | | 1,383,000 |
| Net income | 466,000 | 139,000 | 4,000 | 179,000 | | 788,000 |
| Segment assets | 156,810,000 | 23,468,000 | 6,494,000 | 143,975,000 | (283,021,000) | 47,726,000 |
| **Fiscal Three Months Ended October 2, 2009** | | | | | | |
| Contract revenue | $ 10,736,000 | $ 2,985,000 | $ 840,000 | $ | $ | $ 14,561,000 |
| Segment (loss) profit before income taxes | (1,652,000) | 401,000 | (116,000) | (21,000) | | (1,388,000) |
| Net (loss) income | (1,025,000) | 232,000 | (72,000) | (13,000) | | (878,000) |
| Segment assets | 123,559,000 | 23,524,000 | 5,139,000 | 125,362,000 | (234,148,000) | 43,436,000 |
| **Fiscal Nine Months Ended October 1, 2010** | | | | | | |
| Contract revenue | $ 46,104,000 | $ 8,062,000 | $ 3,858,000 | $ | $ | $ 58,024,000 |
| Segment profit (loss) before income taxes | 2,104,000 | 778,000 | 366,000 | (215,000) | | 3,033,000 |
| Net income (loss) | 1,708,000 | 583,000 | 274,000 | (127,000) | | 2,438,000 |
| Segment assets | 156,810,000 | 23,468,000 | 6,494,000 | 143,975,000 | (283,021,000) | 47,726,000 |
| **Fiscal Nine Months Ended October 2, 2009** | | | | | | |
| Contract revenue | $ 35,665,000 | $ 9,101,000 | $ 2,464,000 | $ | $ | $ 47,230,000 |
| Segment (loss) profit before income taxes | (4,200,000) | 808,000 | (89,000) | (45,000) | | (3,526,000) |
| Net (loss) income | (2,597,000) | 453,000 | (59,000) | (27,000) | | (2,230,000) |
| Segment assets | 123,559,000 | 23,524,000 | 5,139,000 | 125,362,000 | (234,148,000) | 43,436,000 |

**11. CONTINGENCIES**

*Claims and Lawsuits*

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

Table of Contents

*County of San Diego v. Willdan,* Superior Court of California, Riverside County

A complaint was filed against the Company on February 28, 2008 relating to a project for the reconstruction of a portion of Valley Center Road located in an unincorporated area of San Diego County. The design was completed by the Company and a contract was awarded to a construction contractor for construction of the improvements. The construction was originally scheduled for completion in December 2008; however, completion was delayed until fall 2009. The lawsuit alleges that the delays in construction were caused by errors and omissions in the Company s preparation of reports and design and engineering of the project, resulting in additional design and construction costs, in an amount to be determined but alleged to be in excess of $5.0 million. The Company denies the allegations asserted in the lawsuit and will vigorously defend against the claims. At October 1, 2010, the Company did not have a liability recorded on its balance sheet related to this complaint.

*French v. Willdan Engineering*, Superior Court of California, Riverside County

In January 1991, the Company was originally retained by the City of Calimesa, California to review and process development plans. The Company has provided plan review continuously since that date under various contracts with the City. As the City receives applications from developers for project approvals, the City forwards the project plans to the Company for processing. The Company processes the plans and the City pays the Company. In August 2008, a suit was filed by a City employee alleging that the City processed development applications without first collecting fees from developers to cover the costs of processing. The suit further alleges that even though the Company performed the work requested by the City, the City should not have paid the Company for its work in advance of collecting the developers fees. The complaint was amended by the plaintiff in May 2010 to provide additional details and the Company has filed an answer to the amended complaint. The plaintiff seeks to recover for the City amounts paid to the Company for processing project plans for which the developer fees have not been paid. The City of Calimesa has not requested any refunds from the Company or joined in the litigation and the City continues to retain the Company s services. The Company does not believe that this suit has any merit and will vigorously defend this claim. At October 1, 2010, the Company did not have a liability recorded on its balance sheet related to this complaint.

**Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations**

*The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the financial statements included elsewhere in this Quarterly Report and the audited financial statements for the year ended January 1, 2010, included in our Annual Report on Form 10-K (File No. 001-33076). This Quarterly Report contains, in addition to unaudited historical information, forward-looking statements, which involve risk and uncertainties. The words believe, expect, estimate, may, will, could, plan, or continue and similar expressions are intended to identify forward-looking statements. Our actual results could differ significantly from the results discussed in such forward-looking statements. Factors that could cause or contribute to such differences in results and outcomes include, without limitation, those discussed under the headings Item 1A. Risk Factors in our 2009 Annual Report on Form 10-K, and in other filings made from time to time with the United States Securities and Exchange Commission ( SEC ) after the date of this Quarterly Report on Form 10-Q. Readers are urged not to place undue reliance on these forward-looking statements, which speak only as of the date of this Quarterly Report on Form 10-Q. We undertake no obligation to (and we expressly disclaim any obligation to) revise or update any forward-looking statement, whether as a result of new information, subsequent events, or otherwise (except as may be required by law), in order to reflect any event or circumstance which may arise after the date of this Quarterly Report on Form 10-Q.*

**Overview**

We are a provider of outsourced services to small and mid-sized public agencies and large public utilities in California, New York, Arizona, and to a lesser extent, other states throughout the United States. Outsourcing enables these agencies to provide a wide range of specialized services, without having to incur and maintain the overhead necessary to develop staffing in-house. We provide a broad range of services to public agencies and to a lesser extent, private industry, including:

- Civil Engineering;
- Geotechnical Engineering;

Table of Contents

- Energy Efficiency Consulting;
- Financial and Economic Consulting;
- Disaster Preparedness and Homeland Security; and
- Building and Safety Services.

We operate our business through a network of offices located primarily in California and New York. We also have operations in Arizona and, to lesser extent, other states throughout the United States. As of October 1, 2010, we had a staff of 496 that includes licensed engineers and other professionals. Our traditional 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 large public utilities which service major metropolitan communities. We seek to establish close working relationships with our public agency clients and, over time, to expand the breadth and depth of the services we provide to them.

While we currently serve communities throughout the country, our business with public agencies is concentrated in California and neighboring states. We provide services to approximately 58% of the 481 cities and over 60% of the 58 counties in California. We also serve special districts, school districts, a range of public agencies, and to a lesser extent, private industry. Our business with large public utilities is concentrated in California and New York.

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

*Engineering Services.* Our Engineering Services segment includes the operations of our subsidiaries, Willdan Engineering, Willdan Geotechnical, Willdan Energy Solutions, Willdan Resource Solutions and Public Agency Resources ( PARs ). These businesses collectively provide engineering-related services, geotechnical engineering services, environmental engineering and environmental related services and energy efficiency, water conservation, sustainability and renewable energy services to public agencies and, to a lesser extent, private industry. Additionally, PARs primarily provides staffing to Willdan Engineering. Willdan Engineering is our largest subsidiary and currently represents our core business. Contract revenue for the Engineering Services segment represented approximately 79.5% and 75.6% of our consolidated contract revenue for the nine months ended October 1, 2010 and October 2, 2009, respectively.

*Public Finance Services.* Our Public Finance Services segment consists of the business of our subsidiary, Willdan Financial Services, which offers financial and economic consulting services to public agencies. Contract revenue for the Public Finance Services segment represented approximately 13.9% and 19.3% of our consolidated contract revenue for the nine months ended October 1, 2010 and October 2, 2009, respectively.

*Homeland Security Services.* Our Homeland Security Services segment consists of the business of our subsidiary, Willdan Homeland Solutions, which offers homeland security, management consulting and public safety consulting services. Contract revenue for our Homeland Security Services segment represented approximately 6.6% and 5.1% of our consolidated contract revenue for the nine months ended October 1, 2010 and October 2, 2009, respectively.

Table of Contents

**Recent Developments**

Over the last two years, 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. These conditions led to a slowdown in construction, particularly residential housing construction, in the western United States. While general economic conditions are beginning to improve, the housing market has not recovered while other areas such as energy and homeland security are showing improvement. As a result, we continue to experience declining revenue in our public finance services segment. The economic conditions also resulted in declining revenue in our traditional engineering services, although revenue for our engineering services segment has increased for the past two quarters due to the performance of Willdan Energy Solutions. We continuously evaluate our workforce and facility needs in each business area and focus on the efficient procurement of necessary services.

**Components of Income and Expense**

***Contract Revenue***

We enter into contracts with our clients that contain three principal types of pricing provisions: fixed price, time-and-materials and unit-based. 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. 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 54% 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. 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.

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.

***Direct Costs of Contract Revenue***

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 sub-consultant services and other expenses that are incurred in connection with revenue producing projects. Direct costs of contract revenue 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, bonus expenses and other 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 outsource services, we do not believe gross margin is a consistent or appropriate indicator of our performance and therefore we do not use this measure as construction contractors and other types of consulting firms may. Other companies may classify as direct costs of contract 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 staff, other marketing expenses, management and administrative personnel costs, payroll taxes, bonus expenses and other 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, including legal and accounting fees, and administrative operating costs. Within general and administrative expenses, Other includes expenses such as professional services, legal and accounting fees, computer costs, travel and entertainment and marketing costs. We expense general and administrative costs when incurred.

Table of Contents

**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 in our Annual Report on Form 10-K for the year ended January 1, 2010. 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. The uncertainty inherent in such estimates and assumptions should be considered in tandem with the general economic conditions discussed above in Recent Developments.

***Contract Accounting***

Applying the percentage-of-completion method of recognizing revenue requires us to estimate the indicated 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. Account receivables 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 Management s Discussion and Analysis of Financial Condition and Results of Operations Components of Income and Expense Contract Revenue elsewhere in this report.

***Goodwill Impairment Valuation***

We test 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 test our goodwill for impairment at the level of our reporting units, which are components of our operating segments. The only reporting unit that still has goodwill is Willdan Energy Solutions, which is part of our engineering services segment. The process of testing goodwill for impairment involves the determination of the fair value of the applicable reporting units. To estimate the fair value of our reporting units, we use an income approach based on a multiple of historical cash flows, management s estimates of future cash flows and other market data. We also use a market approach based upon multiples of EBITDA, a non-GAAP financial measure, earned by similar public companies. For our fiscal year 2009 annual impairment 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.

Table of Contents

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, including discount rates. To the extent these assumptions are incorrect or economic conditions that would impact the future operations of our reporting units change, our 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. At our measurement date, the estimated fair value of our Energy Solutions reporting unit, which is the only remaining unit with goodwill, exceeded the carrying value by approximately 25%. Therefore, a 10% decrease in the fair value of our Energy Solutions reporting unit from that determined during our 2009 annual impairment testing would not have resulted in an impairment charge.

***Accounting for Claims Against the Company***

We record liabilities to claimants for probable and estimable claims, if any, on our consolidated balance sheet, which we include in accrued liabilities, and record a corresponding receivable from our insurance company for the portion of the claim that is probable of being covered by insurance, which we include in other receivables. The estimated claim net of the amount estimated to be recoverable from the insurance company is included in our general and administrative expenses. Determining probability and estimating claim amounts is highly judgmental. Initial accruals and any subsequent changes in our estimates could have a material effect on our consolidated financial statements.

**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.

Table of Contents

| Statement of Operations Data | Fiscal Three Months Ended October 1, 2010 | Fiscal Three Months Ended October 2, 2009 | Fiscal Nine Months Ended October 1, 2010 | Fiscal Nine Months Ended October 2, 2009 |
|---|---|---|---|---|
| Contract revenue | 100.0% | 100.0% | 100.00% | 100.0% |
| Direct costs of contract revenue: | | | | |
| Salaries and wages | 26.9 | 30.5 | 27.9 | 29.1 |
| Sub-consultant services | 26.2 | 12.2 | 18.8 | 13.5 |
| Other direct costs | 2.2 | 2.1 | 5.9 | 4.5 |
| Total direct costs of contract revenue | 55.3 | 44.7 | 52.6 | 47.1 |
| General and administrative expenses: | | | | |
| Salaries and wages, payroll taxes, employee benefits | 19.8 | 33.0 | 22.4 | 32.5 |
| Facilities and facility related | 5.4 | 7.6 | 5.6 | 7.1 |
| Stock-based compensation | 0.3 | 0.5 | 0.3 | 0.5 |
| Depreciation and amortization | 1.1 | 2.1 | 1.3 | 3.2 |
| Lease abandonment (expense) recovery, net | (0.4) | 1.3 | (0.1) | 0.4 |
| Other | 11.8 | 20.3 | 12.6 | 16.7 |
| Total general and administrative expenses | 38.0 | 64.8 | 42.1 | 60.4 |
| Income (loss) from operations | 6.7 | (9.5) | 5.2 | (7.5) |
| Other income (expense): | | | | |
| Interest income | | | | 0.1 |
| Interest expense | (0.1) | (0.1) | (0.1) | (0.1) |
| Other, net | | | | |
| Total other income, net | (0.1) | | | |
| Income (loss) before income taxes | 6.7 | (9.5) | 5.2 | (7.5) |
| Income tax expense (benefit) | 2.9 | (3.5) | 1.0 | (2.7) |
| Net income (loss) | 3.8% | (6.0)% | 4.2% | (4.7)% |

***Three Months Ended October 1, 2010 Compared to Three Months Ended October 2, 2009***

*Contract revenue.* Our contract revenue was $20.7 million for the three months ended October 1, 2010, with $16.8 million attributable to the Engineering Services segment and $2.7 million attributable to the Public Finance Services segment. Our Homeland Security Services segment generated $1.2 million during this period. Consolidated contract revenue increased $6.1 million, or 42.2%, to $20.7 million for the three months ended October 1, 2010, from $14.6 million for the three months ended October 2, 2009. This was due to increases of $6.1 million, or 56.8%, in contract revenue for the Engineering Services segment, primarily as a result of the increase in demand for the services of Willdan Energy Solutions, and $0.4 million, or 47.7%, in contract revenue for the Homeland Security Services segment, partially offset by a decrease in contract revenue for the Public Finance Services segment of $0.4 million, or 11.8%.

Contract revenue for the Engineering Services segment has increased primarily because we have experienced an increase in demand for energy efficiency, sustainability and renewable energy services. The increased revenues generated by Willdan Energy Solutions has offset lower revenues in other areas of our Engineering Services segment, which has been significantly impacted by the decline in the California residential housing market and state and local government budget cuts. A source of revenue in our Engineering Services segment is fees assessed for building permits. Since the second half of fiscal 2007, we have experienced reductions in revenue from these fees because of the slowdown in residential construction in the western United States. We have also experienced declines in our other building and safety projects which is both directly and indirectly affected by the housing market. Revenue in the Public Finance Services segment decreased primarily due to lower levels of activity in the financial consulting business as a result of the general downturn in macro-economic conditions. Revenue in the Homeland Security Services segment has increased due to an increase in demand for our traditional and expanded homeland security, management consulting and public safety consulting services. Our Homeland Security Services segment has expanded its service offerings beyond its traditional planning, training and exercise services to include public safety and interoperability communications and management consulting.

Table of Contents

*Direct costs of contract revenue.* Direct costs of contract revenue were $11.4 million for the three months ended October 1, 2010, with $10.3 million attributable to the Engineering Services segment, $0.6 million attributable to the Public Finance Services segment, and $0.5 million attributable to the Homeland Security Services segment. Overall, direct costs increased by $4.9 million, or 75.7%, to $11.4 million for the three months ended October 1, 2010, from $6.5 million for the three months ended October 2, 2009. This increase is primarily attributable to an increase in direct costs for our Engineering Services segment of $5.0 million. Direct costs of contract revenue increased by $0.1 million for our Homeland Security Services segment and decreased by $0.2 million for our Public Finance Services segment.

Direct costs increased as a result of increases in salaries and wages, subconsultant services and other direct costs of $1.1 million, $3.7 million, and $0.1 million, respectively. Within direct costs of contract revenue, salaries and wages decreased to 26.9% of contract revenue for the three months ended October 1, 2010 from 30.5% for the three months ended October 2, 2009. Comparing those same periods, subconsultant services increased to 26.2% of contract revenue from 12.2% of contract revenue. Consultant services increased primarily because of increased demand for the energy efficiency, sustainability and renewable energy services of our subsidiary Willdan Energy Solutions, which generally utilizes a higher percentage of subconsultants than our other subsidiaries. Increased chargeability of labor also shifted more employee related costs to direct costs of contract revenue because we only allocate the portion of salaries and wages related to time spent directly generating revenues to direct costs of contract revenue.

*General and administrative expenses.* General and administrative expenses decreased by $1.6 million, or 16.6%, to $7.9 million for the three months ended October 1, 2010 from $9.4 million for the three months ended October 2, 2009. This was due primarily to a decrease of $1.5 million in general and administrative expenses of the Engineering Services segment. General and administrative expenses decreased by $0.1 million for our Public Finance Services segment and increased by $0.1 million for our Homeland Security Services segment. Our unallocated corporate expenses remained flat. General and administrative expenses as a percentage of contract revenue decreased to 38.0% for the three months ended October 1, 2010 from 64.8% for the three months ended October 2, 2009.

Of the $1.6 million decrease in general and administrative expenses, approximately $0.7 million relates to decreases in salaries and wages, payroll taxes and employee benefits. The reduction in employee related costs primarily resulted from increased chargeability of labor which shifted more employee related costs to direct costs of contract revenue. As discussed above under Components of Income and Expense Direct Costs of Contract Revenue, we do not allocate that portion of salaries and wages not related to time spent directly generating revenue to direct costs of contract revenue. General and administrative expenses also decreased by $0.3 million primarily as a result of a decrease in lease abandonment charges. There was a credit of $75,000 included in our income which related to a recovery of prior lease abandonment charges. Our lease abandonment charges decreased because we were able to successfully renew certain abandoned facility lease terms on more favorable terms. We were also able to terminate an abandoned facility lease early for which we had previously accrued an abandonment charge through the original term of the lease. As a result, we had to reverse out prior accruals to lease abandonment charges. The remaining $0.1 million decrease was due to a decrease in the amortization expense of acquired intangible assets. The remaining $0.4 million decrease in other general and administrative expenses is attributable to reductions in professional service fees and automobile and other expenses.

*Income (loss) from operations.* As a result of the above factors, our operating income was $1.4 million for the three months ended October 1, 2010 as compared to an operating loss of $1.4 million for the three months ended October 2, 2009. Income (loss) from operations as a percentage of contract revenue was 6.7% for the three months ended October 1, 2010, as compared to (9.5)% in the prior year period.

*Other income (expense).* Other income (expense), net essentially remained flat in the three months ended October 1, 2010, as compared to the three months ended October 2, 2009.

17

Table of Contents

*Income tax expense (benefit).* Due to our exhaustion of certain net operating loss carryforwards, we recorded an income tax expense of $0.6 million for the three months ended October 1, 2010, compared to an income tax benefit of $0.5 million for the three months ended October 2, 2009.

*Net income (loss).* As a result of the above factors, our net income was $0.8 million for the three months ended October 1, 2010 compared to a net loss of $0.9 million for the three months ended October 2, 2009.

***Nine Months Ended October 1, 2010 Compared to Nine Months Ended October 2, 2009***

*Contract revenue.* Our contract revenue was $58.0 million for the nine months ended October 1, 2010, with $46.1 million attributable to the Engineering Services segment and $8.1 million attributable to the Public Finance Services segment. Our Homeland Security Services segment generated $3.8 million during this period. Consolidated contract revenue increased $10.8 million, or 22.9%, to $58.0 million for the nine months ended October 1, 2010, from $47.2 million for the nine months ended October 2, 2009. This was due primarily to an increase of $10.4 million, or 29.2%, in contract revenue for the Engineering Services segment primarily as a result of the increase in demand for the energy efficiency, sustainability and renewable energy services of our subsidiary, Willdan Energy Solutions. Contract revenue in the Public Finance Services segment decreased $1.0 million, or 11.4%, from $9.1 million to $8.1 million for the nine months ended October 1, 2010 as compared to the nine months ended October 2, 2009. Contract revenue for our Homeland Security Services segment increased $1.4 million, or 56.8%, from $2.4 million to $3.8 million for the nine months ended October 1, 2010 as compared to the nine months ended October 2, 2009.

The $10.4 million increase in contract revenue for the Engineering Services segment resulted from an increase of $11.3 million of revenue recognized by Willdan Energy Solutions in the first nine months of fiscal 2010, partially offset by decreases in other areas of the Engineering Services segment. Contract revenue for the Engineering Services segment was significantly impacted by the decline in the California residential housing market and state and local government budget cuts. A source of revenue in our Engineering Services segment is fees assessed for building permits. Since the second half of fiscal 2007, we have experienced reductions in revenue from these fees because of the slowdown in residential construction in the western United States. We have also experienced a decline in our other building and safety projects which is both directly and indirectly affected by the housing market. Revenue in the Public Finance Services segment decreased primarily due to lower levels of activity in the financial consulting business as a result of the general downturn in macro-economic conditions. Revenue in the Homeland Security Services segment has increased due to an increase in demand for our traditional and expanded homeland security, management consulting and public safety consulting services. Our Homeland Security Services segment has expanded its service offerings beyond its traditional planning, training and exercise services to include public safety and interoperability communications and management consulting.

*Direct costs of contract revenue.* Direct costs of contract revenue were $30.5 million for the nine months ended October 1, 2010, with $26.6 million attributable to the Engineering Services segment and $2.2 million attributable to the Public Finance Services segment. The additional $1.7 million is attributable to direct costs of contract revenue for our Homeland Security Services segment. Overall, direct costs increased by $8.3 million, or 37.3%, to $30.5 million for the nine months ended October 1, 2010, from $22.2 million for the nine months ended October 2, 2009. This increase is primarily attributable to an increase in direct costs within our Engineering Services segment of $8.1 million. Direct costs of contract revenue increased by $0.5 million for our Homeland Security Services segment and decreased by $0.3 million for our Public Finance Services segment due to decreased levels of activity in the Public Finance Services segment.

Direct costs increased as a result of increases in salaries and wages, subconsultant services and other direct costs of $2.5 million, $4.5 million and $1.3 million, respectively. Within direct costs of contract revenue, salaries and wages decreased to 27.9% of contract revenue for the nine months ended October 1, 2010 from 29.1% for the nine months ended October 2, 2009 and subconsultant services increased to 18.8% of contract revenue for the nine months ended October 1, 2010 from 13.5% of contract revenue for the nine months ended October 2, 2009. Consultant services increased primarily because of increased demand for the energy efficiency, sustainability and renewable energy services of our subsidiary Willdan Energy Solutions, which generally utilizes a higher percentage of subconsultants than our other subsidiaries. Increased chargeability of labor also shifted more employee related costs to direct costs of contract revenue because we only allocate the portion of salaries and wages related to time spent directly generating revenues to direct costs of contract revenue.

Table of Contents

*General and administrative expenses.* General and administrative expenses decreased by $4.1 million, or 14.3%, to $24.4 million for the nine months ended October 1, 2010 from $28.5 million for the nine months ended October 2, 2009. This was due primarily to a decrease of $4.2 million in general and administrative expenses of the Engineering Services segment. General and administrative expenses decreased by $0.7 million for our Public Finance Services segment and increased by $0.5 million for our Homeland Security Services segment. Unallocated corporate expenses increased by $0.3 million. General and administrative expenses as a percentage of contract revenue decreased to 42.1% for the nine months ended October 1, 2010 from 60.4% for the nine months ended October 2, 2009.

Of the $4.1 million decrease in general and administrative expenses, approximately $2.3 million relates to decreases in salaries and wages, payroll taxes and employee benefits. The reduction in employee related costs primarily resulted from increased chargeability of labor which shifted more employee related costs to direct costs of contract revenue. As discussed above under Components of Income and Expense Direct Costs of Contract Revenue, we do not allocate that portion of salaries and wages not related to time spent directly generating revenue to direct costs of contract revenue. Our lease abandonment charges decreased because we were able to successfully renew certain abandoned facility lease terms on more favorable terms. We were also able to terminate an abandoned facility lease early for which we had previously accrued an abandonment charge through the original term of the lease. As a result, we had to reverse out prior accruals to lease abandonment charges. The decrease in depreciation and amortization expense of $0.8 million primarily resulted from the decrease in the amortization of acquired intangible assets. The remaining $1.0 million decrease is attributable to reductions in facilities and facility related expenses, lease abandonment expenses and other general and administrative expenses.

*Income (loss) from operations.* As a result of the above factors, our operating income was $3.0 million for the nine months ended October 1, 2010, as compared to an operating loss of $(3.5) million for the nine months ended October 2, 2009. Income (loss) from operations as a percentage of contract revenue was 5.2% for the nine months ended October 1, 2010, as compared to (7.5)% in the prior year period.

*Other income (expense).* Other income (expense), net essentially remained flat in the nine months ended October 1, 2010, as compared to the nine months ended October 2, 2009.

*Income tax expense (benefit).* Due to our exhaustion of certain net operating loss carryforwards, we recorded an income tax expense of $0.6 million for the nine months ended October 1, 2010, compared to an income tax benefit of $1.3 million for the prior year period.

*Net income (loss).* As a result of the above factors, our net income was $2.4 million for the nine months ended October 1, 2010 compared to a net loss of $2.2 million for the nine months ended October 2, 2009.

**Liquidity and Capital Resources**

As of October 1, 2010, we had $7.6 million of cash and cash equivalents. Our primary sources of liquidity are cash generated from operations and funds available under our revolving line of credit with Wells Fargo Bank, National Association ( Wells Fargo ), which matures on January 1, 2012. While we believe that our cash and cash equivalents on hand, cash generated by operating activities and funds available under our 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 or violate the current terms of our credit agreement, we may have difficulty obtaining additional funds on favorable terms, if at all.

***Cash flows from operating activities***

Cash flows provided by operating activities for the nine months ended October 1, 2010 resulted primarily from net income of $2.4 million plus adjustments for non-cash items of approximately $1.1 million and increases in accounts payable and accrued liabilities of approximately $4.3 million, partially offset by increases in accounts receivable and costs and estimated earnings in excess of billings on uncompleted contracts of $6.8 million. Cash flows provided by operating activities for the nine months ended October 1, 2009 resulted primarily from adjustments for non-cash items of approximately $3.0 million and decreases in accounts receivable, costs and estimated earnings in excess of billing on uncompleted contracts and prepaid expenses of approximately $3.1 million, partially offset by a net loss of $2.2 million and decreases in accounts payable and accrued liabilities of approximately $1.8 million.

Table of Contents

***Cash flows from investing activities***

Cash flows used for investing activities for the nine months ended October 1, 2010 and October 2, 2009 were primarily the result of additional payments made for the purchase of Willdan Energy Solutions in the amounts of $2.1 million and $2.4 million, respectively.

***Cash flows from financing activities***

Cash flows provided by financing activities were $0.3 million for the nine months ended October 1, 2010 compared to $0.6 million provided by financing activities for the nine months ended October 2, 2009. Cash flows provided by financing activities decreased by $0.3 million primarily due to changes in excess of outstanding checks over bank balances during these periods.

***Outstanding indebtedness***

We currently have a revolving line of credit with Wells Fargo, which was amended on October 15, 2010. We have also financed, from time to time, insurance premiums by entering into unsecured notes payable with insurance companies. During our annual insurance renewals in the fourth quarter of our fiscal year ended January 1, 2010, we elected not to finance our insurance premiums for fiscal 2010.

Under the terms of our credit agreement with Wells Fargo, we can borrow up to $5.0 million from time to time (as may be limited by the covenants in the credit agreement as discussed below) up to and until January 1, 2012. Loans made under the revolving line of credit will accrue interest at either (i) the floating rate equal to the prime rate in effect from time to time or (ii) the fixed rate of 1.75% above LIBOR, at our election. For prime rate loans, the interest rate will be adjusted when each prime rate change by the bank is announced and becomes effective. There were outstanding borrowings of $1.0 million under this agreement as of October 1, 2010.

Borrowings under the credit agreement are secured by all of our accounts receivable and other rights to payment, general intangibles, inventory and equipment, including those of our subsidiaries. In addition, borrowings under the credit agreement are secured by investment property we hold in a securities account at Wells Fargo that must at all times have a collateral value of at least $5.0 million. Each of our subsidiaries (except Public Agency Resources and Willdan Resource Solutions) has signed an unconditional guaranty of our obligations under the agreements.

The credit agreement contains customary representations and affirmative covenants, including a covenant to maintain a tangible net worth of at least $18.0 million at all times. Tangible net worth is defined in the credit agreement as stockholders equity less intangible assets and loans or advances to, or investments in, any related entities or individuals. As of October 1, 2010, our tangible net worth as defined under our credit agreement was $19.5 million(1).

(1) Tangible net worth is a supplemental measure used in our credit agreement. If we do not maintain tangible net worth of at least $18.0 million, Wells Fargo could choose to accelerate any loans then outstanding under the facility or refuse to make additional loans to us under the facility. Management therefore believes that presentation of tangible net worth as defined in the credit agreement is useful to investors because it helps them understand how our tangible net worth compares to the financial covenant contained in our credit agreement and whether we are close to violating such covenant. Management also reviews tangible net worth to ensure it will continue to have access to its financing sources. Tangible net worth is defined in the credit agreement as the aggregate of total stockholders equity less any intangible assets and less any loans or advances to, or investments in, any related entities or individuals. For the purposes of calculating Tangible Net Worth, the impact of non-cash property lease termination expense of up to $1.0 million in the aggregate recorded during the period from October 1, 2009 through December 31, 2010 will be excluded from the covenant calculation. This definition of tangible net worth 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

Table of Contents

The credit agreement also includes customary negative covenants, including a covenant that prohibits the incurrence of additional indebtedness by us or our subsidiaries other than purchase money indebtedness not to exceed $2.0 million and indebtedness existing on the date of the credit agreement, and a covenant that prohibits payment of dividends on our stock and redemptions, repurchases or other acquisitions of our stock, except that we can repurchase stock with an aggregate fair market value up to $5.0 million in any calendar year. In addition, the credit agreement includes customary events of default for a credit facility. Upon a default, the interest rate will be increased by a default rate margin of 4.0%. Upon the occurrence of an event of default under the credit agreement, including a breach of any of the covenants discussed above, Wells Fargo has the option to make any loans then outstanding under the credit agreement immediately due and payable and is no longer obligated to extend further credit to us under the credit agreement.

***Contractual obligations***

We had no material changes in commitments for long-term debt obligations, operating lease obligations or capital lease obligations as of October 1, 2010, as compared to those disclosed in our table of contractual obligations included in our Annual Report on Form 10-K for the year ended January 1, 2010.

***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.

**Recent Accounting Pronouncements**

As of October 1, 2010, the impact of recent accounting pronouncements on the Company is not expected to be material.

**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, plan, anticipate, believe, estimate, predict, project, potential, or continue or the negative of such terms or other comparable terminol 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;

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accounting principles, or GAAP, such as stockholders equity. Tangible net worth is not a recognized term under GAAP and does not purport to be an alternative to stockholders equity as an indicator of net worth or any other GAAP measure.

The following is a reconciliation of stockholders equity to tangible net worth:

| | | October 1, 2010 |
|---|---|---|
| Stockholders equity | $ | 31,824,000 |
| Goodwill and other intangibles, net | | (12,874,000) |
| Permitted lease abandonment | | 531,000 |
| Tangible net worth | $ | 19,481,000 |

21

Table of Contents

- 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 available 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 report. The forward-looking statements in this report, as well as subsequent written and oral forward-looking statements attributable to us or persons acting on our behalf, are hereby expressly qualified in their entirety by the cautionary statements in this report, including the risk factors in our Form 10-K for the year ended January 1, 2010. 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 3. 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 $7.6 million as of October 1, 2010. This amount includes $1.4 million invested in the Wells Fargo Stage Coach Sweep Investment Account and $5.3 million invested in the Wells Fargo Money Market Mutual Fund. The balance of $0.9 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 October 1, 2010, we had $1.0 million outstanding debt under our revolving credit facility that bears interest at variable rates.

**Item 4. 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, Kimberly Gant, as appropriate to allow timely decisions regarding required disclosure.

Our management, including our Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of our disclosure controls and procedures as of October 1, 2010. 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 October 1, 2010. 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.

Table of Contents

**PART II.  OTHER INFORMATION**

**Item 1.  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.  We may incur substantial expenses in defending against third party claims.  In the event of a determination adverse to us, we may incur substantial monetary liability and be required to change our business practices.  Either of these results could have a material adverse effect on our financial position, results of operations or cash flows.

Other than as described below, we are not currently involved in any material litigation nor, to our knowledge, is any material litigation currently threatened against us, other than routine litigation arising in the ordinary course of business, most of which is expected to be covered by liability insurance.

*County of San Diego v. Willdan,* Superior Court of California, Riverside County

A complaint was filed against us on February 28, 2008 relating to a project for the reconstruction of a portion of Valley Center Road located in an unincorporated area of San Diego County.  The design was completed by us and a contract was awarded to a construction contractor for construction of the improvements.  The construction was originally scheduled for completion in December 2008; however completion was delayed until fall 2009.  The lawsuit alleges that the delays in construction were caused by errors and omissions in our preparation of reports and design and engineering of the project, resulting in additional design and construction costs, in an amount to be determined but alleged to be in excess of $5.0 million.  We deny the allegations asserted in the lawsuit and will vigorously defend against the claims.

*French v. Willdan Engineering*, Superior Court of California, Riverside County

In January 1991, we were originally retained by the City of Calimesa, California to review and process development plans.  We have provided plan review continuously since that date under various contracts with the City. As the City receives applications from developers for project approvals, the City forwards the project plans to us for processing.  We process the plans and the City pays the Company for its services.  In August 2008, a suit was filed by a City employee alleging that the City processed development applications without first collecting fees from developers to cover the costs of processing.  The suit further alleges that even though we performed the work requested by the City, the City should not have paid us for our work in advance of collecting the developers   fees.  The complaint was amended by the plaintiff in May 2010 to provide additional details and we have filed an answer to the complaint.  The plaintiff seeks to recover for the City amounts paid to Willdan for processing project plans for which the developer fees have not been paid.  The City of Calimesa has not requested any refunds from us or joined in the litigation, and the City continues to retain our services.  We do not believe that this suit has any merit and will vigorously defend this claim.

**Item 1A. Risk Factors**

There have been no material changes in our risk factors from those disclosed in our Annual Report on Form 10-K for the year ended January 1, 2010.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

None.

**Item 3. Defaults upon Senior Securities**

None.

Table of Contents

**Item 4. (Removed and Reserved)**

**Item 5. Other Information**

None.

Table of Contents

**Item 6. Exhibits**

| Exhibit Number | Exhibit Description |
|---|---|
| 3.1 | First Amended and Restated Certificate of Incorporation of Willdan Group, Inc., including amendments thereto(1) |
| 3.2 | Amended and Restated Bylaws of Willdan Group, Inc.(2) |
| 10.1 | Sixth Amendment to Credit Agreement, entered into on October 15, 2010, between Willdan Group, Inc. and Wells Fargo Bank, National Association* |
| 10.2 | Revolving Line of Credit Note for $5,000,000 dated October 15, 2010, by Willdan Group, Inc. in favor of Wells Fargo Bank, National Association* |
| 31.1 | Certification of Chief Executive 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* |
| 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* |

* Filed herewith.

(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.

Table of Contents

**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**WILLDAN GROUP, INC.**

| | |
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| By: | /s/ Kimberly D. Gant |
| | Kimberly D. Gant |
| | *Chief Financial Officer, Senior Vice President* |
| | Date: November 15, 2010 |

26