Willdan Group, Inc.
Form 10-K
March 29, 2012

Use these links to rapidly review the document
TABLE OF CONTENTS
ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA
ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

Table of Contents

# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 10-K

**(Mark One)**

ý **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the Fiscal Year Ended December 30, 2011.**

**Or**

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

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

# WILLDAN GROUP, INC.

(Exact name of registrant as specified in its charter)

| **Delaware** | **14-1951112** |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

**2401 East Katella Avenue, Suite 300, Anaheim, California 92806**
(Address of principal executive offices) (Zip Code)

**(800) 424-9144**
(Registrant's telephone number, including area code)

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

| **Common Stock, $0.01 par value** | **NASDAQ Global Market** |
|---|---|
| (Title of class) | (Name of exchange) |

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

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

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý Noo

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý Noo

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

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

| Large accelerated filer o | Accelerated filer o | Non-accelerated filer o<br>(Do not check if a smaller reporting company) | Smaller reporting company ý |
|---|---|---|---|

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, as reported on the NASDAQ Global Market, as of the last business day of the registrant's most recently completed second fiscal quarter was $23.3 million.

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

On March 26, 2012, 7,296,585 shares of the registrant's common stock were issued and outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

Part III of this Form 10-K incorporates information by reference from the registrant's definitive proxy statement for the 2012 Annual Meeting to be filed on or prior to 120 days after the end of our fiscal year.

Table of Contents

## TABLE OF CONTENTS


| | | Page |
|---|---|---|
| | **PART I** | |
| ITEM 1. | BUSINESS | 1 |
| ITEM 1A. | RISK FACTORS | 20 |
| ITEM 1B. | UNRESOLVED STAFF COMMENTS | 27 |
| ITEM 2. | PROPERTIES | 27 |
| ITEM 3. | LEGAL PROCEEDINGS | 27 |
| ITEM 4. | MINE SAFETY DISCLOSURES | 28 |
| | **PART II** | |
| ITEM 5. | MARKET FOR THE REGISTRANT'S COMMON STOCK, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES | 29 |
| ITEM 6. | SELECTED FINANCIAL DATA | 30 |
| ITEM 7. | MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS | 32 |
| ITEM 7A. | QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK | 44 |
| ITEM 8. | FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA | 45 |
| ITEM 9. | CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE | 46 |
| ITEM 9A. | CONTROLS AND PROCEDURES | 46 |
| ITEM 9B. | OTHER INFORMATION | 46 |
| | **PART III** | |
| ITEM 10. | DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT | 47 |
| ITEM 11. | EXECUTIVE COMPENSATION | 47 |
| ITEM 12. | SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED SHAREHOLDER MATTERS | 47 |
| ITEM 13. | CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS | 47 |
| ITEM 14. | PRINCIPAL ACCOUNTANT FEES AND SERVICES | 47 |
| | **PART IV** | |
| ITEM 15. | EXHIBITS AND FINANCIAL STATEMENT SCHEDULES | 48 |

Table of Contents

## PART I

### ITEM 1. BUSINESS

**Overview**

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

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

We operate our business through a network of offices located primarily in California and New York. We also have operations in Arizona Florida, Texas, Washington and Washington, DC. As of December 30, 2011, we had a staff of 562 which includes licensed engineers and other professionals. Based on our 2010 revenue, we ranked 149 out of 500 top design firms in Engineering News-Record's 2011 Design Survey. Historically, our clients have been public agencies in communities with populations ranging from 10,000 to 300,000 people. We believe communities of this size are underserved by large outsourcing companies that tend to focus on securing large federal and state projects, as well as projects for the private sector. Recently, we have begun to provide increased services to public and private utilities that service major metropolitan communities and commercial and industrial firms, particularly in connection with the growth of our energy efficiency and sustainability services. We seek to establish close working relationships with our clients and expand the breadth and depth of the services we provide to them over time.

While we currently serve communities throughout the country, our business with public agencies is concentrated in California and neighboring states. We provide services to approximately 56% of the 482 cities and over 60% of the 58 counties in California. We also serve special districts, school districts, a range of public agencies and private industry. Our business with public and private utilities is concentrated in California and New York.

In fiscal 2008 and 2009, general economic conditions declined due to a number of factors including slower economic activity, a lack of available credit, decreased consumer confidence and reduced corporate profits and capital spending, leading to a slowdown in construction, particularly residential housing construction, in the western United States. As a result of this slowdown, both our Engineering Services segment and Public Finance Services segment suffered declines in revenue and operating margin compression. While economic conditions began to improve in fiscal 2010 and 2011, the recovery has been slow, particularly with regard to our traditional engineering services and public finance services. However, our profitability has increased in fiscal 2010 and 2011 as a result of increased revenues from our Energy Efficiency Services segment. See "Management's Discussion and Analysis of Financial Condition and Results of Operation."

We were founded in 1964 and Willdan Group, Inc., a Delaware corporation, was formed in 2006 to serve as our holding company. We consist of a family of wholly owned companies that operate within the following segments for financial reporting purposes:

*Engineering Services.* Our Engineering Services segment includes the operations of our subsidiaries, Willdan Engineering and Public Agency Resources ("PARs"). Willdan Engineering

Table of Contents

provides civil engineering-related and city planning services, geotechnical and other engineering consulting services to our clients. PARs primarily provides staffing to Willdan Engineering. For fiscal years 2011 and 2010, contract revenue for the Engineering Services segment represented approximately 32% and 42%, respectively, of our overall consolidated contract revenue.

*Energy Efficiency Services.* Our Energy Efficiency Services segment consists of the business of our subsidiary, Willdan Energy Solutions, which offers energy efficiency and sustainability consulting services to utilities, public agencies and private industry. For fiscal years 2011 and 2010, contract revenue for the Energy Efficiency Services segment represented approximately 54% and 38%, respectively, of our consolidated contract revenue. This segment is currently our largest segment based on contract revenue.

*Public Finance Services.* Our Public Finance Services segment consists of the business of our subsidiary, Willdan Financial Services, which offers economic and financial consulting services to public agencies. For fiscal years 2011 and 2010, contract revenue for the Public Finance Services segment represented approximately 9% and 13%, respectively, of our consolidated contract revenue.

*Homeland Security Services.* Our Homeland Security Services segment consists of the business of our subsidiary, Willdan Homeland Solutions, which offers national preparedness and interoperability services and communications and technology solutions. For fiscal years 2011 and 2010, contract revenue for our Homeland Security Services segment represented approximately 5% and 7%, respectively, of our consolidated contract revenue.

**Our Markets**

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

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

***Engineering and Planning Services***

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

infrastructure related activities, and voters in California and Arizona have, in recent years, passed sales tax increases to fund transportation improvements.

***Energy Efficiency and Sustainability Services***

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

***Economic and Financial Consulting***

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

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

***Homeland Security, National Preparedness and Interoperability Services***

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

For fiscal year 2011, under the Department of Homeland Security Grant Program, (HSGP), the federal government provided approximately $1.3 billion to the states, which in turn disbursed these

Table of Contents

funds to local law enforcement and other agencies. The federal Department of Homeland Security ("DHS"), designated 31 metropolitan areas throughout the country to receive almost half of the HSGP funds through a program called the DHS Urban Areas Security Initiative, or UASI. Designated UASI metropolitan areas include eight metropolitan areas in California and the Phoenix, Arizona; Tucson, Arizona; Denver, Colorado; and Las Vegas, Nevada metropolitan areas.

**Our Services**

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

We are organized to profitably manage numerous small to mid-size contracts at the same time. Our typical contracts can range from $1,000 to over $5,000,000 in contract revenue. Our typical project contracts typically have a duration of less than 12 months, although we have city services contracts that have been in effect for over 29 years. At December 30, 2011, we had approximately 2,100 open projects.

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

| | **Fiscal Year** | | |
|---|---|---|---|
| | **2011** | **2010** | **2009** |
| Engineering Services | 32% | 42% | 55% |
| Energy Efficiency Services | 54% | 38% | 20% |
| Public Finance Services | 9% | 13% | 19% |
| Homeland Security Services | 5% | 7% | 6% |

See Item 8 of Part II, "Financial Statements and Supplementary Data" for additional segment information.

**Engineering Services**

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

Our engineering-related services are described individually below:

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

Table of Contents

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

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

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

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

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

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

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

*Planning.* We assist communities with a full range of planning services, from the preparation of long-range policy plans to assistance with the day to day operations of a planning department. For several cities, we provide contract staff support. We provide environmental documentation services (NEPA/CEQA/EIR compliance and document preparation), mitigation monitoring programs and third party environmental review. We also provide urban planning and design services focused on

Table of Contents

investigation of specific planning and design issues and the formulation of plans, policies, and strategies for communities as a whole or for specific study areas. Typical assignments include land use studies, development of specific plans or general plan elements, design guidelines, and zoning ordinances. Our urban planning services include assisting communities with the implementation of general plans, land use enforcement, capital improvement planning, community development and redevelopment programs, and economic development strategies. We typically perform the development services function for emerging and newly incorporated cities.

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

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

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

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

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

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

*Water Resources.* We assist clients in addressing the many facets of water development, treatment, distribution and conservation, including energy savings, technical, financial, legal, political, and regulatory requirements. Our core competencies include hydraulic modeling, master planning, rate

Table of Contents

studies and design and construction services. Our design experience includes reservoirs, pressure reducing stations, pump and lift stations, and pipeline alignment studies, as well as water/wastewater collection, distribution, and treatment facilities. We also provide a complete analysis and projection of storm flows for use in drainage master plans and for individual storm drain systems to reduce flooding in streets and adjacent properties. We design open and closed storm drain systems and detention basin facilities, for cities, counties and the Army Corp of Engineers.

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

*Camp Pendleton.* We provided an upgrade and repair of the Del Mar Bridge and the Las Flores Area Tank Crossing in Camp Pendleton for the U.S. Navy. As part of the Green Beach project, we performed a scour analysis for the San Onofre Creek to protect the existing I-5 highway bridges, the new tank access road and the new NCTD railroad bridge. Flood protection measures were designed to protect the existing and proposed amendments.

*City of Brea.* We have been retained to document and evaluate the city's storm drainage systems, and to assess their adequacy for handling storm water runoff. The documentation will be done by compiling available city and county records into a Geographic Information System (GIS) format which will then be used in system modeling activities and to produce a working tool for the city staff when complete. We will incorporate updated hydrologic data for the region and define storm runoff conditions and flows. This data will be used in hydraulic modeling to evaluate system capacities and/or deficiencies. Resulting deficiencies will be validated and costs/priorities developed for establishing a Capital Improvement Program (CIP) plan and schedule for the city to use in their annual project planning. A final report will be prepared for adoption.

*City of Calimesa.* We are providing professional engineering services for the design of the Safe Routes to School ("SR2S") improvements along Avenue "L" and 2nd Street in the City of Calimesa. The project limits will cover 5,300 linear feet and provide safer routes for K-6 students at Calimesa Elementary School.

*City of Elk Grove.* We partnered with the City of Elk Grove, a community of more than 140,000 located just south of Sacramento, California, to provide city engineering, municipal, and operational services, as well as public works management consulting services for the city's Public Works Department. Our involvement with Elk Grove dates back to before the city's incorporation in 2000. In 2010, the City Council opted for contracting with a single vendor instead of multiple vendors to provide public works services and selected Willdan to assist them in developing a new model that offers a better balance of experienced and cost-effective labor, provides checks and balances to ensure the efficient delivery of quality services and positions the Public Works Department for successful service management and delivery as the city continues to grow in population and complexity. We are providing the city with the service commitment of a fully staffed public works/city engineering department. At the city's request, we have expanded our role and now provide all public infrastructure maintenance services. We have procured and executed contracts with a select group of specialty firms to provide these services. We will manage this team to maintain roadway, storm drain and drainage facilities, traffic signal and street lighting outages, street signs and pavement markings, graffiti abatement, and other field services such as emergency hazard material spill response.

*City of Long Beach.* For over eight years, we have been providing the City of Long Beach with a range of on-call services including construction management, public works observation, building and safety, and materials testing services relating to various public works projects throughout the city. We manage and inspect approximately $40 million worth of publicly funded projects per year including paving, street repairs, sewers, bridges, storm drains, slurry seals, airport runway

repair at the Long Beach Airport, alley improvement projects, and tenet improvements to city owned buildings and other appurtenant work. In addition to our construction management and inspection services, we have provided public outreach services for many of the city's high profile public works projects such as the city's recent award winning Downtown Bike Lane Project, Long Beach Boulevard Reconstruction Project, and Atlantic Boulevard through Bixby knolls.

*City of Los Angeles.* We are providing construction management support services to the City of Los Angeles Bridge Program under a master task order contract for five bridges. Our construction support services on each of the five projects includes providing daily on-site resident engineering service, visiting the project sites and providing technical support when requested, and providing remote technical support from the office. Technical support services include bridge engineering, geotechnical engineering, cost estimating, and project scheduling services. The project is expected to be completed in December 2013.

*City of San Bernardino.* We have been selected to design and implement a residential energy audit and retrofit program for the City of San Bernardino. This Green Home Makeover Program, which is a key component of the city's broader Sustainable San Bernardino Program, will offer rebates for energy efficiency improvements to owner and renter occupied single-family homes built prior to 1970. The program is being funded with $600,000 in Energy Efficiency and Conservation Block Grant funds from the U.S. Department of Energy as part of the American Recovery and Reinvestment Act. These funds will be leveraged with rebates from the Energy Upgrade California Program. In addition, no cost weatherization improvements are being offered to lower income residents by the Community Action Partnership of San Bernardino County. The program is intended to reduce energy consumption and the associated greenhouse gas emissions in single-family homes. By reducing energy consumption, the program will aid in reducing monthly housing costs. The program will also generate new "green" jobs and training opportunities for the city's residents through the hiring of local contractors and the use of locally trained energy auditors and analysts through the Clean Energy Workforce Training Program of the San Bernardino Community College District.

*City of Santa Monica.* We provided professional traffic engineering design services to the City of Santa Monica for the preparation of five separate construction contract plan, specification, and estimate packages. The project consisted of a multi-year conversion program that will convert old 5KV street lighting circuits to new 120 V multiple circuits. The project required the removal of existing 5KV infrastructure including wiring, pull boxes, services, and luminaries and the installation of the replacement infrastructure. Value engineering was provided to ensure the design of each of the conversion projects could be constructed within the allocated total construction budget of $11.4 million. We also provided utility notices and utility coordination for relocations as needed for substructures present within the project limits, and with Southern California Edison for service feed points.

*County of Glenn.* We have been assisting the County of Glenn since 2008 providing on-call services as well as serving as their County Engineer, Road Commissioner, and County Surveyor. During our tenure with the county, we have conducted flood studies, reviewed and approved various surveys and record maps, evaluated over forty structures for scour potential, served as resident engineer on construction projects, and assisted the county with a landfill closure. We are currently developing the designs for seven different bridge projects for the county. Part of our full service commitment to the county includes assisting them with processing all of the paperwork involved in their federal aid projects. In this role, we have helped the county leverage its scarce funding to qualify for nearly $28 million of federal bridge replacement funding.

*County of Yolo.* We are contracted with the County of Yolo, a region of over 200,000 residents, to provide a variety of on-call services including civil engineering, environmental, energy

Table of Contents

conservation, plan check and other consulting services for the county over three years. Civil engineering services include various mechanical and electrical engineering assessments of county facilities. Consulting services include energy use and conservation, design services, engineering studies, construction documents, bidding and contract administration phases for a variety of projects that may arise. Environmental services are related to California Environmental Quality Act (CEQA) and/or National Environmental Policy Act (NEPA) compliance and jurisdictional permitting requirements.

*Los Angeles County Metropolitan Transportation Authority (MTA).* We teamed with another engineering firm to execute an engineering and design services project for the Los Angeles MTA. The project includes the construction of a Bus Rapid Transit (BRT) line that extends four miles north from Metro Orange Line Canoga Station to the Metrolink Chatsworth Station and the construction of four new stations at Sherman Way, Roscoe Boulevard, Nordhoff Street and Chatsworth Train Depot. This dedicated busway will offer improvements to north-south mobility in the western San Fernando Valley by connecting activity centers along the corridor and connecting the Metro Orange Line with Metrolink. Other benefits include faster travel times, improved bus connections, and better access to destinations throughout Los Angeles County. Construction is scheduled to be completed in the summer of 2012.

***Energy Efficiency Services***

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

Our range of energy efficiency services are described below:

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

*Sustainability.* We assist clients (including utilities, schools and private companies) in developing and managing facilities and infrastructures through a holistic, practical approach to sustainability. Our services in the area of sustainability cover renewable energy, master plans, Leadership in Energy and Environmental Design (LEED) certification for buildings, GHG reduction strategies, and the development of California Assembly Bill No. 811 (AB-811) projects.

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

Table of Contents

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

*Consolidated Edison of New York.* We serve as Con Edison's program manager and implementer for its Small Business Direct Install (SBDI) Program in New York City and Westchester County, New York. The Program helps small businesses achieve energy efficiency and financial savings, offering both free and cost-shared energy efficiency retrofits, including installation of high-efficiency lighting; heating, ventilation, and air conditioning; and refrigeration energy conservation measures. As the program implementer, we are responsible for: managing a network of over 50 subcontractors; moving a high volume of projects from survey to retrofit; tracking, analyzing, and reporting on project status and program data; and oversight of construction management. To date, we have performed over 36,000 energy efficiency surveys and have overseen nearly 14,000 retrofit projects in Con Edison's service territory, resulting in over 150 million kWh of annualized energy savings.

*New York State Energy Research & Development Authority (NYSERDA).* Under the State of New York's Industrial Process Efficiency (IPE) Program we serve as the exclusive energy efficiency contractor for data centers. We are tasked with managing NYSERDA's entire program process, from customer outreach to application to post-installation review, and stimulating energy efficiency investment in the data center sector, which is the fastest-growing energy consumer sector in New York. We have worked with 450 customers and 136 strategic partners to identify and foster over 150 data centers projects, with an estimated energy savings of almost 100 million kWh in New York State.

*Pacific Gas & Electric (PG&E), Southern California Edison (SCE), and San Diego Gas & Electric (SDG&E) Hospital Energy Efficiency Program (HEEP).* We serve as program administrator for HEEP, which offers turn-key energy efficiency services for hospitals and medical office buildings in the territories of PG&E, SCE, and SDG&E, including acute hospitals (ambulatory surgery centers licensed under acute hospitals and acute hospital outpatient services); acute psychiatric hospitals; medical or healthcare-related office buildings; chemical dependency recovery hospitals; skilled nursing facilities; free-standing trauma centers; community clinics; convalescent hospitals; and extended care facilities.

*Pacific Gas & Electric (PG&E) Ozone Laundry Energy Efficiency Program (OLEEP).* OLEEP captures cost-effective natural gas savings for on-premise laundry equipment in hotels and lodging facilities with over 250 rooms, hospitals and residential care facilities, commercial laundry services, and correctional facilities. Our program administration services include facility audits, engineering and financial analysis, contractor bid and selection assistance, and water agency incentive assistance.

*Southern California Edison (SCE) and San Diego Gas & Electric (SDG&E) Lodging Energy Efficiency Program (LEEP).* LEEP provides customized energy-saving solutions for lodging customers, including full-service development, management, and implementation of energy-savings projects. We are implementing the large hotel segment of the Lodging Savers program.

*Los Angeles Commercial Building Performance Partnership (LACBPP).* We serve as program administrator for the "Energy Upgrade Los Angeles Commercial Initiative" through the Los Angeles Commercial Building Performance Partnership, a US Department of Energy funded program designed and administered by the City of Los Angeles. LACBPP was designed to help building owners develop and make capital investments in comprehensive energy efficiency and water efficiency improvements and/or distribute generation renewable energy sources in existing non-residential commercial buildings including industrial facilities. As program administrator, we manage and oversee all aspects of program activity.

Table of Contents

*San Diego Gas & Electric (SDG&E) Direct Install Program.* We administer and manage SDG&E's Direct Install Program, which offers incentives for small- and medium-sized businesses to make energy efficiency upgrades. Typical upgrades include lighting, photocells, occupancy sensors, LED signs, refrigeration, HVAC, and water heating.

*Orange & Rockland Utilities (O&R) Lighten Up Program.* We serve as O&R's program manager and implementer for its Lighten Up energy efficiency program that is part of the Small Business Direct Install (SBDI) Program in New York City and Westchester County, New York. The Program helps small businesses achieve energy efficiency and financial savings, offering both free and cost-shared energy efficiency retrofits, including installation of high-efficiency lighting; heating, ventilation, and air conditioning; and refrigeration energy conservation measures. As the program implementer, we are responsible for: managing a network of subcontractors; moving a high volume of projects from survey to retrofit; tracking, analyzing, and reporting on project status and program data; and oversight of construction management. To date, we have performed over 3,500 energy efficiency surveys and have overseen nearly 1,300 retrofit projects in O&R's service territory, resulting in over 18 million kWh of annualized energy savings.

***Public Finance Services***

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

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

Our services in this segment include the following:

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

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

Table of Contents

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

Fee and rate studies, such as cost allocation studies; user fee analysis; utility rate analysis for water, wastewater and stormwater; fiscal and economic impact analysis; and development fee studies;

Special district formation, which involves the design, development and initiation of community facilities districts, school facilities improvement districts, assessment districts, landscape and lighting districts, benefit assessment districts, business improvement districts, fire suppression assessments, Proposition 218 studies, assessment balloting, and re-engineering;

Other special projects which include facility financing plans, the formation of new public entities, annexations and incorporations; reassessment engineering for bond refunding; infrastructure analysis both to evaluate the need for rehabilitation efforts, and for financial reporting purposes, in association with Willdan Engineering; development and financial projections; nexus studies between public and private enterprises, including public-private partnerships and the benefits of economic development to municipalities and to state, provincial, regional and national governments; implementation of infrastructure and development projects (including the fiscal impacts and public and private project financing); and fiscal, economic and real estate analysis services.

*Federal Compliance.* We offer federal compliance services to issuers of municipal securities, which can be cities, towns, school districts, housing authorities and other entities that are eligible to issue tax-exempt securities. Specifically, we provide arbitrage rebate calculations and municipal disclosure services that help issuers remain in compliance with federal regulations. We provide these reports, together with related compliance services such as bond elections, temporary period yield restriction, escrow fund monitoring, rebate payments and refund requests. In terms of continuing disclosure services, we both produce the required annual reports and disseminate those reports on behalf of the issuers. We provide federal compliance services to approximately 610 issuers in 38 states and the District of Columbia on more than 2,500 bond issues totaling over $60 billion in municipal debt.

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

*County of Imperial.* We were engaged by the County of Imperial to evaluate the fiscal and economic impact of a series of solar farms to be constructed on agricultural land in the county. We calculated the direct, indirect and induced economic impacts of the proposed projects, as well as the impact of the cessation of agricultural production on the land. We also prepared an estimate of the fiscal revenues and expenditures that would be generated by the construction and operation of the solar farm.

*Town of Jupiter, FL.* We have contracted with the Town of Jupiter to provide an assessment methodology study for undergrounding overhead utility lines in one portion of the town. We are the only company in Florida to have performed this type of study. The project is to be constructed concurrently with a significant beautification project in an area adjacent to the only federally designated wild and scenic river in Florida the Loxahatchee. In such a benefit assessment program, the special and particular benefits that accrue to each property as the result of undergrounding existing utility lines must be identified and quantified. The calculation of the cost to be assessed to each parcel requires that a fair and reasonable apportionment methodology be developed based on the unique characteristics of the area and each property's special and particular benefits received.

*California Enterprise Development Authority (CEDA).* We were hired by CEDA to provide Property Assessed Clean Energy ("PACE") assessment administration services. These services

Table of Contents

include maintaining a database of the parcels within each program, establishing and maintaining amortization schedules for each parcel through the term of the lien/loan, submitting the annual assessment levy, reviewing county records to determine which parcels are delinquent, preparing delinquency reports and sending reminder letters to property owners, and providing a toll-free number to field inquiries regarding assessment proceedings and annual installments. Additional services such as preparation of prepayment calculations, preparation of required program documents, review of assessment documentation for each parcel, and the recording of the assessment agreements may be provided as well.

*County of Stanislaus.* We were engaged by the Stanislaus Council of Governments (StanCOG), a regional council of city and county governments, to create a Regional Transportation Impact Fee Program (RTIP) that provides a common vision for a fee program to fund regional transportation improvements, while meeting the requirements of the California Mitigation Fee Act (AB 1600). The County of Stanislaus created a public facilities fee (PFF) program in 1990 that included a range of fees to fund development's fair share of facilities to serve future growth in the county, within both the cities and in the unincorporated portion of the county. The transportation component of the fee originally included three types of fees for different categories of county roads. Since then there has been divergence from the fee impact programs.

*City of San Diego.* We were selected as the Special Tax Consultant for the City of San Diego's Convention Center Expansion Project. The project is tasked with forming a Communities Facilities District (CFD) to levy a special tax for the expansion of the city's convention center, which will be funded through the issuance of tax exempt bonds. The entire city is included in the CFD and only hotels properties are taxed based on a percentage of rent received for their hotel rooms. There are 3 zones within the CFD and each zone is taxed at a different percentage of rent.

*Elk Grove Water District.* We assisted the Elk Grove Water District staff in developing a comprehensive revenue requirements analysis and financial plan, and provide targeted rate and fee structure recommendations, based on the district's objectives and timeline. A primary project objective was to develop a robust pro forma financial model that would serve as the basis for developing updated rate and fee structures that will provide for long-term financial stability, appropriately reflect levels of service demand attributable to different customer classes, and comply with the requirements of Proposition 218.

*City of Delano.* We were hired by the City of Delano to perform a utility rate study and financial analysis for water, sanitary sewer, solid waste, and street cleaning. The city's objectives were focused on ratepayer equity and affordability, water conservation, and overall financial stability. We collaborated with the city to prepare and present a comprehensive analysis that ensured the rate structure and financial recommendations accomplish the city's objectives. Our scenario planning capabilities and financial expertise resulted in an analysis and rate structures that provide adequate revenue to fund operations, create a secure and reliable funding source for future capital improvements, while fully ensuring that rates are equitable, predictable, and reflect the true cost-of-service.

***Homeland Security Services***

In fiscal 2004, we formed our subsidiary Willdan Homeland Solutions (WHS), formerly known as American Homeland Solutions. WHS provides emergency preparedness planning, emergency preparedness training, emergency preparedness exercises, communications and technology, and water security services that focus on integrating local resources and assets within state and federal systems to cities, counties and related municipal service agencies, such as utility and water companies, as well as school districts, port and transportation authorities, tribal governments and large business enterprises

Table of Contents

with a need for homeland security related services. We staff our projects in this area with former high-level local and regional public safety officers and focus on solutions tailored for local agencies and their personnel. Our services include the following:

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

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

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

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

*Water Security.* We offer National Incident Management System (NIMS) and Incident Command System (ICS) courses specific to water and wastewater agencies. Our instructors and course facilitators have significant experience in water and wastewater security, emergency preparedness, and business continuity. All courses are DHS-certified. Eligible agencies may use DHS-TSGP funds for this approved training.

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

> *Southern Planning Area Project (SPA).* We were awarded a third contract with GTSI, Inc. to provide public safety interoperable communications professional services to the 11 California counties that comprise the California Statewide Interoperability Executive Committee Southern Planning Area (SPA). The SPA is an area larger than the State of New York with a population of more than 22 million. As the technical lead on the project, we are providing strategic planning, exercise development, technical and operational assessment and administrative support

Table of Contents

services in the development of the SPA's region wide integration of public safety communications. Our communications professionals will support each of the 11 counties with the goal of unifying the communications systems and improving the SPA's interoperable communications through compliance with the California Statewide Communication Interoperability Plan and the National Emergency Communication Plan.

*Continuity of Operations Plan (COOP) Program.* We were engaged in 2010 to establish a COOP program. The program was broken into four developmental phases to support 25 cities and 3 Police Departments in Orange County, California. Phase I includes the development of COOP plans for an estimated 280 city departments and overarching plans for each city. We provide COOP training for each city during Phase II. Tabletop or discussion-based exercises are designed, developed and delivered to each city during Phase III. Lessons learned during the first three phases are used to finalize the plans in Phase IV. We are currently implementing this program.

*New York Mass Transit Authority Training Program (NY MTA).* We were contracted to develop and deliver advanced security and emergency response courses and workshops for NY MTA employees. The NY MTA is the largest public transportation provider in the western hemisphere, serving 14.4 million people. The program covers several MTA agencies and course development will include courses like Behavioral Recognition, Counter Terrorism, Evacuation, Emergency Command and Control, Critical Incident Management, Crisis Communications and Leadership. Course delivery is anticipated to include 36,000 MTA students.

**Competitive Strengths**

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

*Quality of service.* We pride ourselves on the quality of service that we provide to our clients. The work for which we compete is awarded primarily based on the company's qualifications, rather than the fees proposed. We believe that our service levels, experience and expertise satisfy even the most rigorous qualification standards. We have developed a strong reputation for quality, based upon our depth of experience, ability to attract quality professionals, customized technology and software that support our services, local knowledge and the expertise we possess across multiple disciplines. We believe we are well-positioned to serve public sector clients due to our knowledge of the unique reporting processes and operating procedures of public agencies, which differ substantially from the private sector. We believe our high quality of service is a significant reason we currently provide services to approximately 56% of the cities and over 60% of the counties in California.

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

Table of Contents

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

*Strong, long-term client relationships.* We have developed strong relationships with our public agency clients, some of whom we have worked with for over 29 years. The value of these long-term relationships is reflected in the recurring award of new projects, ongoing staffing assignments, and long-term projects that require high-level supervision. We also seek to maintain close personal relationships with public agency decision-makers to strengthen our relationships with them and the agencies with which they work. We frequently develop new client relationships as our public agency contacts are promoted or move to other agencies. Our strong culture of community involvement and leadership in key public agency organizations underscores our customer focus and helps us cultivate and expand our client base.

*Experienced, talented and motivated employees.* Our staff consists of seasoned professionals with a broad array of specialties, and a strong customer service orientation. Our corporate culture places a high priority on investing in our people, including providing opportunities for stock ownership to attract, motivate and retain top professionals. Our executive officers have an average of more than 34 years of experience in the engineering and consulting industry, and an average of 5 years with our company.

**Clients**

Our clients primarily consist of public and governmental agencies including cities, counties, redevelopment agencies, water districts, school districts and universities, state agencies, federal agencies, a variety of other special districts and agencies, tribal governments and public utilities. We also provide services to private utilities and private industry. Our clients are often public agencies serving communities of 10,000 to 300,000 people, although we have begun providing increased services to public and private utilities with the growth of our energy efficiency segment. In fiscal 2011, we served over 750 distinct clients. For fiscal 2011, we had one client, the Consolidated Edison Company of New York, that accounted for 28% of our consolidated contract revenue. None of our other clients accounted for over 10% of our consolidated contract revenue. Our clients are primarily based in California and New York, as well as Arizona Florida, Texas, Washington and Washington, DC. In fiscal 2011, services provided to clients in California accounted for approximately 60% of our contract revenue and services provided to clients in New York accounted for approximately 35% of our contract revenue.

**Contract Structure**

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

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

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

Table of Contents

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

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

| | Fiscal Year | |
|---|---|---|
| | **2011** | **2010** |
| Time and materials | 33% | 44% |
| Unit based | 52% | 27% |
| Fixed price | 14% | 28% |
| Monthly retainer | 1% | 1% |
| Total | 100% | 100% |

The percentage of our contract revenue derived from fixed price contracts decreased to 14% in fiscal year 2011 from 28% in fiscal year 2010 primarily because Willdan Energy Solutions had time and materials and unit based provisions in a higher percentage of its new contracts than in previous years.

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

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

**Competition**

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

Doing business with governmental agencies is complex and requires the ability to comply with intricate regulations and satisfy periodic audits. We have been serving cities, counties, special districts and other public agencies for over 46 years. We believe that the ability to understand these requirements and to successfully conduct business with governmental entities and agencies is a barrier to entry for potential competitors.

Our competition varies by type of client, type of service and geography. The range of competitors for any one project can vary depending upon technical specialties, the relative value of the project, geographic location, financial terms, risks associated with the work, and any client imposed restrictions. Unlike most of our competitors, we focus our services on public sector clients. Public sector clients generally choose among competing firms by weighing the quality, experience, innovation and timeliness

Table of Contents

of the firm's services. When selecting consultants for engineering projects, many government agencies are required to, and others choose to, employ Qualifications Based Selection, or QBS. QBS requires the selection of the most technically qualified firms for a project, while the financial and legal terms of the engagement are generally secondary. QBS applies primarily to work done by our Engineering Services segment. Contracts in the Public Finance Services and Homeland Security Services areas typically are not subject to mandatory QBS standards, and often are awarded through a competitive bid process.

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

We believe that the primary competitors for our Engineering Services segment include Charles Abbott & Associates, Inc., Bureau Veritas, Harris & Associates, Psomas, RBF Consulting, Tetra Tech, Inc., Stantec, Inc., Michael Baker Corporation, TRC Companies, Inc., AECOM Technology Corporation, CH2M Hill and Jacobs Engineering Group, Inc. We believe the Energy Efficiency Services segment competes primarily with ICF International, Lime Energy, KEMA (a division of the DNV Group) and Nexant, Inc. Our chief competitors in our Public Finance Services segment include David Taussig & Associates, Harris & Associates and NBS Government Finance Group. We believe the Homeland Security Services segment competes primarily with EG&G (a division of URS Corporation) and SRA International, Inc.

**Insurance**

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

**Employees**

At December 30, 2011, we had approximately 412 full-time employees and 150 part-time employees. All Public Agency Resources' employees are classified as part-time. Our employees include, among others, licensed civil, traffic and structural engineers, land surveyors, certified building officials, licensed geotechnical engineers and engineering geologists, certified inspectors and plans examiners, licensed architects and landscape architects, certified planners, and information technology specialists. We believe that we attract and retain highly skilled personnel with significant industry experience and strong client relationships by offering them challenging assignments in a stable work environment. We believe that our employee relations are good. We currently have one field survey employee covered by a Master Labor Agreement between the International Union of Operating Engineers Local Union No. 12 and the Southern California Association of Civil Engineers and Land Surveyors, which expires in October 2013.

Table of Contents

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

| | As of Fiscal Year End | | |
|---|---|---|---|
| | 2011 | 2010 | 2009 |
| Engineering Services | 292 | 286 | 278 |
| Energy Efficiency Services | 132 | 97 | 46 |
| Public Finance Services | 51 | 64 | 65 |
| Homeland Security Services | 19 | 29 | 20 |
| Holding Company Employees (Willdan Group, Inc.) | 68 | 64 | 57 |
| Total | 562 | 540 | 466 |

At December 30, 2011, we contracted with approximately 185 former and current public safety officers to conduct homeland security services training courses. These instructors are classified as subconsultants and not employees.

**Intellectual Property**

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

**Available Information**

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

Table of Contents

## ITEM 1A. RISK FACTORS

### Risks Relating to Our Business and Industry

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

A further downturn in construction activity in our geographic service areas may affect demand for our services, which could have a material adverse effect on our results of operations and our financial condition. During fiscal year 2011, a portion of our contract revenue was generated by services rendered to public agencies in connection with private and public sector construction projects.

Since 2008, general economic conditions declined due to a number of factors including slower economic activity, a lack of available credit, decreased consumer confidence and reduced corporate profits and capital spending, leading to a slowdown in construction, particularly residential housing construction, in the western United States. As a result of this slowdown, both our engineering services segment and public finance services segment suffered declines in revenue and operating margin compression and we made several reductions in workforce and facility leases. Economic conditions began to improve in fiscal 2010 and throughout fiscal 2011. While we began to increase our workforce again, the recovery has been slow with regard to our traditional engineering and public finance services segments. If the economy declines again, we will need to evaluate whether reductions in headcount and facilities in geographic areas that are underperforming are again needed.

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

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

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

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

Adverse economic and other conditions affecting the local and regional economies of California may reduce the demand for our services, which could have a material adverse effect on our business,

Table of Contents

financial condition and results of operations. During fiscal year 2011, approximately 60% of our contract revenue was derived from services rendered to public agencies, utilities, and private industry in California. From 1991 to 1996, California experienced an economic downturn that had a negative impact on the construction and development sectors. This economic downturn caused us to experience cash flow difficulties and substantial operating losses. California experienced another economic downturn in fiscal 2009, which negatively impacted our revenue and profitability and continues to negatively impact revenues in our Engineering Services and Public Finance Services segments. Any future downturns could have similar significant adverse impacts on our results of operations.

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

We anticipate that our current cash, cash equivalents, cash provided by operating activities and funds available through our revolving credit facility will be sufficient to meet our current and anticipated needs for general corporate purposes during the next 12 months. It is possible, however, that we may not generate sufficient cash flow from operations or otherwise have the capital resources to meet our future capital needs. For example, at the end of our third and fourth fiscal quarters in 2008, we did not meet certain financial covenants under our previous revolving credit facility with Wells Fargo Bank, National Association ("Wells Fargo"). As a result of these covenant violations, Wells Fargo was no longer obligated to extend funds to us under the revolving credit agreement. Wells Fargo waived these breaches and eliminated or modified certain financial covenants in the credit agreement in exchange for a reduction in the commitment from $10 million to $5 million, increased pricing and additional collateral being provided. As of December 30, 2011, we had $0.3 million in outstanding borrowings under this facility. We have since refinanced that facility with a new credit facility with Wells Fargo that matures on April 1, 2013 and contains certain financial covenants described under "Management's Discussion and Analysis of Financial Condition and Results of Operation Outstanding Indebtedness." If we fail to comply with any covenant, including the financial covenants, in the credit agreement, any loans outstanding at that time could be accelerated by Wells Fargo and Wells Fargo would not be obligated to make any new loans under the new revolving credit facility. We cannot provide any assurance that Wells Fargo will continue to make loans under the facility if we violate a covenant in the future or that Wells Fargo will renew the facility when it expires. If this occurs and we do not generate sufficient cash flow from operations or otherwise, we may need additional financing to execute on our current or future business strategies, which include the following:

- Hire additional personnel;
- Develop new or enhance existing service lines;
- Expand our business geographically;
- Enhance our operating infrastructure;
- Acquire complementary businesses; or
- Otherwise respond to competitive pressures.

The financial covenants in our revolving credit agreement also restrict our ability to incur additional indebtedness, which may impair our ability to pursue acquisitions or otherwise execute on our business strategies. If we raise additional funds through the issuance of convertible debt or equity securities, the percentage ownership of our stockholders could be significantly diluted, and these newly issued securities may have rights, preferences or privileges senior to those of existing stockholders. We cannot assure you that additional financing will be available on terms favorable to us, or at all. If adequate funds are not available or are not available on acceptable terms, if and when needed, our

Table of Contents

ability to fund our operations, take advantage of strategic opportunities, or otherwise respond to competitive pressures would be significantly limited.

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

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

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

Our largest client, Consolidated Edison Company of New York, accounted for approximately 28% of our consolidated contract revenue in fiscal 2011 and 21% in fiscal 2010. This revenue primarily relates to the contract we entered into in fiscal 2009 with Consolidated Edison, which is subject to renewal this year. Our top five customers collectively accounted for approximately 48% of our revenue in fiscal 2011. The loss of, or reduction in orders from, these clients could have a material adverse effect on our business, financial condition and results of operations.

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

Legislation is proposed periodically, particularly in the state of California, that attempts to limit the ability of governmental agencies to contract with private consultants to provide services. Should such legislation pass and be upheld, demand for our services may be materially adversely affected. During fiscal year 2011, approximately 44% of our contract revenue was derived from services rendered to public agencies, including public utilities, in California. While attempts at such legislation have failed in the past, such measures could be adopted in the future.

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

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

For example, the Professional Engineers in California Government, or PECG, a union representing state civil service employees, began challenging Caltrans' hiring of private firms in 1986, and in 2002 began a judicial challenge of Caltrans' hiring practices based on Caltrans' interpretation of the effect of

Table of Contents

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

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

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

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

In fiscal year 2011, approximately 14% of our contract revenue was derived from fixed price contracts. Under fixed price contracts, we perform services under a contract at a stipulated price which protects clients but exposes us to a greater number of risks than time-and-materials and unit-based contracts. These risks include:

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

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

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

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

- The ability of the public agency to terminate the contract with 30 days' prior notice or less;

Table of Contents

- Changes in government spending and fiscal policies which can have an adverse effect on demand for our services;

- Contracts that are subject to government budget cycles, and often are subject to renewal on an annual basis;

- The often wide variation of the types and pricing terms of contracts from agency to agency;

- The difficulty of obtaining change orders and additions to contracts; and

- The requirement to perform periodic audits as a condition of certain contract arrangements.

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

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

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

Our success is highly dependent upon the efforts, talents, abilities, marketing skills and operational execution of our key executives and managers. Between 2006 and 2008 we experienced significant turnover in our management team. Any future losses of our management team or key employees could have a material adverse effect on our business, including the ability to secure or complete contracts and to attract and retain additional employees.

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

A critical factor to our business is our ability to attract and retain qualified employees. We are continually at risk of losing current employees or being unable to hire additional employees as needed. If we are unable to attract new qualified employees, our ability to grow will be adversely affected. If we are unable to retain current employees, our financial condition and results of operations may be adversely affected, including as a result of our former employees competing against us for contracts.

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

The market for engineering and planning, energy efficiency, economic and financial consulting and national preparedness and interoperability services is competitive and highly fragmented. Contract awards are based primarily on quality of service, relevant experience, staffing capabilities, reputation, geographic presence, stability and price. Some of our competitors in certain service areas have more personnel and greater financial, technical and marketing resources than us. In particular, our competitors for engineering related services, which represented approximately 32% and 42% of our contract revenue for fiscal years 2011 and 2010, respectively, include many larger consulting firms such

Table of Contents

as AECOM Technology Corporation, CH2M Hill, Jacobs Engineering Group Inc. and Tetra Tech, Inc. Our energy efficiency and sustainability consulting services, which represented approximately 54% and 38% of our contract revenue for fiscal years 2011 and 2010, respectively, competes with larger energy efficiency consulting firms such as ICF International, KEMA (A Division of the DNV Group), and Nexant, Inc. In certain public finance consulting services, we may compete with large accounting firms. We can offer no assurance that we will be able to compete successfully in the future with these or other competitors.

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

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

We currently maintain general liability insurance, with coverage in the amount of $1.0 million per occurrence, subject to a $2.0 million general aggregate limit; and professional liability insurance, with $5.0 million in coverage per claim, and a $10.0 million annual aggregate limit. We also carry excess coverage of an additional $10.0 million for general, automobile and employer's liability claims. Claims may be made against us that exceed these limits. We are liable to pay claims from our assets if and when the aggregate settlement or judgment amount exceeds our policy limits. Our professional liability policy is a "claims made" policy. Thus, only claims made during the term of the policy are covered. If we terminate our professional liability policy and do not obtain retroactive coverage, we would be uninsured for claims made after termination even if these claims are based on events or acts that occurred during the term of the policy. Further, our insurance may not protect us against liability because our policies typically have various exceptions to the claims covered and also require us to assume some costs of the claim even though a portion of the claim may be covered. In addition, if we expand into new markets, we may not be able to obtain insurance coverage for these new activities or, if insurance is obtained, the dollar amount of any liabilities incurred could exceed our insurance coverage. A partially or completely uninsured claim, if successful and of significant magnitude, could have a material adverse effect on our liquidity.

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

Under some of our contracts, we rely on the efforts and skills of subconsultants for the performance of some of the tasks. Subconsultant costs comprised approximately 32% of our contract revenue in fiscal 2011, an increase from 21% in fiscal 2010. The use of subconsultants increased in fiscal 2011 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. The absence of qualified subconsultants with whom we have a satisfactory relationship could adversely affect the quality of our service offerings and therefore our financial results. Additionally, we may have disputes with our subconsultants arising from, among other things, the quality and timeliness of work performed by the subconsultant or client concerns about the subconsultant.

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

As part of our business strategy, we intend to consider acquisitions of companies that are complementary to our business. Appropriate acquisitions could allow us to expand into new

Table of Contents

geographical locations, offer new services, or acquire additional talent. Accordingly, our future performance will be impacted by our ability to identify appropriate businesses to acquire, negotiate favorable terms for such acquisitions and then effectively and efficiently integrate such acquisitions into our existing businesses. There is no certainty that we will succeed in such endeavors.

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

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

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

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

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

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

The concentration of ownership of our stock may have the effect of delaying or preventing a change in control of the company or a change in our management and may adversely affect the voting or other rights of other holders of our common stock. As of March 23, 2012 our directors and executive officers beneficially own 1,527,191 shares of common stock, or approximately 19.8% of our outstanding common stock. Of these shares, 722,156 shares, or approximately 9.9% of our outstanding common stock, are beneficially owned by Linda L. Heil, a member of our board of directors. Wedbush, Inc. beneficially owns 829,378 shares, or approximately 11.4% of our outstanding common stock.

***Cautionary Statement Regarding Forward-Looking Information***

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

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

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

## ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

## ITEM 2. PROPERTIES

Our corporate headquarters are located in approximately 38,000 square feet of office space that we lease at 2401 East Katella Avenue, Anaheim, California. In addition, we lease office space in 26 other locations principally in California, New York and Arizona. In total, our facilities contain approximately 147,000 square feet of office space and are subject to leases that expire through fiscal year 2015. A small portion of this includes office space that we rent on a month-to-month basis. We believe that our existing facilities are adequate to meet current requirements and that suitable additional or substitute space will be available as needed to accommodate any expansion of operations and for additional offices.

## ITEM 3. LEGAL PROCEEDINGS

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

Table of Contents

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

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

*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 us for our 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 filed an answer to the complaint. The plaintiff seeks to recover for the city amounts paid to us 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. On January 11, 2012, this suit proceeded to trial where we prevailed.

## ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

# PART II

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

***Market Information for Common Stock***

Since November 21, 2006, the common stock of Willdan Group, Inc. has been listed and traded on the Nasdaq Global Market under the symbol "WLDN". The following table sets out the high and low daily closing sale prices as reported on the NASDAQ Global Market for fiscal years 2011 and 2010. These reported prices reflect inter-dealer prices without adjustments for retail markups, markdowns, or commissions.

| | 2011 | | 2010 | |
|---|---|---|---|---|
| | High | Low | High | Low |
| 1st Quarter | $ 4.89 | $ 3.86 | $ 2.52 | $ 2.11 |
| 2nd Quarter | $ 4.40 | $ 3.83 | $ 2.98 | $ 2.18 |
| 3rd Quarter | $ 4.10 | $ 3.72 | $ 3.40 | $ 2.54 |
| 4th Quarter | $ 4.13 | $ 3.76 | $ 4.06 | $ 3.28 |

On March 23, 2012, the closing sales price per share of our common stock, as reported on the Nasdaq Global Market, was $3.80.

***Stockholders***

As of March 23, 2012, there were 126 stockholders of record of our common stock.

***Dividends***

We did not declare or pay cash dividends on our common stock in fiscal years 2011 and 2010. Our revolving credit agreement prohibits the payment of any dividend or distribution on our common stock either in cash, stock or any other property without the lender's consent.

***Recent Sales of Unregistered Securities***

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

***Issuer Purchases of Equity Securities***

None.

Table of Contents

## ITEM 6. SELECTED FINANCIAL DATA

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

| | Fiscal Year | | | | |
|---|---|---|---|---|---|
| | 2011 | 2010 | 2009 | 2008 | 2007 |
| | (in thousands except per share amounts) | | | | |
| **Consolidated Statement of Operations Data:** | | | | | |
| Contract revenue | $ 107,165 | $ 77,896 | $ 61,605 | 73,190 | $ 78,798 |
| Direct costs of contract revenue (exclusive of depreciation and amortization shown separately below): | | | | | |
| Salaries and wages | 25,714 | 21,607 | 18,130 | 21,991 | 25,769 |
| Subconsultant services | 34,195 | 16,523 | 7,997 | 7,750 | 4,600 |
| Other direct costs | 4,818 | 3,892 | 2,715 | 2,973 | 1,568 |
| Total direct costs of contract revenue | 64,727 | 42,022 | 28,842 | 32,714 | 31,937 |
| General and administrative expenses: | | | | | |
| Salaries and wages, payroll taxes, employee benefits | 22,594 | 17,582 | 20,325 | 24,439 | 25,061 |
| Facilities and facility related | 4,875 | 4,290 | 4,430 | 4,803 | 4,546 |
| Stock-based compensation | 201 | 235 | 272 | 214 | 209 |
| Depreciation and amortization | 877 | 1,042 | 1,814 | 1,978 | 1,747 |
| Lease abandonment (recovery), net | 2 | (68) | 707 | 742 | |
| Impairment of goodwill | | | 2,763 | 148 | |
| Litigation accrual (reversal) | | | (1,125) | | 1,049 |
| Other | 10,488 | 9,719 | 11,070 | 10,952 | 11,727 |
| Total general and administrative expenses | 39,037 | 32,800 | 40,256 | 43,276 | 44,339 |
| Income (loss) from operations | 3,401 | 3,074 | (7,493) | (2,800) | 2,522 |
| Other (expense) income: | | | | | |
| Interest income | 5 | 12 | 30 | 313 | 693 |
| Interest expense | (77) | (54) | (38) | (33) | 499 |
| Other, net | 1 | 32 | (5) | (15) | (27) |
| Total other (expense) income, net | (71) | (10) | (13) | 265 | 1,165 |
| Income (loss) before income tax expense | 3,330 | 3,064 | (7,506) | (2,535) | 3,687 |
| Income tax expense (benefit) | 1,500 | 344 | (1,931) | (930) | 1,543 |
| Net income (loss) | $ 1,830 | $ 2,720 | $ (5,575) | $ (1,605) | $ 2,144 |
| Earnings (loss) per common share: | | | | | |
| Basic | $ 0.25 | $ 0.38 | $ (0.78) | $ (0.22) | $ 0.30 |
| Diluted | $ 0.24 | $ 0.37 | $ (0.78) | $ (0.22) | $ 0.30 |
| Weighted average common shares outstanding: Basic | 7,262 | 7,233 | 7,192 | 7,159 | 7,149 |
| Diluted | 7,485 | 7,311 | 7,192 | 7,159 | 7,150 |
| **Other Operating Data (unaudited):** | | | | | |
| Adjusted EBITDA(1) | $ 4,350 | $ 4,074 | $ (3,333) | $ 68 | $ 5,326 |
| Employee headcount at period end(2) | 562 | 540 | 466 | 550 | 628 |

Table of Contents

| | Fiscal Year Ended | | | | |
|---|---|---|---|---|---|
| | December 30, 2011 | December 31, 2010 | January 1, 2010 | January 2, 2009 | December 28, 2007 |
| **Consolidated Balance Sheet Data:** | | | | | |
| Cash and cash equivalents | $ 3,001 | $ 6,642 | $ 8,445 | $ 8,144 | $ 15,511 |
| Working capital | 13,083 | 18,060 | 16,704 | 19,820 | 30,171 |
| Total assets | 64,311 | 49,454 | 40,332 | 47,570 | 48,226 |
| Total indebtedness | 1,232 | 1,490 | 1,230 | 394 | 1,547 |
| Total stockholders' equity | 34,293 | 32,162 | 29,117 | 34,336 | 35,652 |

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

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

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

| | Fiscal Year | | | | |
|---|---|---|---|---|---|
| | 2011 | 2010 | 2009 | 2008 | 2007 |
| Net income (loss) | $ 1,830 | $ 2,720 | $ (5,575) | $ (1,605) | $ 2,144 |
| Interest income | (5) | (12) | (30) | (313) | (693) |
| Interest expense (reversal) | 77 | 54 | 38 | 33 | (499) |
| Income tax expense (benefit) | 1,500 | 344 | (1,931) | (930) | 1,543 |
| Lease abandonment expense (recovery) | 2 | (68) | 707 | 742 | |
| Impairment of goodwill | | | 2,763 | 148 | |
| Depreciation and amortization | 944 | 1,053 | 1,814 | 1,978 | 1,755 |
| Loss (gain) on sale of assets | 2 | (17) | 6 | 15 | 27 |
| Litigation (reversal) accrual | | | (1,125) | | 1,049 |
| Adjusted EBITDA | $ 4,350 | $ 4,074 | $ (3,333) | $ 68 | $ 5,326 |

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

Table of Contents

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

### Overview

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

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

We operate our business through a network of offices located primarily in California and New York. We also have operations in Arizona, Florida, Texas, Washington and Washington, DC. As of December 30, 2011, we had a staff of 562 which includes licensed engineers and other professionals. Historically, our clients have primarily been public agencies in communities with populations ranging from 10,000 to 300,000 people. We believe communities of this size are underserved by large outsourcing companies that tend to focus on securing large federal and state projects, as well as projects for the private sector. Recently, we have begun to provide increased services to public and private utilities that service major metropolitan communities and commercial and industrial firms, particularly in connection with the growth of our energy efficiency and sustainability services. We seek to establish close working relationships with our clients and expand the breadth and depth of the services we provide to them over time.

While we currently serve communities throughout the country, our business with public agencies is concentrated in California and neighboring states. We provide services to approximately 56% of the 482 cities and over 60% of the 58 counties in California. We also serve special districts, school districts, a range of public agencies and private industry. Our business with public and private utilities is concentrated in California and New York.

We were founded in 1964 and Willdan Group, Inc., a Delaware corporation, was formed in 2006 to serve as our holding company. We consist of a family of wholly owned companies that operate within the following segments for financial reporting purposes:

- *Engineering Services.* Our Engineering Services segment includes the operations of our subsidiaries, Willdan Engineering and Public Agency Resources ("PARs"). Willdan Engineering provides civil engineering-related and city planning services to our clients. PARs primarily provides staffing to Willdan Engineering. For fiscal years 2011 and 2010, contract revenue for the Engineering Services segment represented approximately 32% and 42%, respectively, of our consolidated contract revenue.

- *Energy Efficiency Services.* Our Energy Efficiency Services segment consists of the business of our subsidiary, Willdan Energy Solutions, which offers energy efficiency and sustainability consulting services to utilities, public agencies and private industry. For fiscal years 2011 and 2010, contract revenue for the Energy Efficiency Services segment represented approximately 54% and 38%, respectively, of our consolidated contract revenue, and this segment is currently our largest segment based on contract revenue.

- *Public Finance Services.* Our Public Finance Services segment consists of the business of our subsidiary, Willdan Financial Services, which offers economic and financial consulting services to

Table of Contents

public agencies. For fiscal years 2011 and 2010, contract revenue for the Public Finance Services segment represented approximately 9% and 13%, respectively, of our consolidated contract revenue.

*Homeland Security Services.* Our Homeland Security Services segment consists of the business of our subsidiary, Willdan Homeland Solutions, which offers national preparedness and interoperability services and communications and technology solutions. For fiscal years 2011 and 2010, contract revenue for our Homeland Security Services segment represented approximately 5% and 7%, respectively, of our consolidated contract revenue.

In fiscal 2008 and 2009, general economic conditions declined due to a number of factors including slower economic activity, a lack of available credit, decreased consumer confidence and reduced corporate profits and capital spending, leading to a slowdown in construction, particularly residential housing construction, in the western United States. As a result of this slowdown, both our Engineering Services segment and Public Finance Services segment suffered declines in revenue and operating margin compression. While economic conditions began to improve in fiscal 2010 and 2011, the recovery has been slow, particularly with regard to our traditional engineering services and public finance services. However, our profitability has increased in fiscal 2010 and 2011 as a result of increased revenues from our Energy Efficiency Services segment.

**Components of Income and Expense**

***Contract Revenue***

We provide our services under contracts, purchase orders or retainer letters. The contracts we enter into with our clients contain three principal types of pricing provisions: time and materials, unit based, and fixed price. Revenue on our time and materials and unit based contracts are recognized as the work is performed in accordance with specific terms of the contract. Approximately 33% of our contracts are based on contractual rates per hour plus costs incurred. Some of these contracts include maximum contract prices, but the majority of these contracts are not expected to exceed the maximum. Contract revenue on our fixed price contracts is determined on the percentage of completion method based generally on the ratio of direct costs incurred to date to estimated total direct costs at completion. Many of our fixed price contracts are relatively short in duration, thereby lowering the risks of not properly estimating the percent complete.

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

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

Table of Contents

***Direct Costs of Contract Revenue***

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

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

***General and Administrative Expenses***

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

**Critical Accounting Policies**

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

***Contract Accounting***

Applying the percentage-of-completion method of recognizing revenue requires us to estimate the outcome of our long-term contracts. We forecast such outcomes to the best of our knowledge and belief of current and expected conditions and our expected course of action. Differences between our

estimates and actual results often occur resulting in changes to reported revenue and earnings. Such changes could have a material effect on our future consolidated financial statements.

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

***Goodwill***

We test goodwill, at least annually, for possible impairment. Accordingly, we complete our annual testing of goodwill as of the last day of the first month of our fourth fiscal quarter each year to determine whether there is impairment. In addition to our annual test, we regularly evaluate whether events and circumstances have occurred that may indicate a potential impairment of goodwill. We recognized impairment charges for fiscal year 2009 related to our Public Finance Services reporting unit. We did not recognize any goodwill impairment charges in fiscal years 2010 or 2011.

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 currently has a material amount of goodwill is Energy Solutions, which comprises our Energy Efficiency Services segment. The process of testing goodwill for impairment, pursuant to ASU 2011-08, now involves an optional qualitative assessment on goodwill impairment of our reporting units to determine whether a quantitative assessment is necessary. If a quantitative assessment is warranted, we then determine the fair value of the applicable reporting units. To estimate the fair value of our reporting units, we use both an income approach based on management's estimates of future cash flows and other market data and a market approach based upon multiples of EBITDA earned by similar public companies. For our annual impairment testing in fiscal years 2011, 2010 and 2009, 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.

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

Inherent in such fair value determinations are significant judgments and estimates, including but not limited to assumptions about our future revenue, profitability and cash flows, our operational plans and our interpretation of current economic indicators and market valuations. To the extent these assumptions are incorrect or economic conditions that would impact the future operations of our reporting units change, 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 exceeded the carrying value. A reduction in estimated fair value of our Willdan Energy Solutions reporting unit could result in an impairment charge in future periods.

Table of Contents

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

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

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

***Income Taxes***

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

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

Table of Contents

**Results of Operations**

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

| | Fiscal Year | | |
|---|---|---|---|
| | **2011** | **2010** | **2009** |
| **Statement of Operations Data:** | | | |
| Contract revenue | 100.0% | 100.0% | 100.0% |
| Direct costs of contract revenue (exclusive of depreciation and amortization shown separately below) | | | |
| Salaries and wages | 24.0 | 27.7 | 29.4 |
| Subconsultant services | 31.9 | 21.2 | 13.0 |
| Other direct costs | 4.5 | 5.0 | 4.4 |
| Total direct costs of contract revenue | 60.4 | 53.9 | 46.8 |
| General and administrative expenses: | | | |
| Salaries and wages, payroll taxes, employee benefits | 21.1 | 22.6 | 33.0 |
| Facilities and facility related | 4.5 | 5.5 | 7.2 |
| Stock-based compensation | 0.2 | 0.3 | 0.4 |
| Depreciation and amortization | 0.8 | 1.3 | 2.9 |
| Lease (recovery) abandonment, net | | (0.1) | 1.1 |
| Impairment of goodwill | | | 4.5 |
| Litigation reversal | | | (1.8) |
| Other | 9.8 | 12.5 | 18.0 |
| Total general and administrative expenses | 36.4 | 42.1 | 65.3 |
| Income (loss) from operations | 3.2 | 3.9 | (12.2) |
| Other income (expense): | | | |
| Interest income | | | |
| Interest expense | (0.1) | (0.1) | (0.1) |
| Other, net | | | |
| Total other income (expense), net | (0.1) | | |
| Income (loss) before income taxes | 3.1 | 3.9 | (12.2) |
| Income tax expense (benefit) | 1.4 | 0.4 | (3.1) |
| Net income (loss) | 1.7% | 3.5% | (9.0)% |

***Fiscal Year 2011 Compared to Fiscal Year 2010***

*Contract revenue.* Our contract revenue was $107.2 million for the fiscal year ended December 30, 2011, with $33.9 million attributable to the Engineering Services segment, $57.7 million attributable to the Energy Efficiency Services segment, $9.7 million attributable to the Public Finance Services segment, and $5.9 million attributable to the Homeland Security Services segment. Consolidated contract revenue increased $29.3 million, or 37.6%, to $107.2 million for the fiscal year ended December 30, 2011 from $77.9 million in the fiscal year ended December 31, 2010. This increase was due primarily to an increase of $28.6 million, or 97.6%, in contract revenue of the Energy Efficiency Services segment 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 for the Engineering Services segment increased $0.8 million, or 2.5%, to $33.9 million for the fiscal year ended

Table of Contents

December 30, 2011 from $33.0 million for the fiscal year ended December 31, 2010. Contract revenue in the Homeland Security Services segment increased $0.6 million, or 11.1%, to $5.9 million for the fiscal year ended December 30, 2011 from $5.3 million for the fiscal year ended December 31, 2010. Contract revenue for our Public Finance Services segment decreased $0.7 million, or 6.5%, to $9.7 million for the fiscal year ended December 30, 2011 from $10.4 million for the fiscal year ended December 31, 2010.

Contract revenue for the Energy Efficiency Services segment increased primarily because of increased demand for energy efficiency services in the states of California and New York. The increase in contract revenue for Willdan Energy Solutions includes a settlement of $0.9 million from a subcontractor. Contract revenue for the Engineering Services segment continues to be impacted by the decline in the California residential housing market and state and local government budget cuts. 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, and a decline in our other building and safety projects which is both directly and indirectly affected by the housing market. Revenue in the Homeland Security Services segment 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. 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.

*Direct costs of contract revenue.* Direct costs of contract revenue was $64.7 million for the fiscal year ended December 30, 2011, with $17.7 million attributable to the Engineering Services segment, $41.0 million attributable to the Energy Efficiency Services segment, $3.0 million attributable to the Public Finance Services segment, and $3.0 million attributable to the Homeland Security Services segment. Overall, direct costs of contract revenue increased by $22.7 million, or 54.0%, to $64.7 million for the fiscal year ended December 30, 2011 from $42.0 million for the fiscal year ended December 31, 2010. This increase is primarily attributable to increases in direct costs within our Energy Efficiency Services segment of $21.4 million, or 108.9%, as a result of increased demand for these services. Direct costs of contract revenue increased by $0.5 million, or 2.9%, $0.6 million, or 24.4%, and $0.2 million, or 8.9%, respectively, in our Engineering Services, Homeland Security Services, and Public Finance Services segments. Direct costs of contract revenue as a percentage of contract revenue for the fiscal year ended December 30, 2011 increased to 60.4% from 53.9% for the fiscal year ended December 31, 2010.

Direct costs increased as a result of increases in salaries and wages, sub-consultant services and other direct costs of $4.1 million, $17.1 million and $1.5 million, respectively. Within direct costs of contract revenue, salaries and wages decreased to 24.0% of contract revenue for the fiscal year ended December 30, 2011 from 27.7% for the fiscal year ended December 31, 2010 and sub-consultant services increased to 31.9% of contract revenue for the fiscal year ended December 30, 2011 from 21.2% of contract revenue for the fiscal year ended December 31, 2010. Subconsultant 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 increased by $6.3 million, or 19.0%, to $39.0 million for the fiscal year ended December 30, 2011 from $32.8 million for the fiscal year ended December 31, 2010. This was due primarily to increases of $0.4 million,

Table of Contents

$6.2 million and $0.6 million, in the General and administrative expenses of the Engineering Services, Energy Efficiency Services and Homeland Security Services segments, respectively, partially offset by a decrease in General and administrative expenses for the Public Finance Services segment of $1.3 million. Unallocated corporate expenses increased by $0.4 million. General and administrative expenses as a percentage of contract revenue decreased to 36.4% for the fiscal year ended December 30, 2011 from 42.1% for the fiscal year ended December 31, 2010.

Of the $6.3 million increase in general and administrative expenses, approximately $5.0 million relates to increases in salaries and wages, payroll taxes and employee benefits. The increase in employee related costs primarily resulted from increased headcount due to the growth of our Energy Efficiency Services segment. 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 for the fiscal year ended December 30, 2011 also included a decrease of $0.2 million as a result of a decrease in depreciation and amortization charges. Depreciation and amortization expense decreased primarily as a result of the decrease in the amortization of acquired intangible assets. The increase in facilities and facilities related expenses of $0.6 million primarily resulted from expanded facilities in Washington, D.C. and other areas. Other general and administrative expenses increased by $0.8 million, primarily as a result of increases in professional services, marketing and other expenses.

*Income from operations.* As a result of the above factors, our operating income was $3.4 million for the fiscal year ended December 30, 2011 as compared to operating income of $3.1 million for the fiscal year ended December 31, 2010. Income from operations, as a percentage of contract revenue, decreased to 3.2% for the fiscal year ended December 30, 2011, from 3.9% for the fiscal year ended December 31, 2010.

*Other (expense) income.* Other (expense) income, net, was $71,000 for the fiscal year ended December 30, 2011 as compared to other (expense) income of $10,000 the fiscal year ended December 31, 2010.

*Income tax expense (benefit).* We recorded an income tax expense of $1.5 million for the fiscal year ended December 30, 2011, as compared to an income tax expense of $0.3 million for the fiscal year ended December 31, 2010 due to a change in the income tax provision. For further discussion of our income tax provision, see Note 12 " *Income Taxes*."

*Net income (loss).* As a result of the above factors, our net income was $1.8 million for the fiscal year ended December 30, 2011, compared to net income of $2.7 million for the fiscal year ended December 31, 2010.

***Fiscal Year 2010 Compared to Fiscal Year 2009***

*Contract revenue.* Our contract revenue was $77.9 million for the fiscal year ended December 31, 2010, with $33.0 million attributable to the Engineering Services segment, $29.2 million attributable to the Energy Efficiency Services segment and $10.4 million attributable to the Public Finance Services segment. Our Homeland Security Services segment generated $5.3 million during this period. Consolidated contract revenue increased $16.3 million, or 26.5%, to $77.9 million for the fiscal year ended December 31, 2010 from $61.6 million in the fiscal year ended January 1, 2010. This increase was due primarily to an increase of $16.7 million, or 133.6%, in contract revenue of the Energy Efficiency Services segment 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 Engineering Services segment decreased $0.8 million, or 2.4%, to $33.0 million for the fiscal year ended December 31, 2010 from $33.8 million in the fiscal year ended January 1, 2010. Contract revenue in the Homeland Security Services segment increased $1.8 million, or 51.4%, to

Table of Contents

$5.3 million for the fiscal year ended December 31, 2010 from $3.5 million in the fiscal year ended January 1, 2010. Contract revenue for our Public Finance Services segment decreased $1.4 million, or 11.9%, to $10.4 million in the fiscal year ended December 31, 2010 from $11.8 million in the fiscal year ended January 1, 2010.

The $16.3 million increase in consolidated contract revenue resulted primarily from an increase of $16.7 million of revenue recognized by our Energy Efficiency Services segment in fiscal 2010, partially offset by decreases in our Engineering Services and Public Finance Services segments. Contract revenue in the Energy Efficiency Service segment increased primarily because of increased demand for energy efficiency services in the state of New York. Contract revenue for the Engineering Services segment continues to be impacted by the decline in the California residential housing market and state and local government budget cuts. 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 also 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 was $42.0 million for the fiscal year ended December 31, 2010, with $17.2 million attributable to the Engineering Services segment, $19.6 million attributable to the Energy Efficiency Services segment and $2.8 million attributable to the Public Finance Services segment, respectively. The additional $2.4 million is attributable to direct costs of contract revenue for our Homeland Security Services segment. Overall, direct costs of contract revenue increased by $13.2 million, or 45.8%, to $42.0 million for the fiscal year ended December 31, 2010 from $28.8 million for the fiscal year ended January 1, 2010. This increase is primarily attributable to increases in direct costs within our Energy Efficiency Services segment, our Engineering Services segment and our Homeland Security Services segment of $11.9 million, or 154.5%, $1.1 million, or 6.8%, and $0.7 million, or 41.2%, respectively. Direct costs of contract revenue decreased by $0.5 million, or 15.2%, in our Public Finance Services segment due to decreased levels of activity in the Public Finances Services segment. Direct costs of contract revenue as a percentage of contract revenue for the fiscal year ended December 31, 2010 increased to 53.9% from 46.8% for the fiscal year ended January 1, 2010.

Direct costs increased as a result of increases in salaries and wages, sub-consultant services and other direct costs of $3.5 million, $9.0 million and $0.7 million, respectively. Within direct costs of contract revenue, salaries and wages decreased to 27.7% of contract revenue for the fiscal year ended December 31, 2010 from 29.4% for the fiscal year ended January 1, 2010 and sub-consultant services increased to 21.2% of contract revenue for the fiscal year ended December 31, 2010 from 13.0% of contract revenue for the fiscal year ended January 1, 2010. Subconsultant 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 $7.5 million, or 18.6%, to $32.8 million for the fiscal year ended December 31, 2010 from $40.3 million for the fiscal year ended January 1, 2010. This was due primarily to decreases of $8.1 million and

Table of Contents

$3.4 million, in the General and administrative expenses of the Engineering Services and Public Finance Services segments, respectively. General and administrative expenses for the Energy Efficiency Services segment, Homeland Security Services segment and unallocated corporate expenses increased by $3.1 million, $0.7 million and $0.2 million, respectively. General and administrative expenses as a percentage of contract revenue decreased to 42.1% for the fiscal year ended December 31, 2010 from 65.3% for the fiscal year ended January 1, 2010.

Of the $7.5 million decrease in general and administrative expenses, approximately $2.7 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 for the fiscal year ended December 31, 2010 also included decreases of $2.8 million in impairment of goodwill charges and $0.8 million as a result of a decrease in lease abandonment charges. Our lease abandonment charges decreased because we were able to successfully renew certain abandoned facility lease terms on more favorable terms. Depreciation and amortization expense decreased $0.8 million primarily as a result of the decrease in the amortization of acquired intangible assets. Other general and administrative expenses decreased $1.4 million due to a decrease in bad debt expense, net of increases in miscellaneous expenses. These decreases were partially offset by an increase in litigation accrual charges of $1.1 million.

*Income (loss) from operations.* As a result of the above factors, income from operations was $3.1 million for the fiscal year ended December 31, 2010 as compared to a loss from operations of $7.5 million for the fiscal year ended January 1, 2010. Income from operations, as a percentage of contract revenue, increased to 3.9% for the fiscal year ended December 31, 2010, from (12.2)% for the fiscal year ended January 1, 2010.

*Other (expense) income.* Other (expense) income, net, essentially remained flat for the fiscal year ended December 31, 2010 as compared to the fiscal year ended January 1, 2010.

*Income tax expense (benefit).* Income tax expense was $0.3 million for the fiscal year ended December 31, 2010, as compared to an income tax benefit of $1.9 million for the fiscal year ended January 1, 2010. The increase was principally related to higher pre-tax income in 2010, partially offset by a reversal of the $0.9 million of valuation allowance in the current year.

*Net income (loss).* As a result of the above factors, our net income was $2.7 million for the fiscal year ended December 31, 2010, compared to a net loss of $5.6 million for the fiscal year ended January 1, 2010.

**Liquidity and Capital Resources**

As of December 30, 2011, we had $3.0 million of cash and cash equivalents. Our primary sources of liquidity are cash generated from operations and borrowings under our revolving credit agreement. We believe that our cash on hand, cash generated by operating activities and funds available under our credit agreement will be sufficient to finance our operating activities for at least the next 12 months.

***Cash Flows from Operating Activities***

Cash flows used in operating activities were $0.7 million for fiscal year 2011 compared to cash flows provided by operating activities of $0.1 million for fiscal year 2010 and $2.2 million for fiscal year 2009. Our cash flows used in operating activities in fiscal year 2011 primarily resulted from increases in accounts receivable and costs and estimated earnings in excess of billings on uncompleted contracts, partially offset by increases in accounts payable and accrued liabilities. Our cash flows from operating

Table of Contents

activities were also reduced by non-cash revenue of $0.9 million from a subcontractor settlement in fiscal year 2011. The cash flows provided by operating activities in fiscal 2010 were lower than in fiscal 2009, despite higher net income, due primarily to increases in accounts receivable, costs and estimated earnings in excess of billings on uncompleted contracts and fewer adjustments for non-cash items partially offset by increases in accounts payable and accrued liabilities.

***Cash Flows from Investing Activities***

Cash flows used in investing activities were $3.1 million for fiscal year 2011 compared to $2.7 million for fiscal year 2010 and $2.8 million for fiscal year 2009. Payments related to business acquisitions, in fiscal 2011 were $2.7 million, as compared to $2.1 million in fiscal 2010 and $2.4 million in fiscal 2009. These payments were in accordance with the provisions of the stock purchase agreement for the 2008 purchase of Willdan Energy Solutions, formerly known as Intergy Corp. Aside from payments for business acquisitions, our cash used in investing activities is primarily related to the purchase of equipment and leasehold improvements.

***Cash Flows from Financing Activities***

Cash flows provided by financing activities in fiscal 2011 was $0.2 million as compared to $0.8 million for fiscal year 2010 and $0.9 million for fiscal year 2009. The net cash flows provided by financing activities in fiscal 2011 was primarily attributable to changes in the excess of outstanding checks over bank balance and proceeds from notes payable, partially offset by repayments of our revolving line of credit. The net cash flows provided by financing activities in fiscal 2010 was primarily attributable to changes in the excess of outstanding checks over bank balance. The net cash flows provided in fiscal 2009 was primarily attributable to borrowings under our line of credit to support working capital needs.

***Outstanding Indebtedness***

We currently have a revolving credit agreement with Wells Fargo Bank, National Association ("Wells Fargo"), which was entered into on December 23, 2011 and became effective as of January 1, 2012. The credit agreement replaces our prior credit facility with Wells Fargo that expired on January 1, 2012. There was $0.3 million outstanding under our prior credit facility as of December 30, 2011. 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 December 30, 2011, we elected to finance our insurance premiums for the upcoming fiscal year.

Our credit agreement with Wells Fargo provides for a $5.0 million revolving line of credit, including a $5.0 million standby letter of credit sub-facility, and matures on April 1, 2013. Loans made under the revolving line of credit will accrue interest at either (i) a floating rate equal to the prime rate in effect from time to time or (ii) a fixed rate of 2.25% above LIBOR, with the interest rate to be selected by us.

Borrowings under the revolving line of credit are guaranteed by all of our subsidiaries except Public Agency Resources (the "Guarantors") and secured by all of our and the Guarantors' accounts receivable and other rights to payment, general intangibles, inventory and equipment. Pursuant to the credit agreement, we also must pay a 0.25% fee on unused commitments and customary fees on any letters of credit drawn under the facility.

The credit agreement contains customary representations and affirmative covenants, including financial covenants that require us to maintain (i) net income after taxes of at least $250,000, measured on a rolling four quarter basis, without losses in two consecutive quarters; (ii) a maximum ratio of total funded debt (measured as the sum of all obligations for borrowed money, including subordinated debt,

Table of Contents

plus all capital lease obligations) to EBITDA of 1.75 to 1.00, measured quarterly on a rolling four quarter basis; and (iii) a minimum asset coverage ratio of 2.50 to 1.00 as of each quarter end, measured as unrestricted cash plus net-billed accounts receivables divided by amounts outstanding and issued letters of credit under the revolving line of credit.

The credit agreement also includes customary negative covenants, including (i) restrictions on the incurrence of additional indebtedness by us or the Guarantors other than purchase money indebtedness not to exceed $2.0 million and indebtedness existing on the date of the credit agreement, (ii) restrictions on the 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, and (iii) limitations on asset sales, mergers and acquisitions. In addition, the credit agreement includes customary events of default. Upon the occurrence of an event of default, the interest rate will be increased by 4.0%, Wells Fargo has the option to make any loans then outstanding under the credit agreement immediately due and payable, and Wells Fargo is no longer obligated to extend further credit to us under the credit agreement.

***Contractual Obligations***

We have certain cash obligations and other commitments which will impact our short- and long-term liquidity. At December 30, 2011, such obligations and commitments consisted of long-term debt, operating leases and capital leases. The following table sets forth our contractual obligations as of December 30, 2011:

| Contractual Obligations | Total | Less than 1 Year | 1-3 Years | 3-5 Years | More than 5 Years |
|---|---|---|---|---|---|
| Long term debt(1) | $ 935,000 | $ 857,000 | $ 78,000 | $ | $ |
| Operating leases | 9,262,000 | 3,447,000 | 5,090,000 | 725,000 | |
| Capital leases | 398,000 | 208,000 | 190,000 | | |
| Total contractual cash obligations | $ 10,595,000 | $ 4,512,000 | $ 5,358,000 | $ 725,000 | $ |

(1) Long-term debt includes principal and interest payments under our debt agreements assuming no additional borrowings or principal payments and includes borrowings under our previous line of credit of $256,000.

***Off-Balance Sheet Arrangements***

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

**New Accounting Pronouncements**

In September 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2011-08 ("ASU 2011-08"), *Intangibles Goodwill and Other (Topic 350): Testing Goodwill for Impairment*. This accounting guidance is intended to simplify goodwill impairment testing, by allowing companies to perform a qualitative assessment on goodwill impairment to determine whether a quantitative assessment is necessary. This guidance is for goodwill impairment tests performed in interim and annual periods for fiscal years beginning after December 15, 2011. Early adoption is permitted. We elected to adopt this guidance early, effective the first day of our third quarter of 2011. We do not expect the adoption of this guidance to have a material impact on our financial statements.

Table of Contents

## ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

We had cash and cash equivalents of $3.0 million as of December 30, 2011. This amount includes $2.0 million invested in the Wells Fargo Money Market Mutual Fund. Although these investments are subject to variable interest rates, we do not believe we are subject to significant market risk for these short-term investments.

We do not engage in trading activities and do not participate in foreign currency transactions or utilize derivative financial instruments. As of December 30, 2011, we had $0.3 million outstanding debt under our revolving credit facility that bears interest at variable rates.

Table of Contents

## ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

### Index to Consolidated Financial Statements


| | Page |
|---|---|
| Report of Independent Registered Public Accounting Firm Ernst & Young LLP | F-1 |
| Report of Independent Registered Public Accounting Firm KPMG LLP | F-2 |
| Consolidated Balance Sheets as of December 30, 2011 and December 31, 2010 | F-3 |
| Consolidated Statements of Operations for each of the fiscal years in the three-year period ended December 30, 2011 | F-4 |
| Consolidated Statements of Stockholders' Equity for each of the fiscal years in the three-year period ended December 30, 2011 | F-5 |
| Consolidated Statements of Cash Flows for each of the fiscal years in the three-year period ended December 30, 2011 | F-6 |
| Notes to Consolidated Financial Statements | F-7 |

Table of Contents

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

There were no changes in and/or disagreements with accountants on accounting and financial disclosure during the year ended December 30, 2011.

## ITEM 9A. CONTROLS AND PROCEDURES

**Evaluation of Disclosure Controls and Procedures**

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

In connection with the preparation of this Annual Report, an evaluation was performed under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures as of December 30, 2011. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective, at a reasonable assurance level, as of December 30, 2011. No change in our internal control over financial reporting occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**Management's Report on Internal Control Over Financial Reporting**

Our management is responsible for establishing and maintaining adequate control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended). Internal control over financial reporting is a process to provide reasonable assurance regarding the reliability of our financial reporting for external purposes in accordance with accounting principles generally accepted in the United States. Because of its inherent limitations, internal control over financial reporting is not intended to provide absolute assurance that a misstatement of our financial statements would be prevented or detected. Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, assessed the effectiveness of our internal control over financial reporting as of December 30, 2011. In making this assessment, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control Integrated Framework. Our management has concluded that, as of December 30, 2011, our internal control over financial reporting was effective based on these criteria.

**Report of Independent Registered Public Accounting Firm**

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

**Changes in Internal Controls**

Based on our evaluation carried out in accordance with SEC Rule 15d-15(b) under the supervision and with the participation of our management, including our President and Chief Executive Officer and our Chief Financial Officer, we concluded that there were no changes during the fourth fiscal quarter of 2011 of our internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

## ITEM 9B. OTHER INFORMATION

None.

Table of Contents

## PART III

### ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by this item is incorporated by reference to Willdan Group, Inc.'s Proxy Statement for its 2012 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the Company's 2011 fiscal year.

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

### ITEM 11. EXECUTIVE COMPENSATION

The information required by this item is incorporated by reference to Willdan Group, Inc.'s Proxy Statement for its 2012 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the Company's 2011 fiscal year.

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

The information required by this item is incorporated by reference to Willdan Group, Inc.'s Proxy Statement for its 2012 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the Company's 2011 fiscal year.

### ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this item is incorporated by reference to Willdan Group, Inc.'s Proxy Statement for its 2012 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the Company's 2011 fiscal year.

### ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this item is incorporated by reference to Willdan Group, Inc.'s Proxy Statement for its 2012 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the Company's 2011 fiscal year.

Table of Contents

## PART IV

### ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

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

1. Financial Statements

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


| | Page |
|---|---|
| Report of Independent Registered Public Accounting Firm Ernst & Young LLP | F-1 |
| Report of Independent Registered Public Accounting Firm KPMG LLP | F-2 |
| Consolidated Balance Sheets as of December 30, 2011 and December 31, 2010 | F-3 |
| Consolidated Statements of Operations for each of the fiscal years in the three-year period ended December 30, 2011 | F-4 |
| Consolidated Statements of Stockholders' Equity for each of the fiscal years in the three-year period ended December 30, 2011 | F-5 |
| Consolidated Statements of Cash Flows for each of the fiscal years in the three-year period ended December 30, 2011 | F-6 |
| Notes to Consolidated Financial Statements | F-7 |


2. Financial Statements Schedules

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

3. Exhibits

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

(b) Exhibits.

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

| Exhibit Number | Exhibit Description |
|---|---|
| 3.1 | Articles of Incorporation of Willdan Group, Inc., including amendments thereto(2) |
| 3.2 | Bylaws of Willdan Group, Inc.(2) |
| 4.1 | Specimen Stock Certificate for shares of the Registrant's Common Stock(2) |
| 4.2 | The Company agrees to furnish to the Securities and Exchange Commission upon request a copy of each instrument with respect to issues of long-term debt of Willdan Group, Inc. and its subsidiaries, the authorized principal amount of which does not exceed 10% of the consolidated assets of Willdan Group, Inc. and its subsidiaries. |
| 10.1 | Credit Agreement, dated January 1, 2012, between Willdan Group, Inc. and Wells Fargo Bank, National Association, relating to the Revolving Line of Credit Note(1) |
| 10.2 | Revolving Line of Credit Note for $5,000,000, dated January 1, 2012, by Willdan Group, Inc. in favor of Wells Fargo Bank, National Association(1) |

10.3 Willdan Group, Inc. 2006 Stock Incentive Plan(2)

Table of Contents

| Exhibit Number | Exhibit Description |
|---|---|
| 10.4 | Form of Incentive Stock Option Agreement(2) |
| 10.5 | Form of Non-Qualified Stock Option Agreement(2) |
| 10.6 | Amended and Restated Willdan Group, Inc. 2006 Employee Stock Purchase Plan(3) |
| 10.7 | Willdan Group, Inc. 2008 Performance Incentive Plan(4) |
| 10.8 | Form of Indemnification Agreement between Willdan Group, Inc. and its Directors and Officers(2) |
| 10.9 | Office Lease by and between Spectrum Waples Street, LLC, a California limited liability company, Spectrum Lambert Plaza, LLC, a California limited liability company and The Willdan Group of Companies dated October 15, 2004 for the principal office located at 2401 East Katella Avenue, Anaheim, California(2) |
| 10.10 | First Amendment to Lease by and between 2401 Katella, LLC and The Willdan Group of Companies, dated February 27, 2006 for the principal office located at 2401 Katella Avenue, Anaheim, California(2) |
| 10.11 | Second Amendment to Lease by and between 2401 Katella, LLC and The Willdan Group of Companies dated March 6, 2006 for the principal office located at 2401 Katella Avenue, Anaheim, California(2) |
| 10.12 | Indemnification Agreement between Willdan Group, Inc. and Linda Heil(2) |
| 10.13 | Offer Letter from Willdan Group, Inc. to Daniel Chow dated October 29, 2008 and accepted November 9, 2008(5) |
| 10.14 | Employment Agreement, dated as of May 3, 2011 by and between Willdan Group, Inc. and Thomas D. Brisbin(6) |
| 10.15 | Employment Agreement, dated as of May 3, 2011 by and between Willdan Group, Inc. and Kimberly D. Gant(6) |
| 10.16 | Employment Agreement, dated as of May 3, 2011 by and between Willdan Group, Inc. and Marc Tipermas(6) |
| 14.1 | Code of Ethical Conduct of Willdan Group, Inc.(3) |
| 21.1 | Subsidiaries of Willdan Group, Inc.* |
| 23.1 | Consent of Independent Registered Public Accounting Firm  Ernst & Young LLP* |
| 23.2 | Consent of Independent Registered Public Accounting Firm  KPMG LLP* |
| 24.1 | Power of Attorney (included on signature page hereto) |
| 31.1 | Certification of Chief Executive Officer pursuant to Rule 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to § 302 of the Sarbanes-Oxley Act of 2002* |
| 31.2 | Certification of Chief Financial Officer pursuant to Rule 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to § 302 of the Sarbanes-Oxley Act of 2002* |
| 32.1 | Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002* |

Table of Contents

| Exhibit Number | Exhibit Description |
|---|---|
| 101. | Interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Consolidated Balance Sheets as of December 30, 2011 and December 31, 2010; (ii) the Consolidated Statements of Operations for each of the fiscal years in the three-year period ended December 30, 2011; (iii) the Consolidated Statements of Stockholders' Equity for each of the fiscal years in the three-year period ended December 30, 2011; (iv) the Consolidated Statement of Cash Flows for each of the fiscal years in the three-year period ended December 30, 2011; and (v) the Notes to the Consolidated Financial Statements. |

*
Filed herewith.

Indicates a management contract or compensating plan or arrangement.

(1)
Incorporated by reference to Willdan Group, Inc.'s Current Report on Form 8-K, filed with the Securities and Exchange Commission on December 27, 2011.

(2)
Incorporated by reference to Willdan Group, Inc.'s Registration Statement on Form S-1, filed with the Securities and Exchange Commission on August 9, 2006, as amended (File No. 333-136444).

(3)
Incorporated by reference to Willdan Group, Inc.'s Annual Report on Form 10-K, filed with the Securities and Exchange Commission on March 27, 2007.

(4)
Incorporated by reference to Willdan Group, Inc.'s Quarterly Report on Form 10-Q, filed with the Securities and Exchange Commission on August 12, 2010.

(5)
Incorporated by reference to Willdan Group, Inc.'s Current Report on Form 8-K, filed with the Securities and Exchange Commission on December 17, 2008.

(6)
Incorporated by reference to Willdan Group, Inc.'s Current Report on Form 8-K, filed with the Securities and Exchange Commission on May 4, 2011.

Table of Contents

## SIGNATURES AND CERTIFICATIONS

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Anaheim, State of California, on March 29, 2012.

**WILLDAN GROUP, INC.**

/s/ KIMBERLY D. GANT

Kimberly D. Gant
*Chief Financial Officer, Senior Vice President and Treasurer*

Date: March 29, 2012

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

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

| Signature | Title | Date |
|---|---|---|
| /s/ THOMAS D. BRISBIN<br>Thomas D. Brisbin | Director, President and Chief Executive Officer | March 29, 2012 |
| /s/ KIMBERLY D. GANT<br>Kimberly D. Gant | Chief Financial Officer and Senior Vice President | March 29, 2012 |
| /s/ WIN WESTFALL<br>Win Westfall | Director | March 29, 2012 |
| /s/ LINDA L. HEIL<br>Linda L. Heil | Director | March 29, 2012 |
| /s/ W. TRACY LENOCKER<br>W. Tracy Lenocker | Director | March 29, 2012 |
| /s/ KEITH W. RENKEN<br>Keith W. Renken | Director | March 29, 2012 |

Table of Contents

| Signature | Title | Date |
|---|---|---|
| /s/ WAYNE SHELTON<br>Wayne Shelton | Director | March 29, 2012 |
| /s/ JOHN M. TOUPS<br>John M. Toups | Director | March 29, 2012 |
| /s/ RAYMOND W. HOLDSWORTH<br>Raymond W. Holdsworth | Director | March 29, 2012 |
| /s/ DOUGLAS J. MCEACHERN<br>Douglas J. McEachern | Director | March 29, 2012 |

Table of Contents

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Stockholders
Willdan Group, Inc.

We have audited the accompanying consolidated balance sheets of Willdan Group, Inc. and subsidiaries (the "Company") as of December 30, 2011 and December 31, 2010 and the related consolidated statements of operations, stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Willdan Group, Inc. and subsidiaries as of December 30, 2011 and December 31, 2010, and the results of their operations and their cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young LLP

Los Angeles, California
March 29, 2012

Table of Contents

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

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

We have audited the accompanying consolidated statements of operations, stockholders' equity, and cash flows of Willdan Group, Inc. and subsidiaries (the Company) for the year ended January 1, 2010. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the results of operations of Willdan Group, Inc. and subsidiaries and their cash flows for the year ended January 1, 2010, in conformity with U.S. generally accepted accounting principles.

/s/ KPMG LLP

March 30, 2010
Los Angeles, California

Table of Contents

**WILLDAN GROUP, INC. AND SUBSIDIARIES**

**CONSOLIDATED BALANCE SHEETS**

| | December 30, 2011 | December 31, 2010 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 3,001,000 | $ 6,642,000 |
| Accounts receivable, net of allowance for doubtful accounts of $421,000 and $959,000 at December 30, 2011 and December 31, 2010, respectively | 16,782,000 | 14,484,000 |
| Costs and estimated earnings in excess of billings on uncompleted contracts | 20,672,000 | 11,343,000 |
| Other receivables | 175,000 | 176,000 |
| Prepaid expenses and other current assets | 1,724,000 | 1,714,000 |
| Total current assets | 42,354,000 | 34,359,000 |
| Equipment and leasehold improvements, net | 1,217,000 | 1,496,000 |
| Goodwill | 15,208,000 | 12,475,000 |
| Other intangible assets, net | 49,000 | 95,000 |
| Other assets | 383,000 | 407,000 |
| Deferred income taxes | 5,100,000 | 622,000 |
| Total assets | $ 64,311,000 | $ 49,454,000 |
| **Liabilities and Stockholders' Equity** | | |
| Current liabilities: | | |
| Excess of outstanding checks over bank balance | $ 1,777,000 | $ 1,223,000 |
| Borrowings under line of credit | 256,000 | 1,000,000 |
| Accounts payable | 8,182,000 | 5,380,000 |
| Accrued liabilities | 10,192,000 | 5,985,000 |
| Billings in excess of costs and estimated earnings on uncompleted contracts | 752,000 | 1,041,000 |
| Current portion of notes payable | 600,000 | 90,000 |
| Current portion of capital lease obligations | 163,000 | 173,000 |
| Current portion of deferred income taxes | 7,349,000 | 1,407,000 |
| Total current liabilities | 29,271,000 | 16,299,000 |
| Notes payable, less current portion | 77,000 | 131,000 |
| Capital lease obligations, less current portion | 136,000 | 96,000 |
| Deferred lease obligations | 534,000 | 766,000 |
| Total liabilities | 30,018,000 | 17,292,000 |
| Commitments and contingencies | | |
| Stockholders' equity: | | |
| Preferred stock, $0.01 par value, 10,000,000 shares authorized, no shares issued and outstanding | | |
| Common stock, $0.01 par value, 40,000,000 shares authorized; 7,274,000 and 7,246,000 shares issued and outstanding at December 30, 2011 and December 31, 2010, respectively | 73,000 | 72,000 |
| Additional paid-in capital | 34,065,000 | 33,765,000 |
| Accumulated earnings (deficit) | 155,000 | (1,675,000) |
| Total stockholders' equity | 34,293,000 | 32,162,000 |
| Total liabilities and stockholders' equity | $ 64,311,000 | $ 49,454,000 |

See accompanying notes to consolidated financial statements.

Table of Contents

**WILLDAN GROUP, INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF OPERATIONS**

| | Fiscal Year | | |
|---|---|---|---|
| | **2011** | **2010** | **2009** |
| Contract revenue | $ 107,165,000 | $ 77,896,000 | $ 61,605,000 |
| Direct costs of contract revenue (exclusive of depreciation and amortization shown separately below): | | | |
| Salaries and wages | 25,714,000 | 21,607,000 | 18,130,000 |
| Subconsultant services | 34,195,000 | 16,523,000 | 7,997,000 |
| Other direct costs | 4,818,000 | 3,892,000 | 2,715,000 |
| Total direct costs of contract revenue | 64,727,000 | 42,022,000 | 28,842,000 |
| General and administrative expenses: | | | |
| Salaries and wages, payroll taxes and employee benefits | 22,594,000 | 17,582,000 | 20,325,000 |
| Facilities and facility related | 4,875,000 | 4,290,000 | 4,430,000 |
| Stock-based compensation | 201,000 | 235,000 | 272,000 |
| Depreciation and amortization | 877,000 | 1,042,000 | 1,814,000 |
| Lease abandonment (recovery), net | 2,000 | (68,000) | 707,000 |
| Impairment of goodwill | | | 2,763,000 |
| Litigation accrual (reversal) | | | (1,125,000) |
| Other | 10,488,000 | 9,719,000 | 11,070,000 |
| Total general and administrative expenses | 39,037,000 | 32,800,000 | 40,256,000 |
| Income (loss) from operations | 3,401,000 | 3,074,000 | (7,493,000) |
| Other (expense) income: | | | |
| Interest income | 5,000 | 12,000 | 30,000 |
| Interest expense | (77,000) | (54,000) | (38,000) |
| Other, net | 1,000 | 32,000 | (5,000) |
| Total other (expense) income, net | (71,000) | (10,000) | (13,000) |
| Income (loss) before income taxes | 3,330,000 | 3,064,000 | (7,506,000) |
| Income tax expense (benefit) | 1,500,000 | 344,000 | (1,931,000) |
| Net income (loss) | $ 1,830,000 | $ 2,720,000 | $ (5,575,000) |
| Earnings (loss) per share: | | | |
| Basic | $ 0.25 | $ 0.38 | $ (0.78) |
| Diluted | $ 0.24 | $ 0.37 | $ (0.78) |
| Weighted-average shares outstanding: | | | |
| Basic | 7,262,000 | 7,233,000 | 7,192,000 |
| Diluted | 7,485,000 | 7,311,000 | 7,192,000 |

See accompanying notes to consolidated financial statements.

Table of Contents

**WILLDAN GROUP, INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**

| | Common Stock | | Additional Paid-in | Retained Earnings/ (Accumulated | |
|---|---|---|---|---|---|
| | Shares | Amount | Capital | Deficit) | Total |
| Balances at January 2, 2009 | 7,164,000 | $ 72,000 | $ 33,084,000 | $ 1,180,000 | $ 34,336,000 |
| Shares of common stock issued in connection with employee stock purchase plan | 44,000 | | 84,000 | | 84,000 |
| Stock-based compensation | | | 272,000 | | 272.000 |
| Net loss | | | | (5,575,000) | (5,575,000) |
| Balances at January 1, 2010 | 7,208,000 | 72,000 | 33,440,000 | (4,395,000) | 29,117,000 |
| Shares of common stock issued in connection with employee stock purchase plan | 36,000 | | 87,000 | | 87,000 |
| Shares of common stock issued in connection with employee stock option exercise | 2,000 | | 3,000 | | 3.000 |
| Stock-based compensation | | | 235,000 | | 235,000 |
| Net income | | | | 2,720,000 | 2,720,000 |
| Balances at December 31, 2010 | 7,246,000 | 72,000 | 33,765,000 | (1,675,000) | 32,162,000 |
| Shares of common stock issued in connection with employee stock purchase plan | 25,000 | 1,000 | 92,000 | | 93,000 |
| Shares of common stock issued in connection with employee stock option exercise | 3,000 | | 7,000 | | 7,000 |
| Stock-based compensation | | | 201,000 | | 201,000 |
| Net income | | | | 1,830,000 | 1,830,000 |
| Balances at December 30, 2011 | 7,274,000 | $ 73,000 | $ 34,065,000 | $ 155,000 | $ 34,293,000 |

See accompanying notes to consolidated financial statements.

Table of Contents

**WILLDAN GROUP, INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

| | Fiscal Year | | |
|---|---|---|---|
| | **2011** | **2010** | **2009** |
| Cash flows from operating activities: | | | |
| Net income (loss) | $ 1,830,000 | $ 2,720,000 | $ (5,575,000) |
| Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities: | | | |
| Non-cash revenue from subcontractor settlement | (902,000) | | |
| Depreciation and amortization | 944,000 | 1,053,000 | 1,814,000 |
| Deferred income taxes | 1,465,000 | 389,000 | (1,890,000) |
| Goodwill impairment | | | 2,763,000 |
| Lease abandonment expense (recovery), net | 2,000 | (68,000) | 707,000 |
| Loss (gain) on sale of equipment | 2,000 | (17,000) | 6,000 |
| Provision for doubtful accounts | 209,000 | 20,000 | 1,829,000 |
| Stock-based compensation | 201,000 | 235,000 | 272,000 |
| Changes in operating assets and liabilities: | | | |
| Accounts receivable | (2,507,000) | (4,407,000) | 936,000 |
| Costs and estimated earnings in excess of billings on uncompleted contracts | (8,427,000) | (4,694,000) | 1,632,000 |
| Income tax receivable | | 51,000 | 905,000 |
| Other receivables | 1,000 | (103,000) | (25,000) |
| Prepaid expenses and other current assets | (10,000) | (214,000) | 284,000 |
| Other assets | 24,000 | (89,000) | 55,000 |
| Accounts payable | 2,802,000 | 3,923,000 | (654,000) |
| Accrued liabilities | 4,206,000 | 1,476,000 | (959,000) |
| Billings in excess of costs and estimated earnings on uncompleted contracts | (289,000) | 11,000 | 326,000 |
| Deferred lease obligations | (234,000) | (189,000) | (272,000) |
| Net cash (used in) provided by operating activities | (683,000) | 97,000 | 2,154,000 |
| Cash flows from investing activities: | | | |
| Purchase of equipment and leasehold improvements | (395,000) | (685,000) | (386,000) |
| Proceeds from sale of equipment | 6,000 | 40,000 | |
| Payments related to business acquisitions | (2,733,000) | (2,104,000) | (2,373,000) |
| Net cash used in investing activities | (3,122,000) | (2,749,000) | (2,759,000) |
| Cash flows from financing activities: | | | |
| Changes in excess of outstanding checks over bank balance | 554,000 | 735,000 | 40,000 |
| Payments on notes payable | (211,000) | (17,000) | (46,000) |
| Proceeds from notes payable | 667,000 | 214,000 | |
| Borrowings under line of credit | 33,965,000 | 14,123,000 | 3,553,000 |
| Repayments of line of credit | (34,709,000) | (14,123,000) | (2,553,000) |
| Principal payments on capital leases | (202,000) | (173,000) | (172,000) |
| Proceeds from stock option exercise | 7,000 | 3,000 | |
| Proceeds from sales of common stock under employee stock purchase plan | 93,000 | 87,000 | 84,000 |
| Net cash provided by financing activities | 164,000 | 849,000 | 906,000 |
| Net (decrease) increase in cash and cash equivalents | (3,641,000) | (1,803,000) | 301,000 |
| Cash and cash equivalents at beginning of the year | 6,642,000 | 8,445,000 | 8,144,000 |
| Cash and cash equivalents at end of the year | $ 3,001,000 | $ 6,642,000 | $ 8,445,000 |
| Supplemental disclosures of cash flow information: | | | |
| Cash paid during the period for: | | | |
| Interest | $ 77,000 | $ 52,000 | $ 40,000 |
| Income taxes | 70,000 | 48,000 | 3,000 |
| Supplemental disclosures of noncash investing and financing activities: | | | |

| | | | |
|---|---|---|---|
| Equipment acquired under capital leases | $ 247,000 | $ 240,000 | $ 60,000 |

See accompanying notes to consolidated financial statements

Table of Contents

**WILLDAN GROUP, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Fiscal Years 2011, 2010 and 2009**

## 1. ORGANIZATION AND OPERATIONS OF THE COMPANY

***Nature of Business***

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

***Principles of Consolidation***

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

***Fiscal Years***

The Company operates and reports financial results on a fiscal year of 52 or 53 weeks ending on the Friday closest to December 31. Fiscal years 2011, 2010 and 2009 contained 52 weeks. All references to years in the notes to consolidated financial statements represent fiscal years.

***Cash, Cash Equivalents and Liquid Investments***

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

| | December 30, 2011 | December 31, 2010 |
|---|---|---|
| Wells Fargo Stage Coach Sweep Investment Account | $ | $ 808,000 |
| Wells Fargo Money Market Mutual Fund | 2,000,000 | 5,287,000 |
| Wells Fargo Advantage Heritage Fund | 47,000 | 47,000 |
| Cash on hand in business checking accounts | 954,000 | 500,000 |
| | $ 3,001,000 | $ 6,642,000 |

The Company from time to time may be exposed to credit risk with its bank deposits in excess of the FDIC insurance limits and with uninsured money market investments. The Company has not

Table of Contents

**WILLDAN GROUP, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Fiscal Years 2011, 2010 and 2009**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

***Fair Value of Financial Instruments***

As of December 30, 2011 and December 31, 2010, the carrying amounts of the Company's cash, cash equivalents, accounts receivable, costs and estimated earnings in excess of billings on uncompleted contracts, other receivables, prepaid expenses and other current assets, excess of outstanding checks over bank balance, accounts payable, accrued liabilities and billings in excess of costs and estimated earnings on uncompleted contracts, approximate their fair values because of the relatively short period of time between the origination of these instruments and their expected realization or payment. The carrying amounts of debt obligations approximate their fair values since the terms are comparable to terms currently offered by local lending institutions for loans of similar terms to companies with comparable credit risk.

***Segment Information***

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

***Off-Balance Sheet Financings and Liabilities***

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

***Accounting for Contracts***

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

Table of Contents

**WILLDAN GROUP, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Fiscal Years 2011, 2010 and 2009**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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 is based on an evaluation of the probability of recovery of the costs. Estimated profit is recognized for un-priced change orders if realization of the expected price of the change order is probable.

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

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

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

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

The value of retainage is included in accounts receivable in the accompanying consolidated financial statements. Retainage represents the billed amount that is retained by the customer, in accordance with the terms of the contract, generally until performance is substantially complete.

Table of Contents

**WILLDAN GROUP, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Fiscal Years 2011, 2010 and 2009**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***Leases***

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

***Equipment and Leasehold Improvements***

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

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

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

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

***Goodwill***

Goodwill represents the excess of costs over fair value of the assets acquired. Goodwill, which has an indefinite useful life, is not amortized, but instead tested for impairment at least annually or more frequently if events and circumstances indicate that the asset might be impaired. Impairment losses for

Table of Contents

**WILLDAN GROUP, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Fiscal Years 2011, 2010 and 2009**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

reporting units are recognized to the extent that a reporting unit's carrying amount exceeds its fair value.

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

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

***Stock Options***

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

***Income Taxes***

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

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

***Operating Cycle***

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

***Use of Estimates***

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

Table of Contents

**WILLDAN GROUP, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Fiscal Years 2011, 2010 and 2009**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***New Accounting Pronouncements***

In September 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2011-08 ("ASU 2011-08"), *Intangibles Goodwill and Other (Topic 350): Testing Goodwill for Impairment*. This accounting guidance is intended to simplify goodwill impairment testing, by allowing companies to perform a qualitative assessment on goodwill impairment to determine whether a quantitative assessment is necessary. This guidance is for goodwill impairment tests performed in interim and annual periods for fiscal years beginning after December 15, 2011. Early adoption is permitted. The Company elected to adopt this guidance early, effective the first day of its third quarter of 2011. The adoption of this guidance did not have a material impact on the Company's financial statements.

**3. BUSINESS COMBINATION**

On June 9, 2008, the Company acquired all of the outstanding stock of Willdan Energy Solutions, formerly known as Intergy Corporation, a California based consulting company that assists companies, institutions and agencies with planning and implementing their energy efficiency, water conservation and renewable energy strategies. The acquisition cost recorded by the Company as of December 30, 2011 was $17.9 million, consisting of $9.9 million in cash paid at closing, a $0.2 million net asset value adjustment, a guaranteed payment of $1.0 million in cash paid in June 2009, an earn-out payment of $1.3 million paid in August 2009, an earn-out payment of $2.1 million paid in September 2010, an earn-out payment of $2.7 million paid in August 2011 and $0.7 million in transaction costs. The final earn-out payment was required because Willdan Energy Solutions achieved certain financial targets over the twelve month period ending July 1, 2011. The Company has recorded $15.2 million of goodwill associated with the acquisition through December 30, 2011.

The $15.2 million of goodwill represents the amount paid to acquire Willdan Energy Solutions over and above the fair value of the net assets acquired, which includes the estimated fair value of the backlog in place as of the date of acquisition. The amount paid that has been classified as goodwill primarily relates to the expected future business that was not part of the backlog at the time of acquisition. The goodwill is deductible for income tax purposes over a period of 15 years.

The Company finalized its purchase price allocation during fiscal year 2009.

Table of Contents

**WILLDAN GROUP, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Fiscal Years 2011, 2010 and 2009**

**4. GOODWILL AND OTHER INTANGIBLE ASSETS**

The changes in the carrying value of goodwill by reporting unit for the fiscal year ended December 30, 2011 were as follows:

| | Fiscal Year 2011 | | | |
|---|---|---|---|---|
| | Balance at Beginning of Year | Goodwill Additions | Impairment | Balance at End of Year |
| **Reporting Unit:** | | | | |
| Energy Solutions | $ 12,475,000 | $ 2,733,000 | $ | $ 15,208,000 |
| Financial Services | | | | |
| Homeland Security Services | | | | |
| | $ 12,475,000 | $ 2,733,000 | $ | $ 15,208,000 |

| | Fiscal Year 2010 | | | |
|---|---|---|---|---|
| | Balance at Beginning of Year | Goodwill Additions | Impairment | Balance at End of Year |
| **Reporting Unit:** | | | | |
| Energy Solutions | $ 10,371,000 | $ 2,104,000 | $ | $ 12,475,000 |
| Financial Services | | | | |
| Homeland Security Services | | | | |
| | $ 10,371,000 | $ 2,104,000 | $ | $ 12,475,000 |

| | Fiscal Year 2009 | | | |
|---|---|---|---|---|
| | Balance at Beginning of Year | Goodwill Additions | Impairment | Balance at End of Year |
| **Reporting Unit:** | | | | |
| Energy Solutions | $ 8,382,000 | $ 1,989,000 | $ | $ 10,371,000 |
| Financial Services | 2,763,000 | | (2,763,000) | |
| Homeland Security Services | | | | |
| | $ 11,145,000 | $ 1,989,000 | $ (2,763 ,000) | $ 10,371,000 |

The additions to goodwill during fiscal 2009 for Energy Solutions related to the $1.3 million earn-out payment and finalization of the purchase price allocation. In fiscal 2009, the fair value of the Financial Services reporting unit did not exceed its carrying value and step two of the impairment analysis indicated that there was no implied value to this reporting unit's goodwill. Accordingly, an impairment charge of $2.8 million was recognized. The fair value of the reporting unit is a Level 3 valuation. The valuation was based on an 80% weighting of an income approach value and a 20% weighting using a market approach value. The income approach was based on the present value of projected cash flows during the holding period and disposition of the reporting unit at the end of the final year of the assumed holding period. The market approach was based on a multiple of earnings before interest, taxes, depreciation and amortization ("EBITDA") utilizing publicly available EBITDA multiples for similar companies. The terminal sales value computed in the income approach was also based on a multiple of projected EBITDA for the last year of the assumed holding period. The

Table of Contents

**WILLDAN GROUP, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Fiscal Years 2011, 2010 and 2009**

**4. GOODWILL AND OTHER INTANGIBLE ASSETS (Continued)**

additions to goodwill in fiscal 2010 and fiscal 2011 for Energy Solutions related to the $2.1 million earn-out payment in September 2010 and the $2.7 million earn-out payment in August 2011, respectively.

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

| | Reporting Units | | | |
|---|---|---|---|---|
| | Energy Solutions | Financial Services | Homeland Security Services | Total |
| December 30, 2011: | | | | |
| Goodwill | $ 15,208,000 | $ 2,763,000 | $ 148,000 | $ 18,119,000 |
| Accumulated impairment | | (2,763,000) | (148,000) | (2,911,000) |
| | $ 15,208,000 | $ | $ | $ 15,208,000 |
| December 31, 2010: | | | | |
| Goodwill | $ 12,475,000 | $ 2,763,000 | $ 148,000 | $ 15,386,000 |
| Accumulated impairment | | (2,763,000) | (148,000) | (2,911,000) |
| | $ 12,475,000 | $ | $ | $ 12,475,000 |
| January 1, 2010: | | | | |
| Goodwill | $ 10,371,000 | $ 2,763,000 | $ 148,000 | $ 13,282,000 |
| Accumulated impairment | | (2,763,000) | (148,000) | (2,911,000) |
| | $ 10,371,000 | $ | $ | $ 10,371,000 |

The gross amounts and accumulated amortization of the Company's acquired identifiable intangible assets with finite useful lives as of December 30, 2011 and December 31, 2010, included in intangible assets, net in the accompanying consolidated balance sheets, were as follows:

| | December 30, 2011 | | December 31, 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 | 233,000 | 282,000 | 187,000 | 5 |
| Non-compete agreements | 30,000 | 30,000 | 30,000 | 30,000 | 3 |
| | $ 1,232,000 | $ 1,183,000 | $ 1,232,000 | $ 1,137,000 | |

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

Table of Contents

**WILLDAN GROUP, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Fiscal Years 2011, 2010 and 2009**

**4. GOODWILL AND OTHER INTANGIBLE ASSETS (Continued)**

The purchase allocation for Willdan Energy Solutions was finalized during the second quarter of fiscal 2009.

For the years ended December 30, 2011, December 31, 2010 and January 1, 2010, the Company's amortization expense for acquired identifiable intangible assets with finite useful lives was $46,000, $54,000 and $602,000, respectively. Estimated future amortization expense for acquired identifiable intangible assets is as follows:

| **Fiscal year:** | |
|---|---|
| 2012 | $ 37,000 |
| 2013 | 12,000 |
| | $ 49,000 |

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

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

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

| | Fiscal Year | | |
|---|---|---|---|
| | **2011** | **2010** | **2009** |
| Net income (loss) | $ 1,830,000 | $ 2,720,000 | $ (5,575,000) |
| Weighted-average common shares outstanding | 7,262,000 | 7,233,000 | 7,192,000 |
| Effect of dilutive stock options | 223,000 | 78,000 | |
| Weighted-average common stock outstanding-diluted | 7,485,000 | 7,311,000 | 7,192,000 |
| Earnings (loss) per share: | | | |
| Basic | $ 0.25 | $ 0.38 | $ (0.78) |
| Diluted | $ 0.24 | $ 0.37 | $ (0.78) |

For the fiscal year ended December 30, 2011, 304,000 options were excluded from the calculation of dilutive potential common shares, compared to 524,000 and 566,000 options, for fiscal 2010 and fiscal 2009, respectively. These options were not included in the computation of dilutive potential common shares because the assumed proceeds per share exceeded the average market price per share for the periods. Accordingly, the inclusion of these options would have been anti-dilutive. For periods in which the Company incurs net losses, dilutive potential common shares are excluded as they would be anti-dilutive.

Table of Contents

**WILLDAN GROUP, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Fiscal Years 2011, 2010 and 2009**

## 6. ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following at December 30, 2011 and December 31, 2010:

| | December 30, 2011 | December 31, 2010 |
|---|---|---|
| Billed | $ 16,624,000 | $ 14,895,000 |
| Unbilled | 20,672,000 | 11,343,000 |
| Contract retentions | 579,000 | 548,000 |
| | 37,875,000 | 26,786,000 |
| Allowance for doubtful accounts | (421,000) | (959,000) |
| | $ 37,454,000 | $ 25,827,000 |

The movements in the allowance for doubtful accounts consisted of the following for fiscal years 2011, 2010 and 2009:

| | Fiscal Year | | |
|---|---|---|---|
| | 2011 | 2010 | 2009 |
| Balance as of the beginning of the year | $ 959,000 | $ 1,862,000 | $ 662,000 |
| Provision for doubtful accounts | 219,000 | 149,000 | 1,749,000 |
| Write-offs of uncollectible accounts | (765,000) | (1,059,000) | (555,000) |
| Recoveries of accounts written off | 8,000 | 7,000 | 6,000 |
| Balance as of the end of the year | $ 421,000 | $ 959,000 | $ 1,862,000 |

Billed accounts receivable represent amounts billed to clients that have yet to be collected. Unbilled accounts receivable represent revenue recognized but not yet billed pursuant to contract terms or accounts billed after the period end. Substantially all unbilled receivables as of December 30, 2011 and December 31, 2010 are expected to be billed and collected within twelve months of such date. Contract retentions represent amounts invoiced to clients where payments have been withheld pending the completion of certain milestones, other contractual conditions or upon the completion of the project. These retention agreements vary from project to project and could be outstanding for several months.

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

As of December 30, 2011, one client accounted for 40% of outstanding receivables, as compared to 34% of the Company's outstanding receivables as of December 31, 2010.

Table of Contents

**WILLDAN GROUP, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Fiscal Years 2011, 2010 and 2009**

## 7. EQUIPMENT AND LEASEHOLD IMPROVEMENTS

Equipment and leasehold improvements consisted of the following at December 30, 2011 and December 31, 2010:

| | December 30, 2011 | December 31, 2010 |
|---|---|---|
| Furniture and fixtures | $ 3,393,000 | $ 3,418,000 |
| Computer hardware and software | 6,279,000 | 6,180,000 |
| Leasehold improvements | 787,000 | 803,000 |
| Equipment under capital leases | 821,000 | 881,000 |
| Automobiles, trucks, and field equipment | 543,000 | 529,000 |
| | 11,823,000 | 11,811,000 |
| Accumulated depreciation and amortization | (10,606,000) | (10,315,000) |
| Equipment and leasehold improvements, net | $ 1,217,000 | $ 1,496,000 |

Included in accumulated depreciation and amortization is $191,000 and $151,000 of amortization related to equipment held under capital leases in fiscal years 2011 and 2010, respectively.

## 8. ACCRUED LIABILITIES

Accrued liabilities consisted of the following at December 30, 2011 and December 31, 2010:

| | December 30, 2011 | December 31, 2010 |
|---|---|---|
| Accrued bonuses | $ 944,000 | $ 107,000 |
| Paid leave bank | 1,415,000 | 1,318,000 |
| Compensation and payroll taxes | 770,000 | 684,000 |
| Accrued legal | 101,000 | 46,000 |
| Accrued workers' compensation insurance | 24,000 | 49,000 |
| Accrued rent | 320,000 | 420,000 |
| Employee withholdings | 234,000 | 179,000 |
| Client deposits | 247,000 | 157,000 |
| Unvouchered accounts payable | 6,083,000 | 2,950,000 |
| Other | 54,000 | 75,000 |
| Total accrued liabilities | $ 10,192,000 | $ 5,985,000 |

## 9. EQUITY PLANS

As of December 30, 2011, the Company had two share-based compensation plans, which are described below. The Company may no longer grant awards under the 2006 Stock Incentive Plan. The compensation expense that has been recognized for stock options issued under these plans was $201,000, $235,000 and $272,000 for fiscal years 2011, 2010 and 2009, respectively.

Table of Contents

**WILLDAN GROUP, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Fiscal Years 2011, 2010 and 2009**

**9. EQUITY PLANS (Continued)**

**2006 STOCK INCENTIVE PLAN**

In June 2006, the Company's board of directors adopted the 2006 Stock Incentive Plan ("2006 Plan") and it received stockholder approval. The Company re-submitted the 2006 Plan to its stockholders for post-IPO approval at the 2007 annual meeting of the stockholders and it was approved. The 2006 Plan will terminate ten years after the board of directors approved it and no additional awards were or will be granted under the 2006 Plan after the Company's shareholders approved the 2008 Plan (as defined below) in June 2008. The 2006 Plan had 300,000 shares of common stock reserved for issuance to the Company's directors, executives, officers, employees, consultants and advisors and currently has 206,500 shares of common stock reserved for issuance. Approximately 52,333 shares that were available for award grant purposes under the 2006 Plan have become available for grant under the 2008 Plan following shareholder approval of the 2008 Plan. Options granted under the 2006 Plan could be "non-statutory stock options" which expire no more than ten years from the date of grant or "incentive stock options" as defined in Section 422 of the Internal Revenue Code of 1986, as amended. Upon exercise of non-statutory stock options, the Company is generally entitled to a tax deduction on the exercise of the option for an amount equal to the excess over the exercise price of the fair market value of the shares at the date of exercise. The Company is generally not entitled to any tax deduction on the exercise of an incentive stock option. Option awards provide for accelerated vesting if there is a change in control (as defined in the 2006 Plan). Through December 30, 2011, options granted, net of forfeitures and expirations, under the 2006 Plan consisted of 187,500 shares and 19,000 shares for incentive stock options and non-statutory stock options, respectively.

**2008 PERFORMANCE INCENTIVE PLAN**

In March 2008, the Company's board of directors adopted the 2008 Performance Incentive Plan ("2008 Plan"), and it received stockholder approval at the 2008 annual meeting of the stockholders in June 2008. The 2008 Plan will terminate ten years after the board of directors approved it. The 2008 Plan had 486,167 shares of common stock reserved for issuance to the Company's directors, executives, officers, employees, consultants and advisors until June 4, 2010, at which time the stockholders, at the annual meeting of the stockholders, approved a 350,000 share increase to the 2008 Plan. The maximum number of shares of the Company's common stock that may be issued or transferred pursuant to awards under the 2008 Plan can also be increased by any shares subject to stock options granted under the 2006 Plan and outstanding as of June 9, 2008 which expire, or for any reason are cancelled or terminated, after June 9, 2008 without being exercised. The 2008 Plan has 888,500 shares of common stock reserved for issuance. Awards authorized by the 2008 Plan include stock options, stock appreciation rights, restricted stock, stock bonuses, stock units, performance stock, and other share-based awards. No participant may be granted an option to purchase more than 100,000 shares in any fiscal year. Options generally may not be granted with exercise prices less than fair market value at the date of grant, with vesting provisions and contractual terms determined by the compensation committee of the board of directors on a grant-by-grant basis. Options granted under the 2008 Plan may be "nonqualified stock options" or "incentive stock options" as defined in Section 422 of the Internal Revenue Code of 1986, as amended. The maximum term of each option shall be 10 years. Upon exercise of nonqualified stock options, the Company is generally entitled to a tax deduction on the exercise of the option for an amount equal to the excess over the exercise price of the fair market value of the shares at the date of exercise. The Company is generally not entitled to any tax deduction

**WILLDAN GROUP, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Fiscal Years 2011, 2010 and 2009**

**9. EQUITY PLANS (Continued)**

on the exercise of an incentive stock option. Option awards provide for accelerated vesting if there is a change in control (as defined in the 2008 Plan). Through December 30, 2011, options granted, net of forfeitures and exercises, under the 2008 Plan consisted of 568,100 shares and 137,000 shares for incentive stock options and non-statutory stock options, respectively.

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

| | 2011 | 2010 | 2009 |
|---|---|---|---|
| Expected volatility | 39% - 40% | 39% | 39% - 40% |
| Expected dividends | 0% | 0% | 0% |
| Expected term (in years) | 5.75 - 6.00 | 5.75 - 6.00 | 5.75 - 6.00 |
| Risk-free rate | 0.88% - 2.20% | 1.48% - 2.59% | 2.20% - 2.95% |

A summary of option activity under the 2006 Plan and 2008 Plan as of December 30, 2011 and changes during the fiscal years ended December 30, 2011, December 31, 2010 and January 1, 2010 is presented below. The intrinsic value of the fully-vested options is $665,000, based on the Company's closing stock price of $3.96 on December 30, 2011.

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

Table of Contents

**WILLDAN GROUP, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Fiscal Years 2011, 2010 and 2009**

**9. EQUITY PLANS (Continued)**

| | Options | Weighted-Average Exercise Price | Weighted-Average Remaining Contractual Term (Years) |
|---|---|---|---|
| Outstanding at January 1, 2010 | 566,000 | $ 4.54 | 8.6 |
| Granted | 295,000 | 2.67 | 9.6 |
| Exercised | (2,000) | 1.65 | 8.6 |
| Forfeited or expired | | | |
| Outstanding at December 31, 2010 | 859,000 | $ 3.90 | 8.3 |
| Vested at December 31, 2010 | 356,000 | $ 6.07 | 7.2 |
| Exercisable at December 31, 2010 | 356,000 | $ 6.07 | 7.2 |

| | Options | Weighted-Average Exercise Price | Weighted-Average Remaining Contractual Term (Years) |
|---|---|---|---|
| Outstanding at January 2, 2009 | 303,000 | $ 7.23 | 8.8 |
| Granted | 291,000 | 1.80 | 9.4 |
| Exercised | | | |
| Forfeited or expired | (28,000) | 5.47 | |
| Outstanding at January 1, 2010 | 566,000 | $ 4.54 | 8.6 |
| Vested at January 1, 2010 | 172,000 | $ 8.01 | 7.7 |
| Exercisable at January 1, 2010 | 172,000 | $ 8.01 | 7.7 |

A summary of the status of the Company's nonvested options and changes in nonvested options during the fiscal years ended December 30, 2011, December 31, 2010 and January 1, 2010, is presented below:

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

**WILLDAN GROUP, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Fiscal Years 2011, 2010 and 2009**

**9. EQUITY PLANS (Continued)**

| | Options | Weighted-Average Grant-Date Fair Value |
|---|---|---|
| Nonvested at January 1, 2010 | 394,000 | $ 1.24 |
| Granted | 295,000 | 1.06 |
| Vested | (186,000) | 1.72 |
| Forfeited | | |
| Nonvested at December 31, 2010 | 503,000 | 0.96 |

| | Options | Weighted-Average Grant-Date Fair Value |
|---|---|---|
| Nonvested at January 2, 2009 | 218,000 | $ 2.64 |
| Granted | 291,000 | 0.78 |
| Vested | (96,000) | 2.87 |
| Forfeited | (19,000) | 1.88 |
| Nonvested at January 1, 2010 | 394,000 | 1.24 |

As of December 30, 2011, there was $274,000 of total unrecognized compensation expense related to non-vested stock options. That expense is expected to be recognized over a weighted-average period of 1.58 years. There were no options granted that were immediately vested during the fiscal years ended December 30, 2011, December 31, 2010 and January 1, 2010.

**AMENDED AND RESTATED 2006 EMPLOYEE STOCK PURCHASE PLAN**

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

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

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

**WILLDAN GROUP, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Fiscal Years 2011, 2010 and 2009**

**9. EQUITY PLANS (Continued)**

The Company's Amended and Restated 2006 Employee Stock Purchase Plan is a non-compensatory plan. As a result, stock-based compensation expense is not recognized in relation to this plan. As of December 30, 2011, there were 178,878 shares available for issuance under the plan.

**10. DEBT OBLIGATIONS**

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

| | 2011 | 2010 |
|---|---|---|
| Outstanding borrowings on line of credit | $ 256,000 | $ 1,000,000 |
| Notes payable for vehicles, 36 month term, bearing interest at 1.9%, payable in monthly principal and interest installments of $6,000 through January 2014, secured by vehicles | 147,000 | 187,000 |
| Notes payable for insurance, 9 month term, bearing interest at 1.9%, payable in monthly principal and interest installments of $72,000 through August 2012, secured by vehicles | 501,000 | |
| Other | 29,000 | 34,000 |
| | $ 933,000 | $ 1,221,000 |
| Less current portion | 856,000 | 1,090,000 |
| Debt obligations, less current portion | $ 77,000 | $ 131,000 |

We currently have a revolving credit agreement with Wells Fargo Bank, National Association ("Wells Fargo"), which was entered into on December 23, 2011 and became effective as of January 1, 2012. The credit agreement replaces our prior credit facility with Wells Fargo that expired on January 1, 2012. There was $0.3 million outstanding under our prior credit facility as of December 30, 2011. 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 December 30, 2011, we elected to finance our insurance premiums for the upcoming fiscal year.

Our credit agreement with Wells Fargo provides for a $5.0 million revolving line of credit, including a $5.0 million standby letter of credit sub-facility, and matures on April 1, 2013. Loans made under the revolving line of credit will accrue interest at either (i) a floating rate equal to the prime rate in effect from time to time or (ii) a fixed rate of 2.25% above LIBOR, with the interest rate to be selected by us.

Borrowings under the revolving line of credit are guaranteed by all of our subsidiaries except Public Agency Resources (the "Guarantors") and secured by all of our and the Guarantors' accounts receivable and other rights to payment, general intangibles, inventory and equipment. Pursuant to the credit agreement, we also must pay a 0.25% fee on unused commitments and customary fees on any letters of credit drawn under the facility.

**WILLDAN GROUP, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Fiscal Years 2011, 2010 and 2009**

**10. DEBT OBLIGATIONS (Continued)**

The credit agreement contains customary representations and affirmative covenants, including financial covenants that require us to maintain (i) net income after taxes of at least $250,000, measured on a rolling four quarter basis, without losses in two consecutive quarters; (ii) a maximum ratio of total funded debt (measured as the sum of all obligations for borrowed money, including subordinated debt, plus all capital lease obligations) to EBITDA of 1.75 to 1.00, measured quarterly on a rolling four quarter basis; and (iii) a minimum asset coverage ratio of 2.50 to 1.00 as of each quarter end, measured as unrestricted cash plus net-billed accounts receivables divided by amounts outstanding and issued letters of credit under the revolving line of credit.

The credit agreement also includes customary negative covenants, including (i) restrictions on the incurrence of additional indebtedness by us or the Guarantors other than purchase money indebtedness not to exceed $2.0 million and indebtedness existing on the date of the credit agreement, (ii) restrictions on the 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, and (iii) limitations on asset sales, mergers and acquisitions. In addition, the credit agreement includes customary events of default. Upon the occurrence of an event of default, the interest rate will be increased by 4.0%, Wells Fargo has the option to make any loans then outstanding under the credit agreement immediately due and payable, and Wells Fargo is no longer obligated to extend further credit to us under the credit agreement.

Principal maturities on notes payable as of December 30, 2011 are as follows:

| Fiscal year: | |
|---|---|
| 2012 | $ 600,000 |
| 2013 | 71,000 |
| 2014 | 6,000 |
| | $ 677,000 |

**11. COMMITMENTS**

***Leases***

The Company is obligated under capital leases for certain furniture and office equipment that expire at various dates through the year 2014.

The Company also leases certain office facilities under non-cancelable operating leases that expire at various dates through the year 2015 and is committed under non-cancelable operating leases for the lease of computer equipment and automobiles through the year 2014.

**WILLDAN GROUP, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Fiscal Years 2011, 2010 and 2009**

**11. COMMITMENTS (Continued)**

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

| | Capital | Operating |
|---|---|---|
| Fiscal year: | | |
| 2012 | $ 208,000 | $ 3,447,000 |
| 2013 | 139,000 | 2,846,000 |
| 2014 | 51,000 | 2,244,000 |
| 2015 | | 725,000 |
| 2016 | | |
| Total future minimum lease payments | 398,000 | $ 9,262,000 |
| Amount representing maintenance | (89,000) | |
| Amount representing interest (at rates ranging from 3.0% to 10.0%) | (10,000) | |
| Present value of net minimum lease payments under capital leases | 299,000 | |
| Less current portion | 163,000 | |
| | $ 136,000 | |

As of September 1, 2010, the Company turned over to the landlord a portion of its headquarters office space that was subleased by an entity that is owned by one of the Company's directors. Pursuant to the sublease agreement, this tenant paid the Company monthly rent of approximately $8,500, for a total of approximately $72,000 through August 31, 2010. The tenant had also paid the Company a proportionate share of certain operating expenses and taxes relating to the subleased space.

Rent expense and related charges for common area maintenance for all facility operating leases for fiscal years 2011, 2010 and 2009 was approximately $3,627,000, $3,116,000 and $3,306,000, respectively.

During the fiscal year ended January 1, 2010, the Company closed certain of its offices or separable sections of offices. Additionally, a tenant that was subleasing an office from the Company defaulted on its lease. As a result of the office closures and the sublease default, the Company recorded lease abandonment expense, net, of $707,000, which is included in the accompanying consolidated statement of operations for the fiscal year ended January 1, 2010. This expense includes future rental obligations and other costs associated with the leased space net of the fair value of

Table of Contents

**WILLDAN GROUP, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Fiscal Years 2011, 2010 and 2009**

**11. COMMITMENTS (Continued)**

subleases. The following is a reconciliation of the liability for lease abandonment (recovery) expense for fiscal years 2011 and 2010:

| | Fiscal 2011 | Fiscal 2010 |
|---|---|---|
| Liability for abandoned leases as of beginning of year | $ 678,000 | $ 1,048,000 |
| Lease abandonment expense (recovery), net | 2,000 | (68,000) |
| Lease payments on abandoned leases, net of sublease payments | (380,000) | (439,000) |
| Other | 27,000 | 137,000 |
| Liability for abandoned leases as of the end of the year | $ 327,000 | $ 678,000 |

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

***Employee Benefit Plans***

The Company has a qualified profit sharing plan (the Plan) pursuant to Code Section 401(a) and qualified cash or deferred arrangement pursuant to Code Section 401(k) covering substantially all employees. Employees may elect to contribute up to 50% of compensation limited to the amount allowed by tax laws. Company contributions are made solely at the discretion of the Company's board of directors. The Company made matching contributions of approximately $219,000, $157,000 and $0 during fiscal years 2011, 2010 and 2009, respectively.

The Company has a discretionary bonus plan for regional managers, division managers and others as determined by the Company president. Bonuses are awarded if certain financial goals are achieved. The financial goals are not stated in the plan; rather they are judgmentally determined each year. In addition, the board of directors may declare discretionary bonuses to key employees and all employees are eligible for what the Company refers to as the "hot hand" bonus program, which pays awards for outstanding performance. Bonus expense for fiscal years 2011, 2010 and 2009 totaled approximately $1,602,000, $403,000 and $421,000, respectively, of which approximately $944,000, and $107,000 is included in accrued liabilities at December 30, 2011 and December 31, 2010, respectively.

***Post employment health benefits***

In May 2006, the Company's board of directors approved providing lifetime health insurance coverage for Win Westfall, the Company's former chief executive officer and current chairman of the board of directors, and his spouse and for Linda Heil, the widow of the Company's former chief executive officer, Dan Heil. 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.

Table of Contents

**WILLDAN GROUP, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Fiscal Years 2011, 2010 and 2009**

**11. COMMITMENTS (Continued)**

Included in accrued liabilities in the accompanying consolidated balance sheets related to this obligation is the present value of expected payments for health insurance coverage, $158,000 as of December 30, 2011 and $170,000 as of December 31, 2010.

**12. INCOME TAXES**

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

| | Fiscal Year | | |
|---|---|---|---|
| | 2011 | 2010 | 2009 |
| Current federal (benefit) taxes | $ (22,000) | $ (80,000) | $ |
| Current state taxes | 58,000 | 32,000 | 10,000 |
| Deferred federal taxes (benefit) | 1,064,000 | 94,000 | (1,564,000) |
| Deferred state taxes (benefit) | 400,000 | 298,000 | (377,000) |
| | $ 1,500,000 | $ 344,000 | $ (1,931,000) |

The provision (benefit) for income taxes reconciles to the amounts computed by applying the statutory federal tax rate of 34% to our income (loss) before income taxes. The sources and tax effects of the differences for fiscal years 2011, 2010 and 2009 are as follows:

| | 2011 | 2010 | 2009 |
|---|---|---|---|
| Computed "expected" federal income tax expense (benefit) | $ 1,132,000 | $ 1,042,000 | $ (2,552,000) |
| Permanent differences | 88,000 | 107,000 | 121,000 |
| Current and deferred state income tax expense (benefit), net of federal benefit | 302,000 | 217,000 | (413,000) |
| Change in valuation allowances on deferred tax assets | | (934,000) | 934,000 |
| Other | (22,000) | (88,000) | (21,000) |
| | $ 1,500,000 | $ 344,000 | $ (1,931,000) |

Table of Contents

**WILLDAN GROUP, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Fiscal Years 2011, 2010 and 2009**

**12. INCOME TAXES (Continued)**

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

| | December 30, 2011 | December 31, 2010 | January 1, 2010 |
|---|---|---|---|
| Current deferred tax assets: | | | |
| Accrued litigation judgment | $ | $ 18,000 | $ 54,000 |
| Accounts receivable allowance | 171,000 | 382,000 | 741,000 |
| Other accrued liabilities | 895,000 | 794,000 | 786,000 |
| Federal and state net operating losses | | 1,937,000 | |
| | 1,066,000 | 3,131,000 | 1,581,000 |
| Valuation allowance | | | (412,000) |
| Net deferred tax assets | 1,066,000 | 3,131,000 | 1,169,000 |
| Current deferred tax liabilities: | | | |
| Deferred revenue | (8,353,000) | (4,491,000) | (2,623,000) |
| Other | (62,000) | (47,000) | (25,000) |
| | (8,415,000) | (4,538,000) | (2,648,000) |
| Net current deferred tax liability | $ (7,349,000) | $ (1,407,000) | $ (1,479,000) |
| Deferred tax assets, net of current portion: | | | |
| Federal and state net operating losses | $ 5,680,000 | $ 455,000 | $ 914,000 |
| Equipment and leasehold improvement depreciation | | 42,000 | 191,000 |
| Intangible assets | | 33,000 | 803,000 |
| Other | 72,000 | 121,000 | 93,000 |
| | 5,752,000 | 651,000 | 2,001,000 |
| Valuation allowance | | | (522,000) |
| Net deferred tax assets | 5,752,000 | 651,000 | 1,479,000 |
| Deferred tax liabilities, net of current portion: | | | |
| Goodwill amortization | (460,000) | (29,000) | (396,000) |
| Fixed assets | (83,000) | | |
| Other | (109,000) | | |
| Net deferred tax assets, net of current portion | $ 5,100,000 | $ 622,000 | $ 1,083,000 |

At December 30, 2011, the Company had federal and state operating loss carryovers of $13.5 million and $16.3 million, respectively. These carryovers expire through 2032 and 2033 for federal and state income taxes, respectively.

Management also believes that there are no material uncertain tax positions that would impact the accompanying consolidated financial statements. The Company's policy is to recognize interest and penalties related to unrecognized tax benefits in income tax expense. The Company may be subject to examination by the Internal Revenue Service for calendar years 2008 through 2011. The Company may also be subject to examination on certain state and local jurisdictions for the years 2007 through 2011.

Table of Contents

**WILLDAN GROUP, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Fiscal Years 2011, 2010 and 2009**

## 13. SEGMENT INFORMATION

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

The accounting policies applied to determine the segment information are the same as those described in the summary of significant accounting policies. There were no intersegment sales for any of the fiscal years in the three-year period ended December 30, 2011. Management evaluates the performance of each segment based upon income or loss from operations before income taxes. Certain segment asset information including expenditures for long-lived assets has not been presented as it is not reported to or reviewed by the chief operating decision maker. In addition, enterprise-wide service line contract revenue is not included as it is impracticable to report this information for each group of similar services.

Table of Contents

**WILLDAN GROUP, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Fiscal Years 2011, 2010 and 2009**

**13. SEGMENT INFORMATION (Continued)**

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

| | Engineering Services | Energy Efficiency Services | Public Finance Services | Homeland Security Services | Unallocated Corporate(2)(3) | Intersegment | Consolidated Total |
|---|---|---|---|---|---|---|---|
| **Fiscal Year 2011:** | | | | | | | |
| Contract revenue | $ 33,850,000 | $ 57,731,000 | $ 9,687,000 | $ 5,897,000 | $ | $ | $ 107,165,000 |
| Depreciation and amortization | 372,000 | 306,000 | 67,000 | 132,000 | | | 877,000 |
| Interest expense (income) | 93,000 | (21,000) | (5,000) | 10,000 | | | 77,000 |
| Segment (loss) profit before income tax expense | (158,000) | 3,271,000 | 1,116,000 | (299,000) | (600,000) | | 3,330,000 |
| Income tax expense (benefit) | 7,000 | 1,296,000 | 469,000 | (67,000) | (205,000) | | 1,500,000 |
| Net (loss) income | (165,000) | 1,975,000 | 647,000 | (232,000) | (395,000) | | 1,830,000 |
| Segment assets(1) | 9,667,000 | 39,416,000 | 4,008,000 | 2,010,000 | 32,339,000 | (23,129,000) | 64,311,000 |
| **Fiscal Year 2010:** | | | | | | | |
| Contract revenue | 33,012,000 | 29,211,000 | 10,364,000 | 5,309,000 | | | 77,896,000 |
| Depreciation and amortization | 597,000 | 179,000 | 152,000 | 114,000 | | | 1,042,000 |
| Interest expense (income) | 18,000 | 59,000 | (20,000) | (3,000) | | | 54,000 |
| Segment (loss) profit before income tax expense | (31,000) | 2,158,000 | 698,000 | 360,000 | (121,000) | | 3,064,000 |
| Income tax (benefit) expense | (224,000) | 397,000 | 120,000 | 58,000 | (7,000) | | 344,000 |
| Net income (loss) | 193,000 | 1,761,000 | 578,000 | 302,000 | (114,000)(1) | | 2,720,000 |
| Segment assets(1) | 8,266,000 | 26,651,000 | 4,029,000 | 1,957,000 | 28,947,000 | (20,396,000) | 49,454,000 |
| **Fiscal Year 2009:** | | | | | | | |
| Contract revenue | 33,797,000 | 12,490,000 | 11,792,000 | 3,526,000 | | | 61,605,000 |
| Depreciation and amortization | 886,000 | 605,000 | 219,000 | 104,000 | | | 1,814,000 |
| Interest expense | 33,000 | (8,000) | 6,000 | 7,000 | | | 38,000 |
| Segment loss (profit) before income tax expense | (6,304,000) | 643,000 | (1,747,000) | (13,000) | (85,000) | | (7,506,000) |
| Income tax (benefit) expense | (1,651,000) | 182,000 | (442,000) | 3,000 | (23,000) | | (1,931,000) |
| Net loss | (4,653,000) | 461,000 | (1,305,000) | (16,000) | (62,000)(1) | | (5,575,000) |
| Segment assets(1) | 9,005,000 | 14,541,000 | 3,774,000 | 1,784,000) | 29,520,000 | (18,292,000) | 40,332,000 |

(1) Segment assets represent segment assets, net of intercompany receivables.

(2) The following sets forth the amounts included in the net loss that was Unallocated Corporate for fiscal years 2011, 2010 and 2009:

| | 2011 | 2010 | 2009 |
|---|---|---|---|
| Unallocated net loss: | | | |
| Income tax benefit | $ 205,000 | $ 7,000 | $ 23,000 |
| Other | (600,000) | (121,000) | (85,000) |
| | $ (395,000) | $ (114,000) | $ (62,000) |

(3)
The following sets forth the assets that are included in Unallocated Corporate as of December 30, 2011, December 31, 2010 and January 1, 2010.

| | 2011 | 2010 | 2009 |
|---|---|---|---|
| Assets: | | | |
| Cash and cash equivalents | $ 2,378,000 | $ 6,169,000 | $ 8,207,000 |
| Prepaid expenses | 1,268,000 | 1,211,000 | 1,258,000 |
| Intercompany receivables | 117,937,000 | 114,703,000 | 111,466,000 |
| Income tax receivable | | | 51,000 |
| Other receivables | 41,000 | 75,000 | 67,000 |
| Equipment and leasehold improvements, net | 329,000 | 380,000 | 458,000 |
| Investments in subsidiaries | 23,130,000 | 20,396,000 | 18,293,000 |
| Other assets | 5,194,000 | 716,000 | 1,187,000 |
| | $ 150,277,000 | $ 143,650,000 | $ 140,987,000 |

**WILLDAN GROUP, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Fiscal Years 2011, 2010 and 2009**

## 14. CONTINGENCIES

***Claims and Lawsuits***

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

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

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

*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 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 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 filed an answer to the 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. On January 11, 2012, this suit proceeded to trial where the Company prevailed.

Table of Contents

**WILLDAN GROUP, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Fiscal Years 2011, 2010 and 2009**

**15. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)**

The tables below reflect selected quarterly information for the fiscal years ended December 30, 2011 and December 31, 2010.

| | Fiscal Three Months Ended | | | |
|---|---|---|---|---|
| | April 1, 2011 | July 1, 2011 | September 30, 2011 | December 30, 2011 |
| | (in thousands except per share amounts) | | | |
| Contract revenue | $ 22,742 | $ 25,812 | $ 28,605 | $ 30,006 |
| (Loss) income from operations | (280) | 954 | 2,380 | 347 |
| Income tax expense | | 199 | 203 | 1,098 |
| Net (loss) income | (291) | 735 | 2,165 | (779) |
| (Loss) earnings per share: | | | | |
| Basic | $ (0.04) | $ 0.10 | $ 0.30 | $ (0.11) |
| Diluted | $ (0.04) | $ 0.10 | $ 0.29 | $ (0.11) |
| Weighted-average shares outstanding: | | | | |
| Basic | 7,251 | 7,257 | 7,267 | 7,273 |
| Diluted | 7,251 | 7,471 | 7,468 | 7,273 |

| | Fiscal Three Months Ended | | | |
|---|---|---|---|---|
| | April 2, 2010 | July 2, 2010 | October 1, 2010 | December 31, 2010 |
| | (in thousands except per share amounts) | | | |
| Contract revenue | $ 16,951 | $ 20,367 | $ 20,706 | $ 19,872 |
| Income from operations | 385 | 1,265 | 1,394 | 30 |
| Income tax expense (benefit) | | | 595 | (251) |
| Net income | 392 | 1,258 | 788 | 282 |
| Earnings per share: | | | | |
| Basic and diluted | $ 0.05 | $ 0.17 | $ 0.11 | $ 0.04 |
| Weighted-average shares outstanding: Basic | 7,223 | 7,229 | 7,236 | 7,245 |
| Diluted | 7,230 | 7,252 | 7,318 | 7,380 |

| | | | |
|---|---|---|---|
| "font-family:inherit;font-size:10pt;font-weight:bold;">Net cash used in investing activities | (121.4) | (41.6) | (23.5) |
| Financing Activities: | | | |
| Issuance of long-term debt | — | 696.8 | 0.3 |
| Repayment of long-term debt | (16.7) | (892.7) | (9.2) |
| Debt issuance costs | — | (29.1) | (12.1) |
| Equity issuance costs | — | (17.1) | |

—

Equity issuance proceeds
—

250.0

—

Net cash provided by (used in) financing activities
(16.7
)

7.9

(21.0
)
Net Increase (Decrease) In Cash and Cash Equivalents
2.7

(5.2
)

(32.4
)
Cash and Cash Equivalents, Beginning of Year
171.1

176.3

208.7

Cash and Cash Equivalents, End of Year
$
173.8

$
171.1

$
176.3

The accompanying notes are an integral part of these statements.

STATEMENTS OF CONSOLIDATED CASH FLOWS (CONTINUED)
YRC Worldwide Inc. and Subsidiaries
For the Years Ended December 31

| (in millions) | 2015 | 2014 | 2013 |
| --- | --- | --- | --- |
| Supplemental Cash Flow Information: | | | |
| Interest paid | $(104.5) | $(129.1) | $(120.5) |
| Letter of credit fees paid | (8.8) | (8.7) | (34.1) |
| Income tax refund (payment), net | (6.2) | 16.1 | 8.8 |
| Debt redeemed for equity consideration | 17.9 | 51.8 | 35.3 |

The accompanying notes are an integral part of these statements.

STATEMENTS OF CONSOLIDATED SHAREHOLDERS' DEFICIT
YRC Worldwide Inc. and Subsidiaries
For the Years Ended December 31

| (in millions) | 2015 | 2014 | 2013 |
|---|---|---|---|
| Preferred Stock: | | | |
| Beginning balance | $— | $— | $— |
| Issuance of equity in exchange for debt | — | 0.6 | — |
| Conversion of preferred shares to common shares | — | (0.6) | — |
| Ending balance | $— | $— | $— |
| Common Stock: | | | |
| Beginning balance | $0.3 | $0.1 | $0.1 |
| Issuance of common stock | — | 0.1 | — |
| Issuance of common stock upon conversion of Series B Notes | — | 0.1 | — |
| Ending balance | $0.3 | $0.3 | $0.1 |
| Capital Surplus: | | | |
| Beginning balance | $2,290.9 | $1,964.4 | $1,926.5 |
| Issuance of equity, net | — | 249.3 | — |
| Conversion of preferred stock to common stock | — | 0.6 | — |
| Beneficial conversion feature on preferred stock | — | 18.1 | — |
| Issuance of equity upon conversion of Series B Notes | 18.5 | 64.7 | 35.3 |
| Equity issuance costs | — | (17.1) | — |
| Share-based compensation | 3.2 | 10.9 | 2.6 |
| Ending balance | $2,312.6 | $2,290.9 | $1,964.4 |
| Accumulated Deficit: | | | |
| Beginning balance | $(2,240.0) | $(2,154.2) | $(2,070.6) |
| Amortization of conversion feature on preferred stock | — | (18.1) | — |
| Net income (loss) attributable to YRC Worldwide Inc. | 0.7 | (67.7) | (83.6) |
| Ending balance | $(2,239.3) | $(2,240.0) | $(2,154.2) |
| Accumulated Other Comprehensive Loss: | | | |
| Beginning balance | $(432.8) | $(315.0) | $(392.4) |
| Pension, net of tax: | | | |
| Net actuarial gains (losses) and other adjustments | 45.2 | (126.4) | 70.2 |
| Amortization of prior net losses | 14.1 | 12.7 | 9.6 |
| Settlement adjustment | 25.2 | — | — |
| Foreign currency translation adjustments | (12.0) | (4.1) | (2.4) |
| Ending balance | $(360.3) | $(432.8) | $(315.0) |
| Treasury Stock, At Cost: | | | |
| Beginning and ending balance | $(92.7) | $(92.7) | $(92.7) |
| Total Shareholders' Deficit | $(379.4) | $(474.3) | $(597.4) |

The accompanying notes are an integral part of these statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YRC Worldwide Inc. and Subsidiaries

1. Description of Business

YRC Worldwide, one of the largest transportation service providers in the world, is a holding company that through wholly owned operating subsidiaries and its interest in a Chinese joint venture offers its customers a wide range of transportation services. YRC Worldwide has one of the largest, most comprehensive LTL networks in North America with local, regional, national and international capabilities. Through our team of experienced service professionals, we offer expertise in LTL shipments and flexible supply chain solutions, ensuring customers can ship industrial, commercial and retail goods with confidence. Our reporting segments include the following:

- YRC Freight is the reporting segment that focuses on longer haul business opportunities with national, regional and international services. YRC Freight provides for the movement of industrial, commercial and retail goods, primarily through centralized management. This reporting segment includes our LTL subsidiary YRC Freight and YRC Reimer, a subsidiary located in Canada that specializes in shipments into, across and out of Canada. In addition to the United States and Canada, YRC Freight also serves parts of Mexico, Puerto Rico and Guam.

- Regional Transportation is the reporting segment for our transportation service providers focused on business opportunities in the regional and next-day delivery markets. Regional Transportation is comprised of Holland, New Penn and Reddaway. These companies each provide regional, next-day ground services in their respective regions through a network of facilities located across the United States, Canada, Mexico and Puerto Rico.

2. Accounting Policies

Accounting policies refer to specific accounting principles and the methods of applying those principles to fairly present our financial position and results of operations in accordance with generally accepted accounting principles. The policies discussed below include those that management has determined to be the most appropriate in preparing our financial statements.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of YRC Worldwide and its majority owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation. We report on a calendar year basis. The quarters of the Regional Transportation companies (with the exception of New Penn) consist of thirteen weeks that end on a Saturday either before or after the end of March, June and September, whereas all other operating segment quarters end on the natural calendar quarter end. Our investment in the non-majority owned affiliate in which we do not have control, where the entity is either not a variable interest entity, or YRC Worldwide is not the primary beneficiary, is accounted for on the equity method.

Use of Estimates

Management makes estimates and assumptions when preparing the financial statements in conformity with U.S. generally accepted accounting principles which affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. Significant items subject to such estimates and assumptions include the useful lives of fixed assets and revenue-related reserves; the valuation of deferred tax assets/liabilities and non-union pension plan liability and fair value of plan assets; and workers' compensation and property damage and liability claims, and income tax uncertainties.

Cash and Cash Equivalents

Cash and cash equivalents include demand deposits and highly liquid investments purchased with maturities of three months or less. Under the Company's cash management system, checks issued but not presented to banks frequently result in book overdraft balances for accounting purposes which are classified within accounts payable in the accompanying consolidated balance sheets. The change in book overdrafts are reported as a component of operating cash flows for accounts payable as they do not represent bank overdrafts.

Concentration of Credit Risks and Other

We sell services and extend credit based on an evaluation of the customer's financial condition, without requiring collateral. Exposure to losses on receivables is principally dependent on each customer's financial condition. We monitor our exposure for credit losses and maintain allowances for anticipated losses.

At December 31, 2015, approximately 78% of our labor force is subject to collective bargaining agreements. As part of the 2014 Financing Transactions (which is described more fully in the "Debt and Financing" footnote to our consolidated financial statements), the primary labor agreement was modified to, among other things, extend the expiration date of our previous agreement from March 31, 2015 to March 31, 2019. This extension also extended the contribution rates under our multi-employer pension plan. The modification provided for lump sum payments in lieu of wage increases in 2014 and 2015, but provided for wage increases in 2016 through 2019. We amortized these lump sum payments over the period in which the wages were not increased beginning on April 1, 2014. Finally, the modification provided for certain changes to work rules and our use of purchased transportation in certain situations.

Revenue Recognition and Revenue-related Reserves

For shipments in transit, we record revenue based on the percentage of service completed as of the period end and accrue delivery costs as incurred. The percentage of service completed for each shipment is based on how far along in the shipment cycle each shipment is in relation to standard transit days. Standard transit days are defined as our published service days between origin zip code and destination zip code. Based on historical cost and engineering studies, certain percentages of revenue are determined to be earned during each stage of the shipment cycle, such as initial pick up, long distance transportation, intermediate transfer and customer delivery. Using standard transit times, we analyze each shipment in transit at a particular period end to determine what stage the shipment is in. We apply that stage's percentage of revenue earned factor to the rated revenue for that shipment to determine the revenue dollars earned by that shipment in the current period. The total revenue earned is accumulated for all shipments in transit at a particular period end and recorded as operating revenue.

In addition, we recognize revenue on a gross basis because we are the primary obligors even when we use other transportation service providers who act on our behalf. We remain responsible to our customers for complete and proper shipment, including the risk of physical loss or damage of the goods and cargo claims issues. We assign pricing to bills of lading at the time of shipment based primarily on the weight, general classification of the product, the shipping destination and individual customer discounts. This process is referred to as rating. At various points throughout our process, incorrect ratings could be identified based on many factors, including weight verifications or updated customer discounts. Although the majority of rerating occurs in the same month as the original rating, a portion occurs during the following periods. We accrue a reserve for rerating based primarily on historical trends. At December 31, 2015 and 2014, our financial statements included a rerate reserve as a reduction to "Accounts Receivable" of $8.1 million and $12.2 million, respectively.

We record an allowance for doubtful accounts primarily based on historical uncollectible amounts. We also take into account known factors surrounding specific customers and overall collection trends. Our process involves performing ongoing credit evaluations of customers, including the market in which they operate and the overall economic conditions. We continually review historical trends and customer specific factors and make adjustments to the allowance for doubtful accounts as appropriate. Our allowance for doubtful accounts totaled $7.4 million and $10.0 million as of December 31, 2015 and 2014, respectively.

Foreign Currency

Our functional currency is the U.S. dollar, whereas, our foreign operations utilize the local currency as their functional currency. Accordingly, for purposes of translating foreign subsidiary financial statements to the U.S. dollar reporting currency, assets and liabilities of our foreign operations are translated at the fiscal year end exchange rates and income and expenses are translated monthly, at the average exchange rates for each respective month, with changes recognized in other comprehensive loss. Foreign currency gains and losses resulting from foreign currency transactions resulted in net gains of $9.3 million, $5.7 million and $3.7 million during 2015, 2014 and 2013, respectively, and are included in “Other nonoperating (income) expense” in the accompanying statements of consolidated operations.

Claims and Insurance Accruals

Claims and insurance accruals, both current and long-term, reflect the estimated settlement cost of claims for workers' compensation, property damage and liability claims, and cargo loss and damage that insurance does not cover. We establish and modify reserve estimates for workers' compensation and property damage and liability claims primarily upon actuarial analyses prepared by independent actuaries. These reserves are discounted to present value using a risk-free rate based on the year of occurrence. The risk-free rate is the U.S. Treasury rate for maturities that match the expected payout of such claims and was 1.0%, 0.9% and 0.5% for workers' compensation claims incurred as of December 31, 2015, 2014 and 2013, respectively. The rate was 0.7%, 0.4% and 0.3% for property damage and liability claims incurred as of December 31, 2015, 2014 and 2013, respectively. The process of determining reserve requirements utilizes historical trends and involves an evaluation of accident frequency and severity, claims management, changes in health care costs and certain future administrative costs. The effect of future inflation for costs is considered in the actuarial analysis. Adjustments to previously established reserves are included in operating results in the year of adjustment. As of December 31, 2015 and 2014, we had $392.7 million and $406.6 million, respectively, accrued for claims and insurance.

Expected aggregate undiscounted amounts and material changes to these amounts as of December 31 are presented below:

| (in millions) | Workers' Compensation | Property Damage and Liability Claims | Total |
|---|---|---|---|
| Undiscounted amount at December 31, 2013 | $347.0 | $68.8 | $415.8 |
| Estimated settlement cost for 2014 claims | 94.3 | 39.0 | 133.3 |
| Claim payments, net of recoveries | (114.5) | (40.8) | (155.3) |
| Change in estimated settlement cost for older claim years | 12.3 | 8.0 | 20.3 |
| Undiscounted amount at December 31, 2014 | $339.1 | $75.0 | $414.1 |
| Estimated settlement cost for 2015 claims | 92.8 | 37.0 | 129.8 |
| Claim payments, net of recoveries | (115.0) | (41.0) | (156.0) |
| Change in estimated settlement cost for older claim years | (1.4) | 13.9 | 12.5 |
| Undiscounted settlement cost estimate at December 31, 2015 | $315.5 | $84.9 | $400.4 |
| Discounted settlement cost estimate at December 31, 2015 | $291.6 | $84.1 | $375.7 |

In addition to the amounts above, settlement cost amounts for cargo claims and other insurance related amounts, none of which are discounted, totaled $17.0 million and $20.8 million at December 31, 2015 and 2014, respectively.

Estimated cash payments to settle claims which were incurred on or before December 31, 2015, for the next five years and thereafter are as follows:

| (in millions) | Workers' Compensation | Property Damage and Liability Claims | Total |
|---|---|---|---|
| 2016 | $80.6 | $30.1 | $110.7 |
| 2017 | 54.3 | 23.8 | 78.1 |
| 2018 | 37.0 | 16.0 | 53.0 |
| 2019 | 26.2 | 8.1 | 34.3 |
| 2020 | 19.6 | 4.0 | 23.6 |
| Thereafter | 97.8 | 2.9 | 100.7 |

| Total | $315.5 | $84.9 | $400.4 |
|---|---|---|---|

Stock Compensation Plans

We have various stock-based employee compensation plans, which are described more fully in the "Stock Compensation Plans" footnote to our consolidated financial statements. We recognize compensation costs for non-vested shares and compensation cost for all share-based payments (i.e., options) based on the grant date fair value. For our share-based payments granted, with no performance requirement, we recognize compensation cost on a straight-line basis over the requisite service period (generally three to four years) based on the grant-date fair value. For our performance-based awards, the Company expenses the grant date fair value of the awards which are probable of being earned in the performance period over the respective service period.

Property and Equipment

The following is a summary of the components of our property and equipment at cost as of December 31:

| (in millions) | 2015 | 2014 |
|---|---|---|
| Land | $254.4 | $257.5 |
| Structures | 789.3 | 784.3 |
| Revenue equipment | 1,430.1 | 1,431.9 |
| Technology equipment and software | 146.4 | 148.2 |
| Other | 202.6 | 197.7 |
| Total cost | $2,822.8 | $2,819.6 |

We carry property and equipment at cost less accumulated depreciation. We compute depreciation using the straight-line method based on the following service lives:

| | Years |
|---|---|
| Structures | 10 - 30 |
| Revenue equipment | 10 - 20 |
| Technology equipment and software | 3 - 7 |
| Other | 3 - 10 |

We charge maintenance and repairs to expense as incurred and betterments are capitalized. Leasehold improvements are capitalized and amortized over the shorter of their useful lives or the remaining lease term.

Our investment in technology equipment and software consists primarily of freight movement, automation, dimensioning, sales equipment and related software.

For the years ended December 31, 2015, 2014 and 2013, depreciation expense was $145.5 million, $145.1 million and $153.8 million, respectively.

The cost of replacement tires are expensed at the time those tires are placed into service, as is the case with other repair and maintenance costs. The cost of tires on newly acquired revenue equipment is capitalized and depreciated over the estimated useful life of the related equipment. In addition to purchasing new revenue equipment, we will also rebuild the engines of our tractors (at certain time or mile intervals). Because rebuilding an engine increases its useful life, we capitalize these costs and depreciate over the remaining useful life of the unit. The cost of engines on newly acquired revenue equipment is capitalized and depreciated over the estimated useful life of the related equipment.

Impairment of Long-Lived Assets

If facts and circumstances indicate that the carrying amount of held-and-used identifiable amortizable intangibles and property, plant and equipment may be impaired, we perform an evaluation of recoverability in accordance with FASB ASC Topic 360. Our evaluation compares the estimated future undiscounted cash flows associated with the asset or asset group to its carrying amount to determine if a reduction to the carrying amount is required. The carrying amount of an impaired asset would be reduced to fair value if the estimated undiscounted cash flows are insufficient to recover the carrying value of the asset group. We performed impairment reviews for held-and-used long-lived assets during the years ended December 31, 2014 and 2013 in connection with an update of our internal business forecasts that considered current economic conditions and results of operations.

Assets Held for Sale

When we plan to dispose of property or equipment by sale, the asset is carried in the financial statements at the lower of the carrying amount or estimated fair value, less cost to sell, and is reclassified to assets held for sale. Additionally, after such reclassification, there is no further depreciation taken on the asset. For an asset to be classified as held for sale, management must approve and commit to a formal plan, the sale should be anticipated during the ensuing year and the asset must be actively marketed, be available for immediate sale, and meet certain other specified criteria. We use level 3 inputs to determine the fair value of each property that is considered as held for sale.

At December 31, 2015 and December 31, 2014, the net book value of assets held for sale was approximately $12.0 million and $15.3 million, respectively. This amount is included in “Property and Equipment” in the accompanying consolidated balance sheets. We recorded charges of $6.2 million, $6.2 million and $3.9 million for the years ended December 31, 2015, 2014 and 2013, respectively, to reduce properties held for sale to estimated fair value, less cost to sell. These charges are included in “Gains on property disposals, net” in the accompanying statements of consolidated operations.

Equity Method Investments

On October 23, 2015, the Company entered into an equity interest sale and purchase agreement to sell its fifty percent interest in its Chinese joint venture, JHJ, for a purchase price of $16.3 million, which we expect, upon sale, will result in an insignificant gain in the accompanying statement of consolidated operations due to the cumulative translation adjustment. The investment is classified as held for sale and is included in “Other assets” in the accompanying consolidated balance sheets.

We account for the ownership of our joint venture under the equity method and accordingly, recognize our share of the respective joint ventures earnings in “Other nonoperating (income) expense” in the accompanying statements of operations.

The following reflects the components of these results for the years ended December 31:

| (in millions) | 2015 | 2014 | 2013 |
|---|---|---|---|
| Net equity method earnings | $2.3 | $2.1 | $2.1 |

Fair Value of Financial Instruments

We determined fair value measurements used in our consolidated financial statements based upon the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy distinguishes between (1) market participant assumptions developed based on market data obtained from independent sources (observable inputs) and (2) an entity’s own assumptions about market participant assumptions developed based on the best information available in circumstances (unobservable inputs). The fair value hierarchy consists of three broad levels, which gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are described below:

- Level 1: Valuations based on quoted prices in active markets for identical assets or liabilities that the entity has the ability to access.

- Level 2: Valuations based on quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable data for substantially the full term of the

assets or liabilities.

- Level 3: Valuations based on inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The asset's or liability's fair value measurement level with the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used maximize the use of observable inputs and minimize the use of unobservable inputs.

The valuation methodologies described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. We believe that our valuation methods are appropriate and consistent with other market participants. The use of different methodologies or assumptions to determine the fair value of certain financial assets could result

in a different fair value measurement at the reporting date. There have been no changes in the methodologies used at December 31, 2015 and 2014.

The following tables summarize the fair value hierarchy of our financial assets held at fair value on a recurring basis, which consists of our restricted cash held in escrow:

| (in millions) | Total Carrying Value | Fair Value Measurement at December 31, 2015 | | |
|---|---|---|---|---|
| | | Quoted prices in active market (Level 1) | Significant other observable inputs (Level 2) | Significant unobservable inputs (Level 3) |
| Restricted amounts held in escrow-current | $58.8 | $58.8 | $— | $— |
| Restricted amounts held in escrow-long term | 63.4 | 63.4 | — | — |
| Total assets at fair value | $122.2 | $122.2 | $— | $— |

| (in millions) | Total Carrying Value | Fair Value Measurement at December 31, 2014 | | |
|---|---|---|---|---|
| | | Quoted prices in active market (Level 1) | Significant other observable inputs (Level 2) | Significant unobservable inputs (Level 3) |
| Restricted amounts held in escrow-current | $28.9 | $28.9 | $— | $— |
| Restricted amounts held in escrow-long term | 60.2 | 60.2 | — | — |
| Total assets at fair value | $89.1 | $89.1 | $— | $— |

Restricted amounts held in escrow are invested in money market accounts and are recorded at fair value on quoted market prices. The carrying value of cash and cash equivalents, accounts receivable and accounts payable approximates their fair value due to the short-term nature of these instruments.

Reclassifications Out of Accumulated Other Comprehensive Loss

For the years ended December 31, 2015 and 2014, we reclassified the amortization of our net pension gain (loss), net of tax, totaling $14.1 million and $12.7 million, respectively, from accumulated other comprehensive income (loss) to net income (loss). This reclassification is a component of net periodic pension cost and is discussed in the "Employee Benefits" footnote.

Impact of Recently Issued Accounting Standards

In November 2015, Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2015-17, Balance Sheet Classification of Deferred Taxes, which requires entities with a classified balance sheet to present all deferred tax assets and liabilities as noncurrent. The new standard will be effective for the Company for its annual reporting period beginning January 1, 2017, including interim periods within that reporting period. Early application is permitted at the beginning of an interim or annual period. The ASU allows entities to choose either prospective or retrospective transition. The Company does not believe the adoption of this standard will have a material impact on its balance sheet.

In April 2015, the FASB issued ASU 2015-14, Revenue from Contracts with Customers, Deferral of the Effective date, which defers the effective date of ASU 2014-9, Revenue from Contracts with Customers. The new standard will supersede much of the previous requirements in ASU-605, Revenue Recognition and most industry specific guidance and introduces a five-step model to determine when and how revenue is recognized. The premise of the new model is

that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new standard will be effective for the Company for its annual reporting period beginning January 1, 2018, including interim periods within that reporting period. Early application is permitted for annual periods beginning January 1, 2017. Entities are allowed to transition to the new standard by either recasting prior periods or recognizing the cumulative effect. The Company continues to assess the method of application and impact, if any, on our consolidated balance sheets, results of operations and related disclosures.

In May 2015, the FASB issued ASU 2015-07, Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent), which eliminates the requirement to categorize investments in the fair value hierarchy if their fair value is measured at net asset value (NAV) per share (or its equivalent) using the practical expedient in accordance with the standard

for fair value measurement. The standard, which requires retrospective application, is effective for the Company beginning January 1, 2016. The Company does not believe the adoption of this standard will have a material impact on its disclosure.

In August 2015, the FASB issued ASU 2015-03, Interest - Imputation of Interest, which requires debt issue costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with the accounting treatment for debt discounts. The recognition and measurement guidance of debt issuance costs are not affected by this update. The standard, which requires retrospective application, is effective for the Company beginning January 1, 2016. As of December 31, 2015 and 2014, the Company had $20.2 million and $26.5 million, respectively, of unamortized debt issuance costs related to its Term Loan, Second A&R CDA, ABL Facility and lease financing obligations. The Company will reclassify these costs from other assets to long-term debt in the March 31, 2016 consolidated balance sheets.

In August 2014, the FASB issued ASU 2014-15, Presentation of Financial Statements - Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern. The new standard provides guidance around management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. The new standard is effective for our fiscal year ending December 31, 2016 and interim periods thereafter. The Company does not believe the adoption of this standard will have a material impact on its consolidated financial statements and related footnote disclosures.

3. Intangibles

Definite Life Intangibles

The components of amortizable intangible assets are as follows at December 31:

| (in millions) | Weighted Average Life (years) | 2015 Gross Carrying Amount | 2015 Accumulated Amortization | 2014 Gross Carrying Amount | 2014 Accumulated Amortization |
|---|---|---|---|---|---|
| Customer related | 12 | $197.0 | $(183.5) | $197.6 | $(165.7) |

Amortization expense for intangible assets recognized on a straight line basis was $18.2 million, $18.3 million and $18.5 million for the years ended December 31, 2015, 2014 and 2013, respectively. The definite-lived intangible assets are expected to be fully amortized in 2016, with an estimated remaining amortization expense of $13.5 million.

Indefinite Life Intangibles

The following table shows the changes in the carrying amount of our indefinite lived tradenames attributable to each applicable segment:

| (in millions) | YRC Freight | Regional Transportation | Total |
|---|---|---|---|
| Balances at December 31, 2012 | $11.4 | $18.7 | $30.1 |
| Change in foreign currency exchange rates | (0.8) | — | (0.8) |
| Balances at December 31, 2013 | 10.6 | 18.7 | 29.3 |
| Change in foreign currency exchange rates | (0.8) | — | (0.8) |
| Balances at December 31, 2014 | 9.8 | 18.7 | 28.5 |
| Change in foreign currency exchange rates | (1.6) | — | (1.6) |

| | | | |
|---|---|---|---|
| Balances at December 31, 2015 | $8.2 | $18.7 | $26.9 |

Intangible assets with indefinite lives, which consist of our tradenames, are not subject to amortization, but are subjected to an impairment test at least annually or more frequently if a triggering event occurs. The impairment test for tradenames consists of a comparison of the fair value of the tradename with its carrying amount. An impairment loss is recognized for the amount by which the carrying amount exceeds the fair value of the asset. In making this assessment, we utilized the relief from royalty method, an income approach (a level 3 fair value measurement), which includes assumptions as to future revenue, applicable royalty rate and cost of capital, among others.

4. Other Assets

The primary components of other assets at December 31 are as follows:

| (in millions) | 2015 | 2014 |
|---|---|---|
| Equity method investment for JHJ | $22.3 | $23.2 |
| Deferred debt costs | 20.2 | 26.5 |
| Other | 53.6 | 47.5 |
| Total | $96.1 | $97.2 |

During the years ended December 31, 2015 and 2014, we received dividends in the amount of $1.7 million and $1.9 million, respectively, from JHJ. As of each of December 31, 2015 and 2014, the excess of our investment over our interest in JHJ's equity is $4.5 million and $4.8 million, respectively.

5. Employee Benefits

Qualified and Nonqualified Defined Benefit Pension Plans

YRC Worldwide and certain of our operating subsidiaries sponsor qualified and nonqualified defined benefit pension plans for certain employees not covered by collective bargaining agreements (approximately 10,000 current, former and retired employees). Qualified and nonqualified pension benefits are based on years of service and the employees' covered earnings. Employees covered by collective bargaining agreements participate in various multi-employer pension plans to which YRC Worldwide contributes, as discussed below. Regional Transportation does not offer a defined benefit pension plan and instead offers retirement benefits through either contributory 401(k) savings plans or profit sharing plans, as discussed below. The domestic YRC Worldwide defined benefit pension plans closed to new participants effective January 1, 2004 and the benefit accrual for active employees was frozen effective July 1, 2008. Our actuarial valuation measurement date for our pension plans is December 31.

Funded Status

The reconciliation of the beginning and ending balances of the projected benefit obligation and the fair value of plan assets for the years ended December 31, 2015 and 2014, and the funded status at December 31, 2015 and 2014, is as follows:

| (in millions) | 2015 | | 2014 | |
|---|---|---|---|---|
| Change in benefit obligation: | | | | |
| Benefit obligation at beginning of year | $1,355.2 | | $1,188.8 | |
| Service cost | 4.6 | | 4.3 | |
| Interest cost | 57.2 | | 60.7 | |
| Benefits paid | (151.9 | ) | (101.1 | ) |
| Actuarial (gain) loss | (60.2 | ) | 214.1 | |
| Expenses paid from assets | (5.8 | ) | (11.3 | ) |
| Other | 3.6 | | (0.3 | ) |
| Benefit obligation at year end | $1,202.7 | | $1,355.2 | |
| Change in plan assets: | | | | |
| Fair value of plan assets at prior year end | $899.3 | | $808.4 | |
| Actual return on plan assets | 56.6 | | 141.6 | |
| Employer contributions | 70.9 | | 62.3 | |

| | | |
|---|---|---|
| Benefits paid | (151.9) | (101.1) |
| Expenses paid from assets | (5.8) | (11.3) |
| Other | (2.0) | (0.6) |
| Fair value of plan assets at year end | $867.1 | $899.3 |
| Funded status at year end | $(335.6) | $(455.9) |

59

The underfunded status of the plans of $335.6 million and $455.9 million at December 31, 2015 and 2014, respectively, is recognized in the accompanying consolidated balance sheets as shown in the table below. No plan assets are expected to be returned to the Company during the year ending December 31, 2016.

Our long-term strategy is to reduce the risk of our underfunded plans. The Company amended its domestic pension plans and offered a one-time voluntary lump sum payment option in an effort to reduce its long-term pension obligations and ongoing annual pension expense. The lump sum pension settlement payments of $85.2 million, which are reflected in "Benefits paid" in the above table, were funded from existing pension plan assets. In connection with this transaction, the Company incurred a settlement charge of $28.7 million to salaries, wages and employee benefits expense as a result of the requirement to expense the unrecognized actuarial losses associated with the lump sum settlements. The charge had no effect on equity because the actuarial losses were already recognized in accumulated other comprehensive income/(loss). Accordingly, the effect on retained earnings was offset by a corresponding reduction in accumulated other comprehensive loss.

Benefit Plan Obligations

Amounts recognized in the consolidated balance sheets for pension benefits at December 31 are as follows:

| (in millions) | 2015 | 2014 |
|---|---|---|
| Noncurrent assets | $1.3 | $1.9 |
| Current liabilities | 0.7 | 0.4 |
| Noncurrent liabilities | 336.2 | 457.4 |

Amounts recognized in accumulated other comprehensive loss at December 31 consist of:

| (in millions) | 2015 | 2014 |
|---|---|---|
| Net actuarial loss | $406.0 | $502.7 |

As shown above, included in accumulated other comprehensive loss at December 31, 2015, are unrecognized actuarial losses of $406.0 million ($367.7 million, net of tax). The actuarial loss included in accumulated other comprehensive income and expected to be recognized in net periodic cost during the year ending December 31, 2016, is $13.2 million.

The total accumulated benefit obligation for all plans was $1,202.2 million and $1,353.6 million at December 31, 2015 and 2014, respectively.

Information for pension plans with an ABO in excess of plan assets and plan assets that exceed ABO at December 31, 2015 and 2014 is as follows:

| | At December 31, 2015 | | |
|---|---|---|---|
| (in millions) | ABO Exceeds Assets | Assets Exceed ABO | Total |
| Projected benefit obligation | $1,198.3 | $4.4 | $1,202.7 |
| Accumulated benefit obligation | 1,198.3 | 3.9 | 1,202.2 |
| Fair value of plan assets | 861.4 | 5.7 | 867.1 |

| | At December 31, 2014 | | |
|---|---|---|---|
| (in millions) | ABO Exceeds Assets | Assets Exceed ABO | Total |

| | | | |
|---|---|---|---|
| Projected benefit obligation | $1,349.0 | $6.2 | $1,355.2 |
| Accumulated benefit obligation | 1,349.0 | 4.6 | 1,353.6 |
| Fair value of plan assets | 891.2 | 8.1 | 899.3 |

60

Assumptions

Weighted average actuarial assumptions used to determine benefit obligations at December 31:

| | 2015 | 2014 |
|---|---|---|
| Discount rate | 4.81 % | 4.33 % |

Weighted average assumptions used to determine net periodic benefit cost for the years ended December 31:

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| Discount rate | 4.33 % | 5.23 % | 4.28 % |
| Expected rate of return on assets | 7.0 % | 7.0 % | 7.0 % |
| Mortality table[a] | RP-2014 Custom | RP-2000 Projected to 2014 | RP-2000 Projected to 2013 |

[a] The 2015 Mortality table was based on a custom mortality improvement scale to reflect expectations of underlying plan participants

The discount rate refers to the interest rate used to discount the estimated future benefit payments to their present value, also referred to as the benefit obligation. The discount rate allows us to estimate what it would cost to settle the pension obligations as of the measurement date, December 31, and is used as the interest rate factor in the following year's pension cost. We determine the discount rate by selecting a portfolio of high quality noncallable bonds such that the coupons and maturities exceed our expected benefit payments.

In determining the expected rate of return on assets, we consider our historical experience in the plans' investment portfolio, historical market data and long-term historical relationships as well as a review of other objective indices including current market factors such as inflation and interest rates. Although plan investments are subject to short-term market volatility, we believe they are well diversified and closely managed.
Our asset allocation as of December 31, 2015 and 2014, and targeted long-term asset allocation for the plans are as follows:

| | 2015 | 2014 | Target |
|---|---|---|---|
| Equities | 37.0 % | 37.0 % | 37.0 % |
| Debt Securities | 30.0 % | 35.0 % | 33.0 % |
| Absolute Return | 33.0 % | 28.0 % | 30.0 % |

Based on various market factors, we selected an expected rate of return on assets of 7.0% effective for the 2015 and 2014 valuations. We will continue to review our expected long-term rate of return on an annual basis and revise appropriately. The pension trust holds no YRC Worldwide securities.

Future Contributions and Benefit Payments

We expect to contribute approximately $45.3 million to our single-employer pension plans in 2016.

Expected benefit payments from our qualified and non-qualified defined benefit pension plans for each of the next five years and the total benefit payments for the following five years ended December 31 are as follows:

| (in millions) | 2016 | 2017 | 2018 | 2019 | 2020 | 2021-2025 |
|---|---|---|---|---|---|---|
| Expected benefit payments | $81.5 | $76.6 | $77.2 | $77.8 | $79.1 | $398.8 |

Pension and Other Post-retirement Costs

The components of our net periodic pension cost, other post-retirement costs and other amounts recognized in other comprehensive loss for the years ended December 31, 2015, 2014 and 2013 were as follows:

| (in millions) | 2015 | 2014 | 2013 |
|---|---|---|---|
| Net periodic benefit cost: | | | |
| Service cost | $4.6 | $4.3 | $4.3 |
| Interest cost | 57.2 | 60.7 | 56.2 |
| Expected return on plan assets | (59.9) | (53.7) | (55.6) |
| Amortization of prior net loss | 16.0 | 12.8 | 14.8 |
| Settlement loss | 28.7 | — | — |
| Net periodic pension cost | $46.6 | $24.1 | $19.7 |
| Other changes in plan assets and benefit obligations recognized in other comprehensive loss (income): | | | |
| Net actuarial loss (gain) and other adjustments | $(52.0) | $126.3 | $(107.7) |
| Less amortization of prior losses | (16.0) | (12.8) | (14.8) |
| Settlement adjustment | (28.7) | — | — |
| Total recognized in other comprehensive loss (income) | (96.7) | 113.5 | (122.5) |
| Total recognized in net periodic benefit cost and other comprehensive (income) loss | $(50.1) | $137.6 | $(102.8) |

During the years ended December 31, 2015, 2014 and 2013, the income tax provision related to amounts in other comprehensive (income) loss was $12.2 million, $0.2 million and $42.7 million, respectively.

Fair Value Measurement

Our pension assets are stated at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of Level 1 assets are based on quoted market prices. The majority of the Level 1 assets presented in the table below include common stock of both U.S. and, to a lesser extent, international companies, and mutual funds, of which are actively traded and priced in the market. The fair value of Level 2 assets are based on other significant observable inputs, including quoted prices for similar securities. The Level 2 assets presented in the below table consist primarily of fixed income and absolute return funds where values are based on the NAV of the underlying investments held, as determined by the fund managers, or equity securities where values are based on the quoted prices of similar securities and observable market data. Level 3 assets are those where the fair value is determined based on unobservable inputs. The Level 3 assets presented in the table below consist of alternative investments where active market pricing is not readily available and, as such, we use NAV as an estimate of fair value. For the remaining Level 3 assets that do not use NAV to estimate fair value, which consists of private equities, the assets are either priced at cost less cash distributions for recent asset purchases, third-party valuations or discounted cash flow methods. The methods and assumptions used by third-party pricing sources may include a variety of factors, such as recently executed transactions, existing contracts, economic conditions, industry or market developments, and overall credit ratings.

These estimated fair values may differ significantly from the values that would have been used had a ready market for these investments existed and as such, differences could be material. There were no transfers among the fair value hierarchy levels for the years ended December 31, 2015 and 2014, respectively.

The table below details by level, within the fair value hierarchy, the pension assets at fair value as of December 31, 2015:

| | Pension Assets at Fair Value as of December 31, 2015 | | | |
|---|---|---|---|---|
| (in millions) | Level 1 | Level 2 | Level 3 | Total |
| Equities | $83.2 | $103.4 | $— | $186.6 |
| Private equities | — | — | 131.1 | 131.1 |
| Fixed income: | | | | |
| Corporate and other | 16.0 | 25.0 | 188.0 | 229.0 |
| Government | 73.0 | 121.5 | — | 194.5 |
| Absolute return | — | 110.5 | — | 110.5 |
| Interest bearing | 15.4 | — | — | 15.4 |
| Total plan assets | $187.6 | $360.4 | $319.1 | $867.1 |

The table below details by level, within the fair value hierarchy, the pension assets at fair value as of December 31, 2014:

| | Pension Assets at Fair Value as of December 31, 2014 | | | |
|---|---|---|---|---|
| (in millions) | Level 1 | Level 2 | Level 3 | Total |
| Equities | $112.2 | $111.9 | — | $224.1 |
| Private equities | — | — | 104.7 | 104.7 |
| Fixed income: | | | | |
| Corporate and other | 7.9 | 33.0 | 130.1 | 171.0 |
| Government | 106.9 | 157.4 | — | 264.3 |
| Absolute return | — | 120.6 | — | 120.6 |
| Interest bearing | 14.6 | — | — | 14.6 |
| Total plan assets | $241.6 | $422.9 | $234.8 | $899.3 |

The table below presents the activity of our assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3):

| (in millions) | Private Equities | Fixed income | Total Level 3 |
|---|---|---|---|
| Balance at December 31, 2013 | $60.3 | $111.4 | $171.7 |
| Purchases | 32.8 | 5.0 | 37.8 |
| Sales | (1.0) | (4.3) | (5.3) |
| Unrealized gain | 12.6 | 18.0 | 30.6 |
| Balance at December 31, 2014 | $104.7 | $130.1 | $234.8 |
| Purchases | 11.3 | 30.9 | 42.2 |
| Sales | (1.8) | (10.3) | (12.1) |
| Unrealized gain | 16.9 | 37.3 | 54.2 |
| Balance at December 31, 2015 | $131.1 | $188.0 | $319.1 |

The following table sets forth a summary of the Level 3 assets for which the fair value is not readily determinable but a reported NAV is used to estimate the fair value as of December 31, 2015:

| | Fair value estimated using Net Asset Value per Share | | | |
|---|---|---|---|---|
| (in millions) | Fair Value | Unfunded Commitments | Redemption Frequency | Redemption Notice Period |
| Private equities[a] | $91.1 | $11.3 | Redemptions not permitted | |
| Fixed income[b] | 183.8 | 4.0 | Redemptions not permitted | |
| Total | $274.9 | | | |

(a) Consists of private equity investments in pharmaceuticals and Chinese technology and healthcare companies.
(b) Primarily consists of investments in and debt securities secured by royalty payments from marketers of pharmaceuticals.

The following table sets forth a summary of the Level 3 assets for which the fair value is not readily determinable but a reported NAV is used to estimate the fair value as of December 31, 2014:

| | Fair value estimated using Net Asset Value per Share | | | |
|---|---|---|---|---|
| (in millions) | Fair Value | Unfunded Commitments | Redemption Frequency | Redemption Notice Period |
| Private equities[a] | $67.7 | $18.2 | Redemptions not permitted | |
| Fixed income[b] | 130.1 | 12.6 | Redemptions not permitted | |
| Total | $197.8 | | | |

(a) Consists of private equity investments in pharmaceuticals and Chinese technology and healthcare companies.
(b) Primarily consists of investments in and debt securities secured by royalty payments from marketers of pharmaceuticals.

The assets presented in the December 31, 2015 and 2014 fair value hierarchy tables classified as Level 1 and Level 2, which fair value is estimated using NAV per share, have redemption frequencies ranging from daily to annually, have redemption notice periods from approximately 1 day to 90 days and have no unfunded commitments. These assets consist of equity, fixed income, and absolute return funds. Generally, the investment strategies of the fixed income and equity funds is based on fundamental and quantitative analysis and consists of long and hedged strategies. The general strategy of the absolute return funds consists of alternative investment techniques, including derivative instruments and other unconventional assets, to achieve a stated return rate.

Multi-Employer Pension Plans

YRC Freight, New Penn, Holland and Reddaway contribute to various separate multi-employer health, welfare and pension plans for employees that are covered by our collective bargaining agreements (approximately 78% of total Company employees). The collective bargaining agreements determine the amounts of these contributions. The health and welfare plans provide medical related benefits to active employees and retirees. The pension plans provide defined benefits to retired participants. We recognize as net pension cost within 'salaries, wages and employee benefits' the contractually required contributions for the period and recognize as a liability any contributions due and unpaid at period end. We do not directly manage multi-employer plans. The trusts covering these plans are generally managed by trustees, half of whom the unions appoint and half of whom various contributing employers appoint.

We expensed the following amounts related to these plans for the years ended December 31:

| (in millions) | 2015 | 2014 | 2013 |
|---|---|---|---|
| Health and welfare | $436.8 | $416.2 | $399.5 |
| Pension | 91.1 | 93.6 | 89.1 |
| Total | $527.9 | $509.8 | $488.6 |

Pension

Through the third quarter of 2009, we deferred payment of certain of our contributions to multi-employer pension funds. These deferred payments have been recognized as an operating expense and the liability was recorded as deferred contribution obligations. Beginning in the third quarter of 2009 through May 2011, most of our collective bargaining agreements provided for a temporary cessation of pension contributions so no expense or liability was required to be recognized for that period. In accordance with modifications to our collective bargaining agreements, we agreed to resume making pension contributions effective June 1, 2011 at 25.0% of the contribution rate in effect as of July 1, 2009.

The following table provides additional information related to our participation in individually significant multi-employer pension plans for the year ended December 31, 2015:

| Pension Fund[a] | EIN Number | Pension Protection Zone Status[b] 2015 | 2014 | Funding Improvement or Rehabilitation Plan | Employer Surcharge Imposed | Expiration Date of Collective-Bargaining Agreement |
|---|---|---|---|---|---|---|
| Central States, Southeast and Southwest Areas Pension Fund | 36-6044243 | Critical and Declining[d] | Critical | Yes | No | 3/31/2019 |
| Teamsters National 401(k) Savings Plan[c] | 52-1967784 | N/A | N/A | N/A | No | 3/31/2019 |
| I.B. of T. Union Local No 710 Pension Fund | 36-2377656 | Green | Green | No | No | 3/31/2019 |
| Central Pennsylvania Teamsters Defined Benefit Plan | 23-6262789 | Green | Green | No | No | 3/31/2019 |
| Road Carriers Local 707 Pension Fund | 51-6106510 | Critical and Declining[d] | Critical | Yes | No | 3/31/2019 |
| Teamsters Local 641 Pension Fund | 22-6220288 | Critical | Critical | Yes | No | 3/31/2019 |

(a) The determination of individually significant multi-employer plans is based on the relative contributions to the plans over the periods presented as well as other factors.

(b) The Pension Protection Zone Status is based on information that the Company obtained from the plans' Forms 5500. Unless otherwise noted, the most recent Pension Protection Act (PPA) zone status available for 2015 and 2014 is for the plan's year-end during calendar years 2014 and 2013, respectively. Among other factors, plans in the red zone are generally less than 65 percent funded, plans in the yellow zone are less than 80 percent funded, and plans in the green zone are at least 80 percent funded.

(c) The policies of the Western Conference of Teamsters Pension Trust precluded the Company from reentering the plan on June 1, 2011. The plan did not assess a withdrawal liability and has not done so since June 1, 2011. Contributions related to the employees previously covered by this plan are now being made to the Teamsters National 401(k) Plan.

(d) In 2015, we received notice from these funds that they are now in Critical and Declining status.

YRC Worldwide was listed in the Central States, Southeast and Southwest Areas Pension Plan, Road Carriers Local 707 Pension Fund, Central Pennsylvania Teamsters Defined Benefit Plan and Teamsters Local 641 Pension Fund's Forms 5500 as providing more than 5 percent of the total contributions for 2014 and 2013.

We contributed a total of $89.4 million, $91.6 million and $88.7 million to the multi-employer pension funds for the years ended December 31, 2015, 2014 and 2013. The following table provides the pension amounts contributed by fund for those funds that are considered to be individually significant:

| (in millions) | 2015 | 2014 | 2013 |
|---|---|---|---|
| Central States, Southeast and Southwest Areas Pension Plan | $51.7 | $52.2 | $52.1 |
| Teamsters National 401(k) Savings Plan | 12.5 | 13.1 | 11.2 |
| I.B. of T. Union Local No 710 Pension Fund | 4.4 | 4.9 | 4.4 |
| Central Pennsylvania Teamsters Defined Benefit Plan | 4.1 | 4.3 | 4.5 |
| Road Carriers Local 707 Pension Fund | 2.0 | 2.3 | 2.3 |
| Teamsters Local 641 Pension Fund | 1.5 | 1.5 | 1.6 |

In 2006, the Pension Protection Act became law and modified both the Code as it applies to multi-employer pension plans and the Employment Retirement Income Security Act of 1974 (as amended, "ERISA"). The Code and ERISA (in each case, as so modified) and related regulations establish minimum funding requirements for multi-employer pension plans.

In 2014, the MPRA became law which modified the ability to suspend accrued benefits of plans facing insolvency by adding a new zone status of Critical and Declining.

If any of our multi-employer pension plans fails to meet minimum funding requirements, meet a required funding improvement or rehabilitation plan that the Pension Protection Act may require for certain of our underfunded plans, obtain from the IRS certain changes to or a waiver of the requirements in how the applicable plan calculates its funding levels, or reduce pension benefits to a level where the requirements are met then we could be required to make additional contributions to the pension plan. If any of our multi-employer pension plans enters critical status or worse and our contributions are not sufficient to satisfy any rehabilitation plan schedule, the Pension Protection Act could require us to make additional surcharge contributions to the multi-employer pension plan in the amount of five to ten percent of the existing contributions required by our labor agreement for the remaining term of the labor agreement.

In 2015, the Central States, Southeast and Southwest Pension Plan filed an application under MPRA with the Department of Treasury requesting the approval of a benefit suspension plan. The plan will have to be evaluated and approved by the Department of Treasury in concert with Department of Labor and Pension Benefit Guaranty Corporation ("PBGC") before being submitted to a vote of participants. If ultimately approved, the plan would require future employer contribution increases to the plan.

If we fail to make our required contributions to a multi-employer plan under a funding improvement or rehabilitation plan, it would expose us to penalties including potential withdrawal liability. If the benchmarks that an applicable funding improvement or rehabilitation plan provides are not met by the end of a prescribed period, the IRS could impose an excise tax on us and the plan's other contributing employers. These excise taxes are not contributed to the deficient funds, but rather are deposited in the United States general treasury funds. The Company does not believe that the temporary cessation of certain of its contributions to applicable multi-employer pension funds beginning in the third quarter of 2009 and continuing through May 2011 will give rise to these excise taxes as the underlying employer contributions were not required for that period.

A requirement to materially increase contributions beyond our contractually agreed rate or the imposition of an excise tax on us could have a material adverse impact on the financial results and liquidity of YRC Worldwide.

401(k) Savings Plans

We sponsor the YRC Worldwide Inc. 401(k) Plan and the Reddaway Hourly 401(k) Plan, which are defined contribution plans primarily for employees that our collective bargaining agreements do not cover. The plans permit participants to make contributions to the plans and permit the employer of participants to make contributions on behalf of the participants. Additionally, the Reddaway Hourly 401(k) Plan allows for a non-elective employer contribution. Including non-elective employer contributions, there were total employer contributions of $4.7 million in 2015, $2.1 million in 2014 and no employer contributions in 2013. Our employees covered under collective bargaining agreements may also participate in union-sponsored 401(k) plans.

Performance Incentive Awards

We provide annual performance incentive awards and more frequent sales incentive awards to certain non-union employees, which are based primarily on actual operating results achieved compared to targeted operating results or sales targets and are paid in cash. Operating income in 2015, 2014 and 2013 included performance and sales incentive expense for non-union employees of $13.2 million, $13.9 million and $8.2 million, respectively. We generally pay annual performance incentive awards in the first quarter of the following year and sales performance incentive awards on a monthly basis.

We also provide short-term performance based cash compensation to key management personnel. During the years ended December 31, 2015, 2014 and 2013, compensation expense related to these awards was $14.1 million, $2.9 million and $6.3 million, respectively. Refer to the "Stock Compensation Plans" footnote for an overview of long-term performance based equity compensation, and related compensation expense, associated with such awards.

Additionally, operating income in 2015 included a profit sharing bonus for eligible union employees at the Regional Transportation segment of $5.5 million. No such bonus was paid for the years ended December 31, 2014 or 2013.

6. Debt and Financing

Our outstanding debt as of December 31, 2015 and December 31, 2014 consisted of the following:

| As of December 31, 2015 (in millions) | Par Value | Discount | Book Value | Stated Interest Rate | Effective Interest Rate |
|---|---|---|---|---|---|
| Term Loan | $686.0 | $(4.3) | $681.7 | 8.25 %[(a)] | 8.45 % |
| ABL Facility | — | — | — | N/A | N/A |
| Secured Second A&R CDA | 44.7 | — | 44.7 | 3.3-18.3% | 7.3 % |
| Unsecured Second A&R CDA | 73.2 | — | 73.2 | 3.3-18.3% | 7.3 % |
| Lease financing obligations | 278.0 | — | 278.0 | 10.0-18.2% | 12.0 % |
| Total debt | $1,081.9 | $(4.3) | $1,077.6 | | |
| Current maturities of Term Loan | $(7.0) | $— | $(7.0) | | |
| Current maturities of lease financing obligations | (8.9) | — | (8.9) | | |
| Long-term debt | $1,066.0 | $(4.3) | $1,061.7 | | |

| As of December 31, 2014 (in millions) | Par Value | Premium/ (Discount) | Book Value | Stated Interest Rate | Effective Interest Rate |
|---|---|---|---|---|---|
| Term Loan | $693.0 | $(5.7) | $687.3 | 8.25 %[(a)] | 8.45 % |
| ABL Facility | — | — | — | N/A | N/A |
| Series B Notes | 17.7 | (0.6) | 17.1 | 10.00 % | 25.6 % |
| Secured Second A&R CDA | 47.0 | — | 47.0 | 3.3-18.3% | 7.3 % |
| Unsecured Second A&R CDA | 73.2 | — | 73.2 | 3.3-18.3% | 7.3 % |
| Lease financing obligations | 285.1 | — | 285.1 | 10.0-18.2% | 12.0 % |
| Other | 0.2 | — | 0.2 | | |
| Total debt | $1,116.2 | $(6.3) | $1,109.9 | | |
| Current maturities of Term Loan | (7.0) | — | (7.0) | | |
| Current maturities of Series B Notes | (17.7) | 0.6 | (17.1) | | |
| Current maturities of lease financing obligations | (6.8) | — | (6.8) | | |
| Current maturities of other | (0.2) | — | (0.2) | | |
| Long-term debt | $1,084.5 | $(5.7) | $1,078.8 | | |

(a) Variable interest rate of 1, 3 or 6-month LIBOR, with a floor of 1.0% plus a fixed margin of 7.0% if the total leverage ratio is equal to or less than 3.25 to 1.00, or 7.25% if the total leverage ratio is higher than 3.25 to 1.00.

Credit Facilities

As of December 31, 2015 we had two primary credit facilities that we utilized to support our liquidity needs: a $700 million term loan facility and a $450 million ABL Facility. The ABL Facility is used to support our outstanding letters of credit commitments. We have set forth a brief description of our two primary credit facilities and our other financing arrangements in place at December 31, 2015 below.

$700 Million First Lien Term Loan

On February 13, 2014, we entered into and borrowed in full a $700 million term loan credit agreement (the “Term Loan Agreement”), less a 1% discount, from a syndicate of banks and other financial institutions arranged by Credit Suisse Securities (USA) and RBS Citizens, N.A. No amounts under this Term Loan, once repaid, may be reborrowed. On September 25, 2014, the Company entered into Amendment No. 1 to its Term Loan Agreement, which amended

the Term Loan to, among other things, adjust the maximum permitted total leverage ratio through December 31, 2016 and increase the applicable interest rate (subject to the exceptions discussed below) over the same period. Certain material provisions of the Term Loan are summarized below:

- Maturity and Amortization: The Term Loan matures on February 13, 2019. The Term Loan will amortize in equal quarterly installments in an aggregate annual amount equal to 1% of the original principal amount of the Term Loan.



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- Incremental: Subject to finding current or new lenders willing to provide such commitments, the Company has the right to incur one or more increases to the Term Loan and/or one or more new tranches of term loans (which may be unsecured or secured on a junior basis) to be made available under the Term Loan Agreement which shall not exceed (i) $250 million so long as the senior secured leverage ratio on a pro forma basis (defined as consolidated total debt that is secured by a lien as of such date over Consolidated EBITDA as of the twelve months ended the most recent fiscal quarter end for which financial statements are available) does not exceed 3.25 to 1.0, plus (ii) all voluntary prepayments of the Term Loan.

- Interest and Fees: The Term Loan bears interest, at the election of the borrower, at either the applicable London interbank offer rate ("LIBOR") (subject to a floor of 1.00%) plus a margin of 7.25% per annum, or a rate determined by reference to the alternate base rate (the greater of the prime rate established by the administrative agent, the federal fund rate plus 0.50% and one month, LIBOR plus 1.00%) plus a margin of 6.25%; provided that such margins will step down by 0.25% when the Company meets a total leverage ratio of equal or less than 3.25 to 1.00.
- Guarantors: The obligations of the borrower under the Term Loan are unconditionally guaranteed by certain wholly owned domestic restricted subsidiaries of the Company (the "Term Guarantors").
- Collateral: The Term Loan is secured by a perfected first priority security interest in (subject to permitted liens) substantially all assets of the Company and the guarantors under the Term Loan (the "Term Guarantors"), except that accounts receivable, cash, deposit accounts and other assets related to accounts receivable are subject to a second priority interest (subject to permitted liens) and certain owned real property securing the obligations under the Second A&R CDA filed January 31, 2014, do not secure the obligations under the Term Loan Agreement (the "CDA Collateral").
- Mandatory Prepayments: The Term Loan includes the following mandatory prepayments:

- 75% of excess cash flow (as defined in the Term Loan and paid if permitted under the ABL Facility), subject to step downs to (w) 50% if the total leverage ratio is less than or equal to 4.00 to 1.00 but greater than 3.50 to 1.00, to (x) 25% if the total leverage ratio is less than or equal to 3.50 to 1.00 but greater than 3.00 to 1.00 and (y) 0% if the total leverage ratio is less than or equal to 3.00 to 1.00.
- 100% of the net cash proceeds of all asset sales or similar dispositions outside of the ordinary course of business, casualty events and other limited exceptions under the Term Loan (subject to materiality thresholds and customary reinvestment rights); and
- 100% of cash proceeds from debt issuances that are not permitted by the Term Loan.

- Events of Default: The Term Loan Agreement contains certain customary events of default, including but not limited to the failure to make payments due under the Term Loan, breach of and failure to cure the breach of certain covenants, the entry of a final unpaid judgment against any of the Term Guarantors in excess of $30 million, the commencement of certain insolvency proceedings, liquidations or dissolutions, a cross-default to certain other indebtedness with an outstanding aggregate principal balance of at least $30 million (other than the ABL Facility), and cross-acceleration to the ABL Facility.
- Covenants: The Term Loan Agreement contains certain customary affirmative and negative covenants, including, among others, covenants restricting the incurrences of debt, liens, the making of investments and repurchases, transactions with affiliates, fundamental changes and asset sales, and prepayments of junior debt. In addition, refer to the "Credit Facility Covenants" section below for financial covenants for each of the remaining test periods.

$450 Million ABL Facility

On February 13, 2014, we entered into our $450 million ABL Facility from a syndicate of banks arranged by RBS Citizens, N.A., Merrill Lynch, Pierce, Fenner & Smith and CIT Finance LLC. The ABL Facility terminates on February 13, 2019. YRC Worldwide, YRC Freight, Reddaway, Holland and New Penn are borrowers under the ABL Facility, and certain of the Company's domestic subsidiaries are guarantors thereunder. Certain material provisions of the ABL Facility are summarized below and are qualified in their entirety by reference to the definitive

documentation:
- Availability: The aggregate amount available under the ABL Facility cannot be more than (a) the collateral line cap minus (b) the facility exposure. The facility exposure refers to the aggregate amount of loans and letter of credit outstanding (with an exclusion for certain fees and other amounts owing for letters of credit). The collateral line cap refers to a limit equal to the greater of (a) the commitments by lenders under the facility and (b) the borrowing base. The borrowing base equals the sum of (a) 85% of the sum of (i) Eligible Accounts (as defined in the ABL Facility) minus without duplication (ii) the Dilution Reserve (as defined in the ABL Facility relating to reserves for eligible accounts experiencing bad debt write-downs, discounts, allowances and similar dilutive items), plus (b) 100% of Eligible Borrowing Base Cash (as defined in the ABL Facility which constitutes 85% of the

“deferred revenue liability” as reflected on the balance sheet of the Company and its restricted subsidiaries as of the last day of the most recently completed fiscal month), minus (d) the Availability Reserve (as defined in the ABL Facility) imposed by the agent in its permitted discretion (made in good-faith and using reasonable business judgment) to reduce the amount of the borrowing base in light of predetermined criteria set forth in the ABL Facility.
- Eligible Borrowing Base Cash: The eligible borrowing base cash is cash that is deposited from time to time into a segregated restricted account maintained at the agent over which the agent has dominion. Such cash can only be withdrawn by us from the account if (i) no event of default exists or would arise as a result of the borrowing base cash release and (ii) availability as of the proposed date of such borrowing base cash release is not less than 15% of the collateral line cap. Eligible borrowing base cash is included in “Restricted amounts held in escrow” in the accompanying consolidated balance sheet.
- Interest: Revolving loans made under the ABL Facility bear interest, at the Company’s election, of either the applicable LIBOR rate plus 2.5% or the base rate (the greater of the prime rate established by the agent, the federal funds effective rate plus 0.50% and one month LIBOR plus 1.00%). Thereafter, the interest rates will be subject to the following price grid based on the average quarterly excess availability under the revolver:

| Level | Average Quarterly Excess Capacity | Base Rate Plus | LIBOR Plus |
| --- | --- | --- | --- |
| I | > $140,000,000 | 1.00% | 2.00% |
| II | > $70,000,000<br>< $140,000,000 | 1.25% | 2.25% |
| III | < $70,000,000 | 1.50% | 2.50% |

The rates set forth above are subject to a 0.25% reduction during any fiscal quarter for which the Company has a total leverage ratio of less than 2.50 to 1.00. We have not drawn on the facility at any time during the agreement.
-Letter of Credit Fees: The ABL Facility has certain specific fees relating to letters of credit which include: (i) fees payable quarterly in arrears equal to the applicable margin in effect for revolving loans (which is listed in the “Interest” description immediately above) multiplied by the average daily stated amount of letters of credit (2.5% for the year ended December 31, 2015), (ii) fronting fees for letters of credit payable quarterly in arrears equal to 0.125% of the stated amount of the letters of credit and (iii) fees to issuing banks to compensate for customary charges related to the issuance and administration of letters of credit.
-Other Fees: Other fees in respect of the ABL Facility include an unused line fee payable quarterly in arrears calculated by multiplying the amount by which the commitments exceed the loans and letters of credit for any calendar quarter by the unused line fee percentage (such unused line fee percentage initially to 0.25% per annum through March 31, 2014, and thereafter 0.375% per annum if the average revolver usage is less than 50% or 0.25% per annum if the average revolver usage is greater than 50%).
- Collateral: The obligations under the ABL Facility are secured by a perfected first priority security interest in (subject to permitted liens) all accounts receivable, cash, deposit accounts and other assets related to accounts receivable of the Company and the other loan parties and an additional second priority security interest in (subject to permitted liens) substantially all remaining assets of the borrowers and the guarantors other than CDA Collateral.
- Incremental: The Facility provides for a $100 million uncommitted accordion to increase the revolving commitment in the future to support borrowing base growth.
- Events of Default: The ABL Facility contains certain customary events of default, including but not limited to the failure to make payments due under the ABL Facility, breach of and failure to cure the breach of certain covenants, the entry of a final unpaid judgment against any of the ABL Facility loan parties in excess of $30 million, the commencement of any insolvency proceeding, liquidation or dissolution, and a cross-default to certain other indebtedness with an outstanding aggregate principal balance of at least $30 million (including the Term Loan).
- Covenants: The ABL Facility contains certain customary affirmative and negative covenants (including certain customary provisions regarding borrowing base reporting, and including, among others, covenants restricting the incurrences of debt, liens, the making of investments and repurchases, transactions with affiliates, fundamental changes and asset sales, and prepayments of junior debt). Certain of the covenants relating to investments, restricted payments and capital expenditures are relaxed upon meeting specified payment conditions or debt repayment

conditions, as applicable. Payment conditions include (i) the absence of an event

of default arising from such transaction, (ii) liquidity of at least $100 million or availability of at least $67.5 million and (iii) the Consolidated Fixed Charge Coverage Ratio for the most recent term period on a pro forma basis is equal to or greater than 1.10 to 1.00). Debt repayment conditions include (i) the absence of an event of default from repaying such debt and (ii) availability on the date of repayment is not less than $67.5 million. During any period commencing when the ABL Facility borrowers fail to maintain availability in an amount at least equal to 10% of the collateral line cap and until the borrowers have maintained availability of at least 10% of the collateral line cap for 30 consecutive calendar days, the ABL Facility loan parties are required to maintain a Consolidated Fixed Charge Coverage Ratio of at least 1.10 to 1.00. The "Consolidated Fixed Charge Coverage Ratio" is defined as (a) (i) consolidated adjusted EBITDA for such period, minus (ii) capital expenditures made during such period, minus (iii) the aggregate amount of net cash taxes paid in cash during such period, minus (iv) the amount, if any, by which the cash pension contribution for such period exceeds the pension expense for such period, and plus (v) the amount, if any, by which the pension expense for such period exceeds the cash pension contribution for such period, divided by (b) the consolidated fixed charges for such period. In addition, refer to the "Credit Facility Covenants" section of this footnote for covenants for each of the remaining test periods.

Second Amended and Restated Contribution Deferral Agreement

- Overview: Certain of our subsidiaries are parties to the Amended and Restated Contribution Deferral Agreement (the "A&R CDA") with certain multiemployer pension funds named therein (collectively, the "Funds") pursuant to which we are permitted to continue to defer pension payments and deferred interest owed to such Funds as of July 22, 2011 (each, "Deferred Pension Payments" and "Deferred Interest"). The A&R CDA was scheduled to mature on March 31, 2015 though the Company entered into the Second A&R CDA on January 31, 2014, which extended the maturity to December 31, 2019. There is no mandatory amortization prior to that time. The Deferred Pension Payments and Deferred Interest (each as defined in the A&R CDA) bears interest at a fixed rate, with respect to each Fund, per annum as set forth in its trust documentation as of February 28, 2011.

- Application of Certain Payments: Pursuant to the terms of the collective bargaining agreement with the IBT, the Company's subsidiaries began making contributions to the Funds for the month beginning June 1, 2011 at the rate of 25% of the contribution rate in effect on July 1, 2009. However, legislative changes to current law or other satisfactory action or arrangements are required to enable certain of the Funds (based on their funded status) to accept contributions at a reduced rate.

In accordance with the re-entry arrangements between each Fund and the primary obligors, a Fund may require the primary obligors to make payments of obligations owed to such Fund under the A&R CDA in lieu of payments required pursuant to the collective bargaining agreement with the IBT or make payments into an escrow arrangement, in each case in an amount equal to such Fund's current monthly contribution amount.

- Collateral: Under the A&R CDA, the Funds maintain their first lien on existing first priority collateral. The Funds allowed the secured parties under the Series A Notes and Series B Notes (as each are described below) a second lien behind the secured parties to the credit agreement on certain properties and the Funds had a third lien on such collateral. However, under the Second A&R CDA, such third lien on certain properties was released on the collateral release date upon the occurrence of events specified therein.

2014 Financing Transaction

On January 31, 2014, we issued 14,333,334 shares of our Common Stock and 583,334 shares of our Class A Preferred Stock pursuant to certain stock purchase agreements, dated as of December 22, 2013 (the "Stock Purchase Agreements"), for an aggregate $250.0 million in cash. We used the proceeds from these transactions to, among other things, (i) deposit with the trustee funds sufficient to repay our 6% Notes at their maturity on February 15, 2014 and (ii) repurchase approximately $90.9 million of our Series A Notes. In February 2014, the Company deposited approximately $89.6 million with the trustee to fund the redemption (including accrued interest), and thereby discharged the indenture governing the Series A Notes. The Company used the cash deposited with the trustee to redeem its Series A Notes on August 5, 2014.

Also on January 31, 2014, certain holders of our Series B Notes exchanged their outstanding balances (including the make-whole premium and additional accrued interest through January 15, 2014) at a price of $15.00 per share, while certain other holders converted their Series B Notes in accordance with their terms. We also amended the indenture governing our Series B Notes to eliminate substantially all of the restrictive covenants, certain events of default and other related provisions contained in the indenture and to release and discharge the liens on the collateral securing the Series B Notes.

Effective January 31, 2014, certain of our subsidiaries, various pension funds party thereto, and Wilmington Trust Company, as agent for such pension funds, entered into the Second A&R CDA, which, among other things (i) amended and restated the A&R

CDA, (ii) released the agent's security interest in third priority collateral on the Collateral Release Date (as defined therein), (iii) limited the value of obligations secured by the collateral to the Secured Obligations (as defined therein) and (iv) extended the maturity of deferred pension payments and deferred interest from March 31, 2015 to December 31, 2019.

On February 13, 2014, we replaced our existing credit facilities with a new $450 million ABL Facility and a new $700 million Term Loan. The ABL Facility will be used to support our outstanding letters of credit commitments.

We refer to transactions described above collectively as the "2014 Financing Transactions." The table below summarizes the cash flow activity for the 2014 Financing Transactions:

| Cash Sources (in millions) | | Cash Uses (in millions) | |
|---|---|---|---|
| Term Loan | $700.0 | Extinguish Prior ABL Facility (includes accrued interest) | $326.0 |
| Proceeds from sale of common stock | 215.0 | Extinguish Prior Term Loan (includes accrued interest) | 299.7 |
| Proceeds from sale of preferred stock | 35.0 | Retire 6% Notes | 71.5 |
| Cash proceeds from restricted amounts held in escrow - existing ABL facility | 90.0 | Repurchase Series A Notes (upon transaction closing and includes accrued interest) | 93.9 |
| ABL Facility | — | Redeem Series A Notes (on August 5, 2014 and includes accrued interest) | 89.6 |
| | | Fees, Expenses and Original Issuance Discount | 50.8 |
| | | Restricted Cash to Balance Sheet[a] | 92.0 |
| | | Cash to Balance Sheet | 16.5 |
| Total sources | $1,040.0 | Total uses | $1,040.0 |

(a) Under the terms of the ABL Facility, this amount was classified as "restricted cash" in the consolidated balance sheet at the closing date of the ABL Facility.

The table below summarizes the non-cash activity for the 2014 Financing Transactions:

| Non-Cash Sources (in millions) | | Non-Cash Uses (in millions) | |
|---|---|---|---|
| Secured Second A&R CDA | $51.0 | A&R CDA | $124.2 |
| Unsecured Second A&R CDA | 73.2 | Exchange/conversion of Series B Notes to common stock | 50.6 |
| Exchange/conversion of Series B Notes to common stock | 50.6 | | |
| Total sources | $174.8 | Total uses | $174.8 |

We accounted for the A&R CDA maturity extension as a debt modification and the remaining transactions as extinguishment of debt and issuance of new debt. We recorded a gain on extinguishment of debt of $11.2 million associated with this transaction during the year ended December 31, 2014, $16.3 million of which related to the acceleration of net premiums on our old debt, partially offset by $5.1 million of additional expense related to the fair value of the incremental shares provided to those Series B Note holders who exchanged their outstanding balances at a price of $15.00 per share. We recorded, in "interest expense" on the statements of consolidated comprehensive income (loss), $8.0 million of make-whole interest related to the Series B Notes exchanged during the year ended December 31, 2014. We paid $43.8 million of fees associated with these transactions of which $26.7 million was recorded as unamortized deferred debt costs in "other assets" in the consolidated balance sheet and will be recognized as interest expense over the term of the Term Loan and ABL Facility and $17.1 million offset the equity proceeds of our stock

purchase agreements.

On March 14, 2014, the Company held a special meeting of stockholders at which our stockholders approved amending our Certificate of Incorporation to increase the number of authorized shares of Common Stock to 95.0 million shares and to allow an investor involved in the 2014 Financing Transactions to own more than 19.99% of outstanding Common Stock. Upon approval of these amendments, each outstanding share of Convertible Preferred Stock automatically converted into four shares of Common Stock and the Company recorded 18.1 million related to the amortization of the beneficial conversion feature on preferred stock on the statements of consolidated operations.

Amended and Restated Credit Agreement

Our prior amended and restated credit agreement provided for a term loan in an aggregate principal amount of $307.4 million and a letter of credit facility of up to $437.0 million. As discussed, we extinguished the Prior Term Loan on February 13, 2014.

Prior ABL Facility

Our Prior ABL Facility provided for a $175.0 million ABL first-out delayed draw term loan facility and a $225.0 million ABL last-out term loan facility. As discussed, we extinguished the Prior ABL Facility on February 13, 2014.

Series A Convertible Senior Secured Notes

On July 22, 2011, we issued $140.0 million in aggregate principal of our Series A Notes that bore interest at a stated rate of 10% per year and matured on March 31, 2015. Interest was payable on a semiannual basis in arrears only in-kind through the issuance of additional Series A Notes. As discussed in the “2014 Financing Transactions” section, on February 13, 2014, the Company deposited approximately $89.6 million (including accrued interest) with the trustee in order to fund the redemption of the remaining Series A Notes, thereby discharging the indenture governing the Series A Notes. The Company used the cash deposited with the trustee to redeem its Series A Notes on August 5, 2014. There were no conversions at any time of our Series A Notes.

6% Convertible Senior Notes

On February 11, 2010, we entered into a note purchase agreement with certain investors pursuant to which such investors agreed, subject to the terms and conditions set forth therein, to purchase up to $70 million of our 6% Notes. The outstanding 6% Notes were paid at maturity on February 15, 2014. These 6% Notes bore interest at 6% which was payable on February 15 and August 15 of each year. There were no conversions of our 6% Notes.

Series B Convertible Senior Secured Notes

On July 22, 2011, we issued $100.0 million in aggregate principal of our Series B Notes that bore interest at a stated rate of 10.0% per year and matured on March 31, 2015. Interest was payable on a semiannual basis in arrears only in-kind through the issuance of additional Series B Notes.

On March 25, 2015, we entered into an exchange agreement with certain holders of our Series B Notes to exchange their outstanding principal and accrued interest balances totaling $17.9 million at conversion price of $18.00 per share for an aggregate 994,689 shares of Common Stock. During the year ended December 31, 2015, we recorded $0.6 million of additional expense related to the fair value of the incremental shares provide to those holders who exchanged their outstanding balances. At maturity on March 31, 2015, we repaid the holders of the remaining outstanding Series B Notes approximately $0.3 million of cash.

As discussed in the "2014 Financing Transactions" section, on January 31, 2014, certain holders of our Series B Notes exchanged their outstanding balances as part of an exchange agreement. Not including the exchanges made as part of our 2014 Financing Transactions, during the year ended December 31, 2014, $1.2 million of aggregate principal amount of Series B Notes converted into 75,900 shares of our common stock. Upon conversion, we recorded $0.4 million of additional interest expense representing the $0.2 million make whole premium and $0.2 million of accelerated amortization of the discount on Series B Notes converted.

Maturities

The principal maturities over the next five years and thereafter of total debt as of December 31, 2015 was as follows:

| (in millions) | Term Loan | ABL Facility | Second A&R CDA | Lease Financing Obligations[a] | Total |
|---|---|---|---|---|---|
| 2016 | $7.0 | $— | $— | $8.9 | $15.9 |
| 2017 | 7.0 | — | — | 10.5 | 17.5 |
| 2018 | 7.0 | — | — | 12.2 | 19.2 |
| 2019 | 665.0 | — | 117.9 | 6.6 | 789.5 |
| 2020 | — | — | — | 4.1 | 4.1 |
| Thereafter | — | — | — | 235.7 | 235.7 |
| Total | $686.0 | $— | $117.9 | $278.0 | $1,081.9 |

(a) Lease financing obligations subsequent to 2020 of $235.7 million represent principal cash obligations of $11.6 million and the estimated net book value of the underlying assets at the expiration of their associated lease agreements of $224.1 million.

Fair Value Measurement

The book value and estimated fair values of our long-term debt, including current maturities and other financial instruments, are summarized as follows:

| | December 31, 2015 | | December 31, 2014 | |
|---|---|---|---|---|
| (in millions) | Book Value | Fair Value | Book Value | Fair Value |
| Term Loan | $681.7 | $594.6 | $687.3 | $685.4 |
| ABL Facility | — | — | — | — |
| Series B Notes | — | — | 17.1 | 17.7 |
| Lease financing obligations | 278.0 | 282.9 | 285.1 | 282.2 |
| Other | 117.9 | 102.1 | 120.4 | 119.1 |
| Total debt | $1,077.6 | $979.6 | $1,109.9 | $1,104.4 |

The fair values of the Term Loan, ABL Facility, and Secured and Unsecured A&R CDA (included in “Other” above) were estimated based on observable prices (level two inputs for fair value measurements). The fair value of the lease financing obligations is estimated using a publicly traded secured loan with similar characteristics (level three input for fair value measurement).

Liquidity

Our principal sources of liquidity are cash and cash equivalents, available borrowings under our ABL Facility and any prospective net cash flow from operations. As of December 31, 2015, we had cash and cash equivalents of $173.8 million and the borrowing base and maximum availability on our ABL Facility were $441.7 million and $79.7 million, respectively. The maximum availability is calculated in accordance with the terms of the ABL Facility and is derived by reducing the borrowing base by our $362.0 million of outstanding letters of credit. While our ABL Facility permits us to access maximum availability outside of certain financial covenant restrictions (which restrictions did not limit our availability as of December 31, 2015), the maximum amount we expect to access on our ABL Facility at any time is maximum availability less the lower of 10% of the borrowing base ($44.2 million at December 31, 2015) or 10% of the collateral line cap ($45.0 million at December 31, 2015). Thus, of the $79.7 million in maximum availability, our Managed Accessibility was $35.5 million as of December 31, 2015. As a result, we had cash and cash equivalents and Managed Accessibility of $209.3 million as of December 31, 2015.

As of December 31, 2014, we had cash and cash equivalents of $171.1 million and the borrowing base and maximum availability on our ABL Facility were $445.5 million and $71.2 million, respectively. The maximum availability is calculated in accordance with the terms of the ABL Facility and is derived by reducing the borrowing base by our $374.3 million of outstanding letters of credit. As of December 31, 2014, amounts able to be drawn on our ABL Facility (which were limited by certain financial covenant restrictions) were $27.1 million, for a total of cash and cash equivalents and amounts able to be drawn on our ABL Facility of $198.2 million.

Outside of funding normal operations, our principal uses of cash include making contributions to our single-employer pension plans and various multi-employer pension funds, and meeting our other cash obligations, including, but not limited to, paying principal and interest on our funded debt, payments on equipment leases and funding capital expenditures.

Credit Facility Covenants

The Term Loan Agreement governing our Term Loan has certain financial covenants, as amended in September 2014, that, among other things, restricts certain capital expenditures and requires us to maintain a maximum total leverage ratio (defined as Consolidated Total Debt divided by Consolidated Adjusted EBITDA as defined below).

Our total maximum leverage ratio covenants are as follows:

| Four Consecutive Fiscal Quarters Ending | Maximum Total Leverage Ratio | Four Consecutive Fiscal Quarters Ending | Maximum Total Leverage Ratio |
|---|---|---|---|
| December 31, 2015 | 4.25 to 1.00 | March 31, 2017 | 3.25 to 1.00 |
| March 31, 2016 | 4.00 to 1.00 | June 30, 2017 | 3.25 to 1.00 |
| June 30, 2016 | 3.75 to 1.00 | September 30, 2017 | 3.25 to 1.00 |
| September 30, 2016 | 3.75 to 1.00 | December 31, 2017 and thereafter | 3.00 to 1.00 |
| December 31, 2016 | 3.50 to 1.00 | | |

Consolidated Adjusted EBITDA, defined in our Term Loan Agreement as “Consolidated EBITDA,” is a measure that reflects our earnings before interest, taxes, depreciation, and amortization expense, and is further adjusted for, among other things, letter of credit fees, equity-based compensation expense, net gains or losses on property disposals and certain other items, including restructuring professional fees, expenses associated with certain lump sum payments to our IBT employees and the results of permitted dispositions and discontinued operations. Consolidated Total Debt, as defined in our Term Loan Agreement, is the aggregate principal amount of indebtedness outstanding. Our total leverage ratio for the year ending December 31, 2015 was 3.25 to 1.00. Additionally, our ABL Facility credit agreement, among other things, restricts certain capital expenditures.

Capital Expenditures/Operating Leases

Our capital expenditures for the years ended December 31, 2015 and 2014 were $108.0 million and $69.2 million, respectively. These amounts were principally used to fund the purchase of used tractors and trailers, to refurbish engines for our revenue fleet and for capitalized costs for our service center facilities and technology infrastructure.

Additionally, for the year ended December 31, 2015, we entered into new operating lease commitments for revenue equipment totaling $130.9 million, with such payments to be made over the average lease term of 4 years. The capital value of this revenue equipment, which excludes our recurring leases for sleeper units, totals $131.7 million. During 2014, we entered into new operating lease commitments for revenue equipment of $65.0 million, with such lease payments to be made over the average lease term of 5 years. The capital value of this equipment totals $72.4 million. As of December 31, 2015, our operating lease obligations for 2016 are $80.0 million. As of December 31, 2015, our operating lease obligations through 2025 totaled $269.0 million and are expected to increase as we lease additional revenue equipment in future years.

7. Stock Compensation Plans

We reserved 5.0 million shares for issuance to key management personnel and directors under the 2011 amended and restated long-term incentive and equity award plan. As of December 31, 2015, 2.9 million shares remain available for

future issuance under this plan. The plan permits the issuance of restricted stock and stock units, as well as options, stock appreciation rights, and performance stock and performance stock unit awards. Awards under the plan can be satisfied in cash or shares at the discretion of the Board of Directors. According to the plan provisions, the stock units provide the holders the right to receive one share of our Common Stock upon vesting (and distribution) of one stock unit. The plan requires the exercise price of any option granted to equal the closing market price of our Common Stock on the date of grant.

Stock Options

On March 1, 2010, we formalized the Second Union Employee Option Plan that provided for a grant of up to 31,000 options, including the effect of the reverse stock split, to purchase our Common Stock at an exercise price equal to $3,600.00 per share, of which all have been granted. As a part of the union wage reduction, we agreed to award a certain equity interest to all effected union employees. These options vested immediately, will expire 10 years from the grant date, and were exercisable upon shareholder approval, which was received on June 29, 2010, at our annual shareholder meeting. There has been no activity in these stock options and these options had no intrinsic value as of December 31, 2015, 2014, and 2013.

Performance Based Awards

On March 9, 2015, the Company granted performance stock unit awards ("2015 Performance Awards") to employees under its 2015 long-term incentive plan ("2015 LTIP"). The awards provide a target number of stock units that vest equally over three years, with the first vesting occurring in February 2016. In addition to meeting service conditions, the number of performance stock units to be received depends on the attainment of defined Company-wide performance goals for 2015 based on adjusted return on invested capital over a one year performance period.

A summary of performance based unvested stock unit activity at target is as follows:

| (stock units in thousands) | Number of Units, at Target | Weighted Average Fair Value |
|---|---|---|
| Unvested performance stock unit awards, at December 31, 2014 | — | — |
| 2015 Performance Awards granted | 218 | $18.09 |
| 2015 Performance Awards forfeited | (3) | 18.23 |
| Unvested performance stock unit awards, at December 31, 2015 | 215 | $18.09 |

The total number of performance stock units earned for the 2015 performance year was 196% of the target award, resulting in a total of 421 thousand units issued under the 2015 LTIP.

The Company expenses the grant date fair value of the awards earned in the performance period over the respective service periods. The intrinsic value of unvested shares as of December 31, 2015 was $6.0 million. For the year ended December 31, 2015, the Company recognized compensation expense of $3.9 million. Unrecognized compensation expense related to performance based awards of $3.7 million is expected to be recognized over a weighted-average period of 0.8 years.

Restricted Stock

A summary of the activity of our unvested restricted stock and stock unit awards are presented in the following table:

| | Shares/units (in thousands) | Weighted Average Grant-Date Fair Value |
|---|---|---|
| Unvested at December 31, 2012 | 846 | 11.47 |
| Granted | 510 | $6.24 |
| Vested and distributed | (405) | 10.27 |
| Forfeited | (118) | 10.54 |
| Unvested at December 31, 2013 | 833 | $8.96 |
| Granted | 1,046 | 15.83 |

| | | |
|---|---|---|
| Vested and distributed | (564 | ) 13.33 |
| Forfeited | (26 | ) 15.38 |
| Unvested at December 31, 2014 | 1,289 | $ 12.86 |
| Granted | 342 | 17.29 |
| Vested and distributed | (835 | ) 11.34 |
| Forfeited | (29 | ) 10.25 |
| Unvested at December 31, 2015 | 767 | $ 14.34 |

Certain of the directors have deferred receipt of the Common Stock underlying some or all of the restricted stock units they have been awarded until each such director ceases to serve on the Board or, under certain circumstances, upon a change of control. Thus, while some of these restricted stock units have vested, the directors have not yet received the underlying Common Stock. For the years ended December 31, 2015, 2014, and 2013, the total number of restricted stock units that are vested but for which the underlying Common Stock has not been distributed was 275,000, 221,000, and 175,000, respectively; these shares are shown as unvested in the above table.

The intrinsic value of unvested shares as of December 31, 2015 was $10.9 million. The Company records expense on a straight-line basis over the vesting term. For the years ended December 31, 2015, 2014 and 2013, the Company recorded compensation expense for restricted stock awards of $4.8 million, $14.4 million, and $5.8 million, respectively. Unrecognized compensation expense related to restricted stock awards of $4.6 million at December 31, 2015 is expected to be recognized over a weighted-average period of 1.0 year.

The vesting provisions for the restricted stock and stock unit awards and the related number of shares granted during the year ended December 31 are as follows:

| | Shares/units (in thousands) | | |
|---|---|---|---|
| Vesting Terms | 2015 | 2014 | 2013 |
| 50% immediately and 50% on the 1 year anniversary of the grant date | — | 456 | 187 |
| 50% on the 1 year anniversary of the grant date and 50% on the 2 year anniversary of the grant date | — | — | 150 |
| 25% per year for four years | 4 | 39 | 56 |
| 25% immediately and 25% on each employment anniversary thereafter | — | — | 18 |
| 100% immediately | 69 | 54 | 5 |
| 33.3% immediately and 33.3% per year thereafter on the anniversary of the grant date | — | — | 94 |
| 20% on February 28, 2015, 60% on July 31, 2015 and 20% on February 28, 2016 | — | 459 | — |
| 33.3% per year for three years | 269 | 38 | — |
| Total restricted stock and stock units granted | 342 | 1,046 | 510 |

The fair value of nonvested shares is determined based on the closing trading price of our shares on the grant date. The fair value of shares vested and distributed during the years ended December 31, 2015 and 2014 was $9.5 million and $7.2 million, respectively. The fair value of shares vested during the year ended December 31, 2013 was not significant.

The outstanding awards under our stock compensation plans provide dividend participation features and are considered participating securities in our earnings per share calculation.

## 8. Income Taxes

We use the asset and liability method to reflect income taxes on our financial statements, pursuant to ASC 740. We recognize deferred tax assets and liabilities by applying enacted tax rates to the differences between the carrying value of existing assets and liabilities and their respective tax basis and to loss carryforwards. Tax credit carryforwards are recorded as deferred tax assets. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that the change occurs. We assess the validity of deferred tax assets and loss and tax credit carryforwards and provide valuation allowances when we determine it is more likely than not that such assets, losses,

or credits will not be realized. We have not recognized deferred taxes relative to foreign subsidiaries' earnings that are deemed to be permanently reinvested. Any related taxes associated with such earnings are not material.

Deferred tax liabilities (assets) were comprised of the following at December 31:

| (in millions) | 2015 | 2014 |
|---|---|---|
| Depreciation | $256.3 | $259.6 |
| Deferred revenue | 13.9 | 14.7 |
| Intangibles | 16.2 | 22.3 |
| Gain on debt redemption | 38.5 | 51.3 |
| Other | 92.8 | 87.0 |
| Deferred tax liabilities | 417.7 | 434.9 |
| Claims and insurance | (165.7) | (168.8) |
| Net operating loss carryforwards | (302.4) | (316.4) |
| Employee benefit accruals | (255.2) | (273.8) |
| Other | (161.4) | (169.0) |
| Deferred tax assets | (884.7) | (928.0) |
| Valuation allowance | 470.5 | 494.5 |
| Net deferred tax assets | (414.2) | (433.5) |
| Net deferred tax liability | $3.5 | $1.4 |

The net deferred tax liability of $3.5 million and $1.4 million as of December 31, 2015 and 2014, respectively, is included as separate line items in the accompanying balance sheets. Current income tax receivable was $2.3 million and $4.5 million as of December 31, 2015 and 2014, respectively, and is included in "Prepaid expenses and other" in the accompanying balance sheets.

As of December 31, 2015, the Company has remaining federal Net Operating Loss carryforwards of approximately $700.2 million. Deemed ownership changes that occurred in July 2011, in July 2013 and in January 2014 imposed annual and cumulative limits under the Code on the utilization of these carryforwards. These limits are estimated to allow only $465.5 million of these losses to be used over their carry forward periods. These carryforwards expire between 2028 and 2035 if not used. As of December 31, 2015, the Company has foreign tax credit and other credit carryforwards of approximately $13.2 million, none of which will likely be utilized due to the Code limitations described above, and which will expire between 2016 and 2018 if not used.

As of December 31, 2015 and 2014, a valuation allowance of $470.5 million and $494.5 million has been established for deferred tax assets because, based on available sources of future taxable income, it is more likely than not that those assets will not be realized.

A reconciliation between income taxes at the federal statutory rate and the consolidated effective tax rate follows:

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| Federal statutory rate | 35.0 % | 35.0 % | 35.0 % |
| State income taxes, net | (50.0)% | (4.9)% | (2.4)% |
| Foreign tax rate differential | 43.2 % | 1.4 % | (0.1)% |
| Permanent differences | (88.6)% | (6.4)% | 2.0 % |
| Valuation allowance | (243.2)% | (31.9)% | (30.9)% |
| Benefit from intraperiod tax allocation under ASC 740 | 265.9 % | — % | 32.2 % |
| Net (increase) decrease in unrecognized tax benefits | (11.4)% | 17.8 % | 0.6 % |
| Benefit from settlement of litigation & audits | 54.5 % | 1.6 % | — % |
| Other, net (primarily prior year return to provision) | 110.5 % | 6.6 % | (1.0)% |
| Effective tax rate | 115.9 % | 19.2 % | 35.4 % |

77

The income tax provision (benefit) consisted of the following:

| (in millions) | 2015 | 2014 | 2013 |
| --- | --- | --- | --- |
| Current: | | | |
| Federal | $(0.8) | $(23.6) | $(14.5) |
| State | (1.6) | 3.7 | 1.4 |
| Foreign | 7.1 | 4.0 | 9.6 |
| Current income tax provision (benefit) | $4.7 | $(15.9) | $(3.5) |
| Deferred: | | | |
| Federal | $(8.7) | $— | $(41.7) |
| State | (3.0) | — | — |
| Foreign | 1.9 | (0.2) | (0.7) |
| Deferred income tax benefit | $(9.8) | $(0.2) | $(42.4) |
| Income tax benefit | $(5.1) | $(16.1) | $(45.9) |
| Based on the income (loss) before income taxes: | | | |
| Domestic | $(33.2) | $(106.2) | $(152.8) |
| Foreign | 28.8 | 22.4 | 23.3 |
| Loss before income taxes | $(4.4) | $(83.8) | $(129.5) |

During 2015 and 2013, the Company recognized $11.7 million and $41.7 million, respectively, of deferred benefit in the Statement of Consolidated Operations and an equal and offsetting deferred tax expense in other comprehensive income included in the Statement of Consolidated Comprehensive Loss due to the application of intraperiod tax allocation rules under ASC 740. There was no deferred benefit recognized in 2014, as the intraperiod tax allocation rules did not apply. This allocation has no effect on total tax provision or total valuation allowance.

YRC Worldwide applies the intraperiod tax allocation rules of ASC 740 to allocate income taxes among continuing operations, discontinued operations, extraordinary items, other comprehensive income (loss), and additional paid-in capital when our situation meets the criteria as prescribed in the rule.

Uncertain Tax Positions

A rollforward of the total amount of unrecognized tax benefits for the years ended December 31 is as follows:

| (in millions) | 2015 | 2014 |
| --- | --- | --- |
| Unrecognized tax benefits at January 1 | $23.1 | $27.6 |
| Increases related to: | | |
| Tax positions taken during a prior period | 11.5 | 11.6 |
| Tax positions taken during the current period | 0.3 | 0.5 |
| Decreases related to: | | |
| Tax positions taken during a prior period | — | (5.6) |
| Lapse of applicable statute of limitations | (3.2) | (9.9) |
| Settlements with taxing authorities | (1.1) | (1.1) |
| Unrecognized tax benefits at December 31 | $30.6 | $23.1 |

At December 31, 2015 and 2014, there are $7.6 million and $11.6 million of benefits that, if recognized, would affect the effective tax rate. We accrued interest of $2.0 million and $1.1 million for the years ended December 31, 2015 and 2014 and reversed $3.3

million and $11.2 million of previously accrued interest on uncertain tax positions during the years ended December 31, 2015 and 2014 for a net reduction of $1.3 million and $10.1 million for 2015 and 2014. The reversal related primarily to settlements and other favorable resolution of prior uncertain positions. The total amount of interest accrued for uncertain tax positions is $3.1 million and $4.4 million as of as of December 31, 2015 and 2014. During the year ended December 31, 2015, we paid tax of $1.1 million and interest of $0.1 million to settle certain state and foreign audits of tax years 2006 through 2011 for certain of our subsidiaries and we reduced our previously recorded liability for unrecognized tax benefits accordingly. We have not accrued any penalties relative to uncertain tax positions. We have elected to treat interest and penalties on uncertain tax positions as interest expense and other operating expenses, respectively.

It is reasonably possible that the existing unrecognized tax benefits may decrease over the next twelve months by as much as $3.2 million as a result of developments in examinations and/or litigation, or from the expiration of statutes of limitation.

Tax years that remain subject to examination for our major tax jurisdictions as of December 31, 2015:

| | |
|---|---|
| Statute remains open | 2005-2013 |
| Tax years currently under examination/exam completed | 2005-2013 |
| Tax years not examined | 2014-2015 |

9. Business Segments

We report financial and descriptive information about our reportable operating segments on a basis consistent with that used internally for evaluating segment performance and allocating resources to segments. We evaluate performance primarily on operating income and return on invested capital.

We charge management fees and other corporate services to our segments based upon usage or on an overhead allocation basis. Corporate and other operating losses represent operating expenses of the holding company, including compensation and benefits and professional services for all periods presented. Corporate identifiable assets primarily refer to cash, cash equivalents, restricted cash and deferred debt issuance costs as well as our investment in JHJ. Intersegment revenue relates to transportation services between our segments.

Revenue from foreign sources totaled $116.5 million, $137.5 million, and $139.5 million in 2015, 2014 and 2013, respectively, and is mainly derived from Canada and, to a lesser extent, Mexico. Long-lived assets located in foreign countries totaled $6.5 million, $8.7 million and $12.4 million at December 31, 2015, 2014, and 2013, respectively.

The following table summarizes our operations by business segment:

| (in millions) | YRC Freight | Regional Transportation | Corporate/Eliminations | Consolidated |
|---|---|---|---|---|
| 2015 | | | | |
| External revenue | $3,055.7 | $1,776.9 | $ (0.2) | $4,832.4 |
| Operating income (loss) | 18.0 | 85.4 | (10.4) | 93.0 |
| Identifiable Assets | 1,351.5 | 652.9 | (109.8) | 1,894.6 |
| Acquisition of property and equipment | (59.2) | (48.7) | (0.1) | (108.0) |
| Proceeds from disposal of property and equipment | 12.0 | 5.5 | — | 17.5 |
| Depreciation and amortization | 93.1 | 70.7 | (0.1) | 163.7 |
| 2014 | | | | |
| External revenue | $3,237.4 | $1,831.4 | $ — | $5,068.8 |
| Operating income (loss) | 0.5 | 66.1 | (21.1) | 45.5 |
| Identifiable Assets | 1,462.1 | 685.7 | (162.8) | 1,985.0 |
| Acquisition of property and equipment | (37.0) | (32.2) | — | (69.2) |
| Proceeds from disposal of property and equipment | 23.2 | (2.4) | — | 20.8 |
| Depreciation and amortization | 98.0 | 65.8 | (0.2) | 163.6 |
| 2013 | | | | |
| External revenue | $3,136.8 | $1,728.6 | $ — | $4,865.4 |
| Operating income (loss) | (31.2) | 79.9 | (20.3) | 28.4 |
| Identifiable Assets | 1,513.4 | 698.4 | (146.9) | 2,064.9 |
| Acquisition of property and equipment | (43.4) | (23.3) | (0.2) | (66.9) |
| Proceeds from disposal of property and equipment | 6.7 | 3.0 | 0.1 | 9.8 |
| Depreciation and amortization | 109.1 | 63.1 | 0.1 | 172.3 |

10. Shareholders' Deficit

As discussed in the "Debt and Financing" footnote, on January 31, 2014, we issued 14,333,334 shares of our Common Stock and 583,334 of our Convertible Preferred Stock pursuant to the Stock Purchase Agreements, for an aggregate $250.0 million in cash. On March 14, 2014, the Company held a special meeting of stockholders at which our stockholders approved amending our Certificate of Incorporation to increase the number of authorized shares of Common Stock to 95.0 million and to allow an investor involved in the 2014 Financing Transactions to own more than 19.99% of outstanding Common Stock. Upon approval of these amendments, each outstanding share of Convertible Preferred Stock automatically converted into four shares of Common Stock and the Company recorded $18.1 million related to the amortization of the beneficial conversion feature on preferred stock on the statements of consolidated comprehensive income (loss).

In 2011, the Company designated one of its authorized shares of preferred stock as its Series A Voting Preferred Stock. The Series A Voting Preferred Stock has a $1 liquidation value and entitles the holder to elect two directors to the Company's Board of Directors. The one share of Series A Voting Preferred Stock was issued to the IBT on July 22, 2011 in connection with the restructuring. The Series A Voting Preferred Stock was recorded at its liquidation value.

The following reflects the activity in the shares of our preferred and common stock for the years ended December 31:

| | Preferred Shares | | | Common Shares | | |
|---|---|---|---|---|---|---|
| | 2015 | 2014 | 2013 | 2015 | 2014 | 2013 |
| Beginning balance | — | — | — | 30,667 | 10,173 | 7,976 |
| Issuance of Common Shares | — | — | — | — | 14,333 | — |
| Issuance of Convertible Preferred Shares | — | 583 | — | — | — | — |
| Conversion of Preferred Shares to Common Shares | — | (583) | — | — | 2,333 | — |
| Issuance of equity in exchange for debt | — | — | — | 995 | 3,471 | 1,929 |
| Issuance of equity awards, net | — | — | — | 479 | 357 | 268 |
| Ending balance | — | — | — | 32,141 | 30,667 | 10,173 |

Our Term Loan agreement in place as of December 31, 2015, restricts the ability of YRC Worldwide to declare dividends on its outstanding capital stock.

11. Earnings (Loss) Per Share

We calculate basic earnings (loss) per share by dividing our net earnings (loss) by our weighted-average shares outstanding at the end of the period. The calculation for diluted earnings per share adjusts the weighted average shares outstanding for our dilutive unvested shares and stock units using the treasury stock method and for our convertible notes using the if-converted method. Our calculations for basic and dilutive earnings (loss) per share for the years ended December 31, 2015, 2014, and 2013 are as follows:

| (dollars in millions, except per share data, shares and stock units in thousands) | 2015 | 2014 | 2013 |
|---|---|---|---|
| Basic and dilutive net income (loss) available to common shareholders | $0.7 | $(85.8) | $(83.6) |
| | | | |
| Basic weighted average shares outstanding | 31,736 | 28,592 | 9,332 |
| Effect of dilutive securities: | | | |
| Unvested shares and stock units[b] | 616 | — | — |
| Series B Notes | 240 | — | — |
| Dilutive weighted average shares outstanding | 32,592 | 28,592 | 9,332 |
| | | | |
| Basic earnings (loss) per share[a] | $0.02 | $(3.00) | $(8.96) |
| Diluted earnings (loss) per share[a] | $0.02 | $(3.00) | $(8.96) |

[a] Earnings (loss) per share is based on unrounded figures and not the rounded figures presented.
[b] Includes unvested shares of Common Stock, unvested stock units, and vested stock units for which the underlying Common Stock has not been distributed.

Given our net loss position for the years ended December 31, 2014 and 2013, there are no dilutive securities for these periods.

Our anti-dilutive securities for the years ended December 31 are as follows:

| (shares and stock units in thousands) | 2015 | 2014 | 2013 |
|---|---|---|---|
| Anti-dilutive unvested shares, options, and stock units[a] | 71 | 1,072 | 691 |
| Anti-dilutive 6% Notes | — | — | 18 |
| Anti-dilutive Series A Notes | — | — | 5,226 |
| Anti-dilutive Series B Notes | — | 982 | 4,219 |

[a] Includes unvested shares of Common Stock, unvested stock units, and vested stock units for which the underlying Common Stock has not been distributed.

12. Commitments, Contingencies, and Uncertainties

Financial Matters

We incur rental expenses under noncancelable lease agreements for certain buildings and operating equipment. Rental expense is charged to "Operating expense and supplies" or "Purchased transportation" on the accompanying statements of operations. Rental expense was $119.3 million, $98.7 million and $76.0 million for the years ended December 31, 2015, 2014 and 2013, respectively.

At December 31, 2015, we were committed under noncancelable lease agreements requiring minimum annual rentals payable as follows:

| (in millions) | 2016 | 2017 | 2018 | 2019 | 2020 | Thereafter |
|---|---|---|---|---|---|---|
| Minimum annual rentals | $80.0 | $68.8 | $51.2 | $27.1 | $16.2 | $25.7 |

We expect in the ordinary course of business that leases will be renewed or replaced as they expire. The leases provide for fixed and escalating rentals and contingent escalating rentals based on the Consumer Price Index not to exceed certain specified amounts. We record rent expense for our operating leases on a straight-line basis over the base term of the lease agreements.

As of December 31, 2015, we have $21.2 million committed for capital expenditures to be completed during 2016.

Bryant Holdings Securities Litigation

On February 7, 2011, a putative class action was filed by Bryant Holdings LLC in the U.S. District Court for the District of Kansas on behalf of purchasers of our common stock between April 24, 2008 and November 2, 2009, inclusive (the "Class Period"), seeking damages under the federal securities laws for statements and/or omissions allegedly made by us and the individual defendants during the Class Period which plaintiffs claimed to be false and misleading.

The individual defendants are former officers of our Company. No current officers or directors were named in the lawsuit. The parties participated in voluntary mediation between March 11, 2013 and April 15, 2013. The mediation resulted in the execution of a mutually acceptable settlement agreement by the parties. Plaintiffs' fourth motion to approve settlement was denied by the district court in October 2015, and the Company continues to consider all options going forward. Substantially all of the payments contemplated by the settlement would be covered by our liability insurance. The self-insured retention on this matter has been accrued. On March 4, 2015, the district court set the case for trial on the individual claims beginning June 6, 2016.

California Labor Law Change

In October 2015, California adopted new rules governing the payment of piece-rate compensation. New California Labor Code section 226.2 sets forth requirements for the payment of a separate hourly wage for "nonproductive" time worked by piece-rate employees, and separate payment for compensable rest and recovery periods to those employees. The Company continues to assess the impact of this new law and ongoing compliance measures.

Other Environmental Matters

Incidental to the Company's business in the ordinary course, our equipment is involved in motor vehicle accidents and experiences damage, mechanical failures and cargo issues. From time to time, these matters result in the discharge of hazardous materials into the environment. The Company is sometimes responsible for the clean-up and remediation

costs associated with these discharges, depending on local regulations and who is determined to be at fault. In 2015, 2014, and 2013, the Company spent approximately $8.1 million, $8.0 million, and $7.9 million, respectively, to comply with applicable laws regulating the discharge of materials into the environment, which included such clean-up and remediation costs.

Other Legal Matters

We are involved in other litigation or proceedings that arise in ordinary business activities. When possible, we insure against these risks to the extent we deem prudent, but no assurance can be given that the nature or amount of such insurance will be sufficient to fully indemnify us against liabilities arising out of pending and future legal proceedings. Many of these insurance policies contain self-insured retentions in amounts we deem prudent. Based on our current assessment of information available as of the

date of these financial statements, we believe that our financial statements include adequate provisions for estimated costs and losses that may be incurred within the litigation and proceedings to which we are a party.

13. Related Party Transactions

On February 20, 2013, we entered into an Advisory Agreement with MAEVA Group, LLC ("MAEVA"), a company owned and controlled by Harry J. Wilson and of which Mr. Wilson is Chairman and CEO. Mr. Wilson served until March 2, 2014 as a director of the Company appointed by the IBT pursuant to its rights as a holder of the Series A Voting Preferred Stock and was not an independent director of the Company. Under the Advisory Agreement, MAEVA provided advisory, analytical, consulting and other services to us in connection with one or more potential transactions and/or other strategic initiatives.

We paid MAEVA a $5.5 million completion fee in January 2014 in connection with the completion of the 2014 Financing Transactions. Additionally in February 2014, we paid MAEVA an incremental fee of $3.5 million in recognition of its critical role and performance in designing and leading a series of highly complicated, challenging and interdependent transactions that were critical to the Company's 2014 Financing Transactions. The term of the Advisory Agreement was extended for the first two months of 2014 in connection with the implementation of the 2014 Financing Transactions. Our entry into the Advisory Agreement and the fees paid to MAEVA in connection with the 2014 Financing Transactions were approved by the independent members of the Board.

Report of Independent Registered Public Accounting Firm
The Board of Directors and Shareholders
YRC Worldwide Inc.:
We have audited the accompanying consolidated balance sheets of YRC Worldwide Inc. and subsidiaries (the Company) as of December 31, 2015 and 2014, and the related statements of consolidated operations, comprehensive income (loss), shareholders' deficit, and cash flows for each of the years in the three-year period ended December 31, 2015. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of YRC Worldwide Inc. and subsidiaries as of December 31, 2015 and 2014, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2015, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), YRC Worldwide Inc.'s internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 18, 2016 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP
Kansas City, Missouri
February 18, 2016

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
YRC Worldwide Inc.:

We have audited YRC Worldwide Inc.'s internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). YRC Worldwide Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting appearing under Item 9A of the December 31, 2015 annual report on Form 10-K. Our responsibility is to express an opinion on YRC Worldwide Inc.'s internal control over financial reporting based on our audit.

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

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

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

In our opinion, YRC Worldwide Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of YRC Worldwide Inc. and subsidiaries as of December 31, 2015 and 2014, and the related statements of consolidated operations, comprehensive income (loss), shareholders' deficit, and cash flows for each of the years in the three-year period ended December 31, 2015, and our report dated February 18, 2016 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Kansas City, Missouri
February 18, 2016

85

## Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Not applicable.

## Item 9A. Controls and Procedures

### Evaluation of Disclosure Controls and Procedures

As required by the Exchange Act, we maintain disclosure controls and procedures designed to ensure that information we are required to disclose in reports that we file or submit under the Exchange Act, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Our disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information we are required to disclose in reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Our management, with the participation of our principal executive and financial officers, has evaluated our disclosure controls and procedures as of December 31, 2015 and has concluded that our disclosure controls and procedures were effective as of December 31, 2015.

### Management's Report on Internal Control Over Financial Reporting

The Company's management is responsible for establishing and maintaining effective internal control over our financial reporting, which is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Our management assessed the effectiveness of our system of internal control over financial reporting as of December 31, 2015 based on the framework established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Based on its assessment using those criteria, our management concluded that, as of December 31, 2015, our system of internal control over financial reporting was effective.

KPMG LLP, the independent registered public accounting firm that audited our December 31, 2015 consolidated financial statements, has issued an audit report on our system of internal control over financial reporting. The KPMG LLP audit report is included herein.

### Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the fiscal quarter ended December 31, 2015 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## Item 9B. Other Information

None.

PART III

Item 10. Directors and Executive Officers of the Registrant

Pursuant to General Instruction G to Form 10-K, the information required by this item, other than information regarding (i) our executive officers, which is incorporated by reference to Part I of this Form 10-K under the heading "Executive Officers of the Registrant," and (ii) our code of ethics, which is described below and titled the "Code of Business Conduct," is included under the captions "Directors to be Elected by our Stockholders," "Directors Selected by the Holder of our Series A Preferred Stock," "Stockholder Proposals and Communications with our Board," "Structure and Functioning of the Board-Audit & Ethics Committee" and "Section 16(a) Beneficial Ownership Reporting Compliance" in our Proxy Statement related to the 2016 Annual Meeting of Stockholders and is incorporated herein by reference.

Code of Business Conduct

We have adopted a written Code of Business Conduct that applies to all of our directors, officers and employees, including our chief executive officer, chief financial officer and chief accounting officer. It is available under "Board Committee Charters and Code of Business Conduct" on our website located at www.yrcw.com. We intend to disclose any amendments to our Code of Business Conduct by posting such information on our website located at www.yrcw.com, other than technical, administrative or non-substantive amendments, and any waivers, including implicit waivers, from any provision of our Code of Business Conduct that applies to our principal executive officer, principal financial officer, principal accounting officer or controller, which information will be disclosed via SEC filing.

Item 11. Executive Compensation

Pursuant to General Instruction G to Form 10-K, the information required by this item is included under the captions "Compensation Committee Interlocks and Insider Participation," "Director Compensation," "Compensation Discussion and Analysis," "Compensation Committee Report" and "Executive Compensation" in our Proxy Statement related to the 2016 Annual Meeting of Stockholders and is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management

Pursuant to General Instruction G to Form 10-K, the information required by this item is included under the captions "Security Ownership of Management and Directors," "Security Ownership of Certain Beneficial Owners" and "Equity Compensation Plan Information" in our Proxy Statement related to the 2016 Annual Meeting of Stockholders and is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence

Pursuant to General Instruction G to Form 10-K, the information required by this item is included under the captions "Structure and Functioning of the Board" and "Certain Relationships and Related Transactions" and "Related Party Transaction Policies and Procedures" in our Proxy Statement related to the 2016 Annual Meeting of Stockholders and is incorporated herein by reference.

Item 14. Principal Accounting Fees and Services

Pursuant to General Instruction G to Form 10-K, the information required by this item is included under the caption "Audit and Audit-Related Fees" in our Proxy Statement related to the 2016 Annual Meeting of Stockholders and is incorporated herein by reference.

87

PART IV

Item 15. Exhibits, Financial Statement Schedules

(a)(1) Financial Statements

The consolidated financial statements of the Company included under Item 8 - Financial Statements and Supplementary Data.

(a)(3) Exhibits

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| 3.1.1 | Amended and Restated Certificate of Incorporation of the Company (incorporated by reference to Exhibit 3.1 to Current Report on Form 8-K, filed on September 16, 2011, File No. 000-12255). |
| 3.1.2 | Certificate of Amendment to the Certificate of Incorporation of the Company reducing the number of authorized shares (incorporated by reference to Exhibit 3.1 to Current Report on Form 8-K, filed on December 1, 2011, File No. 000-12255). |
| 3.1.3 | Certificate of Elimination of Series B Convertible Preferred Stock (incorporated by reference to Exhibit 3.2 to Current Report on Form 8-K, filed on December 1, 2011, File No. 000-12255). |
| 3.1.4 | Certificate of Designations of Series A Voting Preferred Stock (incorporated by reference to Exhibit 3.1 to Current Report on Form 8-K, filed on July 25, 2011, File No. 000-12255). |
| 3.1.5 | Certificate of Amendment of the Certificate of Incorporation of the Company amending the number of authorized capital stock (incorporated by reference to Exhibit 3.1 to Current Report on Form 8-K, filed on March 17, 2014, File No. 000-12255). |
| 3.2 | Amended and Restated Bylaws of the Company, adopted as of September 16, 2011 (incorporated by reference to Exhibit 3.2 to Current Report on Form 8-K, filed on September 16, 2011, File No. 000-12255). |
| 4.1 | Amended and Restated Certificate of Incorporation of the Company (incorporated by reference to Exhibit 3.1.1 to this Annual Report on Form 10-K), Certificate of Amendment to the Certificate of Incorporation (incorporated by reference to Exhibit 3.1.2 to this Annual Report on Form 10-K) and Certificate of Elimination of Series B Convertible Preferred Stock (incorporated by reference to Exhibit 3.1.3 to this Annual Report on Form 10-K) and Certificate of Amendment to the Certificate of Incorporation (incorporated by reference to Exhibit 3.1.5 to this Annual Report on Form 10-K. |
| 4.2 | Amended and Restated Bylaws of the Company (incorporated by reference to Exhibit 3.2 to this Annual Report on Form 10-K). |
| 4.3 | Certificate of Designations of Series A Voting Preferred Stock (incorporated by reference to Exhibit 3.1.4 to this Annual Report on Form 10-K). |

(10) Material Contracts

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| 10.1.1 | National Master Freight Agreement, effective April 1, 2008, among the International Brotherhood of Teamsters, YRC Inc. (formerly, Yellow Transportation, Inc. and Roadway Express, Inc.), USF Holland Inc. and New Penn Motor Express, Inc. (incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K, filed on February 11, 2008, File No. 000-12255). |
| 10.1.2 | Amended and Restated Memorandum of Understanding on the Job Security Plan, dated July 9, 2009, among the International Brotherhood of Teamsters, YRC Inc., USF Holland Inc. and New Penn Motor Express, Inc. (incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K, filed on July 14, 2009, File No. 000-12255). |
| 10.1.3 | Agreement for the Restructuring of the YRC Worldwide Inc. Operating Companies and related Term Sheet/Proposal (the “Restructuring Plan”), dated September 24, 2010, among the International Brotherhood of |

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| | Teamsters, YRC Inc., USF Holland Inc. and New Penn Motor Express, Inc. (incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K, filed on September 29, 2010, File No. 000-12255). |
| 10.1.4 | Certification and Amendment (dated December 31, 2010) and Certification and Second Amendment (dated February 28, 2011) to the Restructuring Plan Term Sheet (incorporated by reference to Exhibit 10.3.4 to Annual Report on Form 10-K for the year ended December 31, 2010, filed on March 14, 2011, File No. 000-12255). |
| 10.1.5 | Extension of the Agreement for the Restructuring of the YRC Worldwide Inc. Operating Companies, dated February 7, 2014, by and among YRC Inc. (d/b/a YRC Freight), USF Holland Inc., New Penn Motor Express, Inc., USF Reddaway Inc. and the Teamsters National Freight Industry Negotiating Committee of the International Brotherhood of Teamsters (incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K, filed on February 10, 2014, File No. 000-12255). |

10.2.1 Amended and Restated Contribution Deferral Agreement, dated as of July 22, 2011, among YRC Inc., USF Holland Inc., New Penn Motor Express, Inc. and USF Reddaway Inc., collectively as primary obligors, the Trustees for the Central States, Southeast and Southwest Areas Pension Fund, the Wilmington Trust Company, as agent, and the other funds party thereto (incorporated by reference to Exhibit 10.6 to Quarterly Report on Form 10-Q for the quarter ended June 30, 2011, filed on August 8, 2011, File No. 000-12255).

10.2.2 Consent and First Amendment to the Amended and Restated Contribution Deferral Agreement, dated as of October 17, 2011, among YRC Inc., USF Holland Inc., New Penn Motor Express, Inc. and USF Reddaway Inc., collectively as primary obligors, the Trustees for the Central States, Southeast and Southwest Areas Pension Fund, the Wilmington Trust Company, as agent, and the other funds party thereto (incorporated by reference to Exhibit 10.8.2 to Annual Report on Form 10-K for the year ended December 31, 2011, filed February 28, 2012, File No. 000-12255).

10.2.3 Consent and Second Amendment to the Amended and Restated Contribution Deferral Agreement, dated as of January 31, 2014, among YRC Inc., USF Holland Inc., New Penn Motor Express, Inc. and USF Reddaway Inc., collectively as primary obligors, the Trustees for the Central States, Southeast and Southwest Areas Pension Fund, the Wilmington Trust Company, as agent, and the other funds party thereto (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K, filed on January 31, 2014, File No. 000-12255).

10.2.4 Letter Agreement, dated as of January 29, 2014 and effective as of January 31, 2014, among Central States, Southeast and Southwest Areas Pension Fund, YRC, Inc., USF Holland Inc., New Penn Motor Express, Inc., USF Reddaway Inc., as primary obligors, YRC Worldwide Inc., as primary guarantor, and certain additional guarantors (incorporated by reference to Exhibit 10.2 to Current Report on Form 8-K, filed on January 31, 2014, File No. 000-12255).

10.3 Credit Agreement, dated as of February 13, 2014, by and among the Company, as borrower, the subsidiaries of the borrower party thereto from time to time, the lenders from time to time party thereto, and Credit Suisse AG, Cayman Islands Branch, as administrative agent and collateral agent for the lenders (incorporated by reference to Exhibit 10.10 to the Annual Report on Form 10-K for the year ended December 31, 2013, filed on March 10, 2014, File No. 000-12255).

10.3.1 Amendment No. 1 to Credit Agreement dated as of September 25, 2014, by and among the Company, as borrower, the subsidiaries of the borrower party thereto from time to time, the lenders from time to time party thereto, and Credit Suisse AG, Cayman Islands Branch, as administrative agent and collateral agent for the lenders (incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K, filed on September 25, 2014, File No. 000-12255).

10.3.2 Amendment No. 2 to Credit Agreement, by and among the Company, the lenders party thereto and Credit Suisse AG, Cayman Islands Branch, as administrative agent (incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K, filed on September 25, 2015, File No. 000-12255).

10.4† Loan and Security Agreement, dated as of February 13, 2014, among the Company, as administrative borrower, the other borrowers named therein, the guarantors named therein, certain financial institutions, as lenders, and RBS Citizens Business Capital a division of RBS Asset Finance, Inc., a subsidiary of RBS Citizens, N.A., as agent, and RBS Citizens, N.A., Merrill Lynch, Pierce, Fenner & Smith and CIT Finance LLC, as joint lead arrangers and joint bookrunners (incorporated by reference to Exhibit 10.11 to Annual Report on Form 10-K for the year ended December 31, 2013, File No. 000-12255).

10.4.1 Amendment No. 1 to Loan and Security Agreement, by and among the Company, certain of the Company's subsidiaries party thereto, the lenders party thereto and RBS Citizens Business Capital, as agent (incorporated by reference to Exhibit 10.2 to Current Report on Form 8-K, filed on September 25, 2015, File No. 000-12255) .

(10) Management Contracts, Compensatory Plans and Arrangements

10.5.1 YRC Worldwide Inc. Director Compensation Plan, effective December 13, 2013 (incorporated by reference to Exhibit 10.12.3 to the Annual Report on Form 10-K for the year ended December 31, 2013, filed on March 10,

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| | 2014, File No. 000-12255). |
| 10.5.2 | Form of Director Share Unit Agreement for Non-Employee Director under 2013 Director Compensation Plan (incorporated by reference to the Annual Report on Form 10-K for the year ended December 31, 2013, filed on March 10, 2014, File No. 000-12255). |
| 10.5.3 | YRC Worldwide Inc. Director Compensation Plan, effective May 6, 2015 (incorporated by reference to Exhibit 10.1 to Quarterly Report on Form 10-Q for the quarter ended June 30, 2015, File No. 000-12255). |
| 10.5.4 | Form of Director Share Unit Agreement for Non-Employee Director under 2015 Director Compensation Plan (incorporated by reference to Exhibit 10.2 to Quarterly Report on Form 10-Q for the quarter ended June 30, 2015, File No. 000-12255). |
| 10.6 | Form of Indemnification Agreement between the Company and each of its directors and executive officers (incorporated by reference to Exhibit 10.5 to Current Report on Form 8-K, filed on March 15, 2007, File No. 000-12255). |
| 10.7.1 | YRC Worldwide Inc. 2011 Incentive and Equity Award Plan (incorporated by reference to Exhibit 99.1 to Registration Statement on Form S-8, filed on November 30, 2011, File No. 333-178223). |

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| 10.7.2 | YRC Worldwide Inc. Amended and Restated 2011 Incentive and Equity Award Plan (incorporated by reference to Exhibit 10.7 to Quarterly Report on Form 10-Q for the quarter ended March 31, 2014, filed on May 1, 2014, File No. 000-12255). |
| 10.8 | Form of Restricted Stock Agreement under YRC Worldwide Inc. 2011 Incentive and Equity Award Plan (incorporated by reference to Exhibit 10.29 to Annual Report on Form 10-K for the year ended December 31, 2011, filed on February 28, 2012, File No. 000-12255). |
| 10.9.1 | YRC Worldwide Inc. Supplemental Executive Pension Plan, effective January 1, 2005 (incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K, filed on July 25, 2006, File No. 000-12255). |
| 10.9.2 | Amendment to YRC Worldwide Inc. Supplemental Executive Pension Plan (incorporated by reference to Exhibit 10.3 to Current Report on Form 8-K, filed on July 8, 2008, File No. 000-12255). |
| 10.9.3 | Second Amendment to YRC Worldwide Inc. Supplemental Executive Pension Plan (incorporated by reference to Exhibit 10.30.3 to Annual Report on Form 10-K for the year ended December 31, 2011, filed February 28, 2012, File No. 000-12255). |
| 10.10.1 | Yellow Corporation Pension Plan, amended and restated as of January 1, 2004 (incorporated by reference to Exhibit 10.27 to Annual Report on Form 10-K for the year ended December 31, 2003, filed on March 15, 2004, File No. 000-12255). |
| 10.10.2 | Amendment No. 1 to Yellow Corporation Pension Plan, as amended and restated as of January 1, 2004 (incorporated by reference to Exhibit 10.2 to Quarterly Report on Form 10-Q for the quarter ended September 30, 2005, filed on November 9, 2005, File No. 000-12255). |
| 10.10.3 | Amendment No. 2 to Yellow Corporation Pension Plan, as amended and restated as of January 1, 2004 (incorporated by reference to Exhibit 10.28.3 to Annual Report on Form 10-K for the year ended December 31, 2010, filed on March 14, 2011, File No. 000-12255). |
| 10.10.4 | Amendment No. 3 to Yellow Corporation Pension Plan, as amended and restated as of January 1, 2004 (incorporated by reference to Exhibit 10.2 to Current Report on Form 8-K, filed on July 8, 2008, File No. 000-12255). |
| 10.10.5 | Amendment No. 4 to Yellow Corporation Pension Plan, as amended and restated as of January 1, 2004 (incorporated by reference to Exhibit 10.22.5 to Annual Report on Form 10-K for the year ended December 31, 2008, filed on March 2, 2009, File No. 000-12255). |
| 10.10.6 | Amendment No. 5 and Amendment No. 6 to Yellow Corporation Pension Plan, as amended and restated as of January 1, 2004 (incorporated by reference to Exhibit 10.28.6 to Annual Report on Form 10-K for the year ended December 31, 2009, filed on March 16, 2010, File No. 000-12255). |
| 10.10.7 | Amendment No. 7 to Yellow Corporation Pension Plan, as amended and restated as of January 1, 2004 (incorporated by reference to Exhibit 10.7 to Quarterly Report on Form 10-Q for the quarter ended June 30, 2010, filed on August 9, 2010, File No. 000-12255). |
| 10.11 | YRC Worldwide Inc. Non-Union Employee Option Plan (incorporated by reference to Exhibit 10.3 to Current Report on Form 8-K, filed on January 6, 2009, File No. 000-12255). |
| 10.12 | YRC Worldwide Inc. Union Employee Option Plan (incorporated by reference to Exhibit 10.25 to Annual Report on Form 10-K for the year ended December 31, 2008, filed on March 2, 2009, File No. 000-12255). |
| 10.13 | YRC Worldwide Inc. Second Union Employee Option Plan (incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K, filed on March 5, 2010, File No. 000-12255). |
| 10.14 | Form of YRC Worldwide Inc. Cash Performance and Restricted Stock Award Agreement (incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K, filed on April 3, 2009, File No. 000-12255). |
| 10.14.1 | Form of YRC Worldwide Inc. Restricted Stock Agreement (incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K, filed on March 13, 2015, File No. 000-12255). |
| 10.14.2 | Form of YRC Worldwide Inc. Performance Stock Unit Agreement (incorporated by reference to Exhibit 10.2 to Current Report on Form 8-K, filed on March 13, 2015, File No. 000-12255). |
| 10.15.1 | Employment Agreement, dated as of July 22, 2011, between the Company and James L. Welch (incorporated by reference to Exhibit 10.16 to Quarterly Report on Form 10-Q for the quarter ended June 30, 2011, filed on August 8, 2011, File No. 000-12255). |

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| 10.15.2 | Amendment No. 1 to Employment Agreement, dated as of October 30, 2012, between the Company and James L. Welch (incorporated by reference to Exhibit 10.1 to Quarterly Report on Form 10-Q for the quarter ended September 30, 2012, filed on November 2, 2012, File No. 000-12255). |
| 10.15.3 | Employment Agreement Cancellation Agreement, dated as of December 30, 2014, between the Company and James L. Welch (incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K, filed on January 2, 2015, File No. 000-12255). |
| 10.16.1 | Employment Agreement, dated as of November 3, 2011, between the Company and Jamie G. Pierson (incorporated by reference to Exhibit 10.46 to Annual Report on Form 10-K for the year ended December 31, 2011, filed on February 28, 2012, File No. 000-12255). |

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| 10.16.2 | Amendment No. 1 to Employment Agreement, dated as of October 30, 2012, between the Company and Jamie G. Pierson (incorporated by reference to Exhibit 10.2 to Quarterly Report on Form 10-Q for the quarter ended September 30, 2012, filed on November 2, 2012, File No. 000-12255). |
| 10.16.3 | Employment Agreement Cancellation Agreement, dated as of December 30, 2014, between the Company and Jamie G. Pierson (incorporated by reference to Exhibit 10.2 to Current Report on Form 8-K, filed on January 2, 2015, File No. 000-12255). |
| 10.17 | Escrow Agreement, dated as of November 3, 2011, among the Company, Jamie G. Pierson and BOKF, N.A., as escrow agent (incorporated by reference to Exhibit 10.47 to Annual Report on Form 10-K for the year ended December 31, 2011, filed on February 28, 2012, File No. 000-12255). |
| 10.18 | General Release and Separation Agreement, dated as of November 21, 2014, between the Company and Michelle A. Friel (incorporated by reference to the Annual Report on Form 10-K for the year ended December 31, 2014, filed on February 20, 2015, File No. 000-12255). |
| 10.19 | Severance Agreement, dated as of December 30, 2014, between the Company and James L. Welch (incorporated by reference to Exhibit 10.3 to Current Report on Form 8-K, filed on January 2, 2015, File No. 000-12255). |
| 10.20 | Severance Agreement, dated as of December 30, 2014, between the Company and Jamie G. Pierson (incorporated by reference to Exhibit 10.4 to Current Report on Form 8-K, filed on January 2, 2015, File No. 000-12255). |
| 21.1* | Subsidiaries of the Company. |
| 23.1* | Consent of KPMG LLP, Independent Registered Public Accounting Firm. |
| 31.1* | Certification of James L. Welch pursuant to Exchange Act Rules 13a-14 and 15d-14, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2* | Certification of Jamie G. Pierson pursuant to Exchange Act Rules 13a-14 and 15d-14, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1* | Certification of James L. Welch pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2* | Certification of Jamie G. Pierson pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |

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| 101.INS* | XBRL Instance Document |
| 101.SCH* | XBRL Taxonomy Extension Schema |
| 101.CAL* | XBRL Taxonomy Extension Calculation Linkbase |
| 101.DEF* | XBRL Taxonomy Extension Definition Linkbase |
| 101.LAB* | XBRL Taxonomy Extension Label Linkbase |
| 101.PRE* | XBRL Taxonomy Extension Presentation Linkbase |

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* Indicates documents filed herewith.

† Confidential portions of this exhibit have been filed separately with the SEC pursuant to a request for confidential treatment.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

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| | YRC Worldwide Inc. |
| Date: February 18, 2016 | BY: /s/ James L. Welch<br>James L. Welch<br>Chief Executive Officer |

POWER OF ATTORNEY

Know all people by these presents, that each person whose signature appears below constitutes and appoints James L. Welch and Jamie G. Pierson, and each of them, his or her true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him or her and in his or her name, place and stead, in any and all capacities, to sign any amendments to this annual report on Form 10-K, and to file the same, with all exhibits thereto, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully and to all intents and purposes as he or she might or could do in person, hereby confirming all that said attorneys-in-fact and agents or either of them, or his or their substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

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

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| /s/ James L. Welch<br>James L. Welch | Chief Executive Officer | February 18, 2016 |
| /s/ Jamie G. Pierson<br>Jamie G. Pierson | Executive Vice President &<br>Chief Financial Officer | February 18, 2016 |
| /s/ Stephanie D. Fisher<br>Stephanie D. Fisher | Vice President & Controller | February 18, 2016 |
| /s/ Raymond J. Bromark<br>Raymond J. Bromark | Director | February 18, 2016 |
| /s/ Douglas A. Carty<br>Douglas A. Carty | Director | February 18, 2016 |
| /s/ William R. Davidson<br>William R. Davidson | Director | February 18, 2016 |
| /s/ Matthew Doheny<br>Matthew Doheny | Director | February 18, 2016 |
| /s/ Robert L. Friedman<br>Robert L. Friedman | Director | February 18, 2016 |
| /s/ James E. Hoffman<br>James E. Hoffman | Director | February 18, 2016 |
| /s/ Michael J. Kneeland<br>Michael J. Kneeland | Director | February 18, 2016 |
| /s/ Patricia M. Nazemetz<br>Patricia M. Nazemetz | Director | February 18, 2016 |
| /s/ James F. Winestock<br>James F. Winestock | Director | February 18, 2016 |