

Willdan Group, Inc.
Form 10-Q
May 08, 2014
[Table of Contents](#)

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

- x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**

For the quarterly period ended March 28, 2014

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)

Edgar Filing: Willdan Group, Inc. - Form 10-Q

Delaware

(State or other Jurisdiction of
Incorporation or Organization)

14-195112

(IRS Employer Identification No.)

2401 East Katella Avenue, Suite 300

Anaheim, California

(Address of principal executive offices)

92806

(Zip code)

Registrant's Telephone Number, Including Area Code: **(800) 424-9144**

Not Applicable

(Former name, former address and former fiscal year, if changed since last report).

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 ☒ No ☐

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 ☒ No ☐

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

Large accelerated filer ☐

Accelerated filer ☐

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

Smaller reporting company ☒

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

As of May 6, 2014, there were 7,401,784 shares of common stock, \$0.01 par value per share, of Willdan Group, Inc. issued and outstanding.

Table of Contents

**WILLDAN GROUP, INC.
FORM 10-Q QUARTERLY REPORT**

TABLE OF CONTENTS

<u>PART I. FINANCIAL INFORMATION</u>	Page 2
<u>Item 1. Financial Statements</u>	2
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	12
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	20
<u>Item 4. Controls and Procedures</u>	20
<u>PART II. OTHER INFORMATION</u>	20
<u>Item 1. Legal Proceedings</u>	20
<u>Item 1A. Risk Factors</u>	21
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	21
<u>Item 3. Defaults upon Senior Securities</u>	21
<u>Item 4. Mine Safety Disclosures</u>	21
<u>Item 5. Other Information</u>	21
<u>Item 6. Exhibits</u>	22

Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****WILLDAN GROUP, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS**

	March 28, 2014 (unaudited)	December 27, 2013
Assets		
Current assets:		
Cash and cash equivalents, including restricted cash of \$0 and \$5,000,000 at March 28, 2014 and December 27, 2013, respectively	\$ 12,656,000	\$ 8,134,000
Accounts receivable, net of allowance for doubtful accounts of \$449,000 and \$385,000 at March 28, 2014 and December 27, 2013, respectively	10,791,000	13,167,000
Costs and estimated earnings in excess of billings on uncompleted contracts	10,728,000	9,635,000
Other receivables	350,000	212,000
Prepaid expenses and other current assets	1,900,000	2,377,000
Total current assets	36,425,000	33,525,000
Equipment and leasehold improvements, net	666,000	691,000
Other assets	648,000	333,000
Deferred income taxes, net of current portion	3,688,000	3,688,000
Total assets	\$ 41,427,000	\$ 38,237,000
Liabilities and Stockholders' Equity		
Current liabilities:		
Excess of outstanding checks over bank balance	\$ 2,106,000	\$ 1,473,000
Accounts payable	3,576,000	3,957,000
Accrued liabilities	7,324,000	5,808,000
Billings in excess of costs and estimated earnings on uncompleted contracts	2,479,000	2,247,000
Current portion of notes payable	319,000	517,000
Current portion of capital lease obligations	124,000	129,000
Current portion of deferred income taxes	3,688,000	3,688,000
Total current liabilities	19,616,000	17,819,000
Capital lease obligations, less current portion	96,000	85,000
Deferred lease obligations	73,000	120,000
Total liabilities	19,785,000	18,024,000
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: 7,402,000 and 7,375,000 shares issued and outstanding at March 28, 2014 and December 27, 2013, respectively	74,000	74,000

Edgar Filing: Willdan Group, Inc. - Form 10-Q

Additional paid-in capital	34,768,000	34,654,000
Accumulated deficit	(13,200,000)	(14,515,000)
Total stockholders' equity	21,642,000	20,213,000
Total liabilities and stockholders' equity	\$ 41,427,000	\$ 38,237,000

See accompanying notes to condensed consolidated financial statements.

Table of Contents

WILLDAN GROUP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended	
	March 28, 2014	March 29, 2013
Contract revenue	\$ 22,686,000	\$ 21,385,000
Direct costs of contract revenue (exclusive of depreciation and amortization shown separately below):		
Salaries and wages	6,202,000	5,843,000
Subconsultant services and other direct costs	6,996,000	6,191,000
Total direct costs of contract revenue	13,198,000	12,034,000
General and administrative expenses:		
Salaries and wages, payroll taxes and employee benefits	4,918,000	5,538,000
Facilities and facilities related	1,062,000	1,188,000
Stock-based compensation	41,000	50,000
Lease abandonment, net		13,000
Depreciation and amortization	103,000	149,000
Other	2,052,000	1,956,000
Total general and administrative expenses	8,176,000	8,894,000
Income from operations	1,312,000	457,000
Other income (expense), net:		
Interest income	2,000	3,000
Interest expense	(4,000)	(27,000)
Other, net	49,000	15,000
Total other income (expense), net	47,000	(9,000)
Income before income taxes	1,359,000	448,000
Income tax expense	44,000	49,000
Net income	\$ 1,315,000	\$ 399,000
Earnings per share:		
Basic	\$ 0.18	\$ 0.05
Diluted	0.17	0.05
Weighted-average shares outstanding:		
Basic	7,397,000	7,335,000
Diluted	7,609,000	7,382,000

See accompanying notes to condensed consolidated financial statements.

Table of Contents

WILLDAN GROUP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Three Months Ended	
	March 28, 2014	March 29, 2013
Cash flows from operating activities:		
Net income	\$ 1,315,000	\$ 399,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	103,000	166,000
Lease abandonment expense, net		13,000
Loss (gain) on sale of equipment	2,000	(5,000)
Provision for doubtful accounts	78,000	65,000
Stock-based compensation	41,000	50,000
Changes in operating assets and liabilities:		
Accounts receivable	2,298,000	3,345,000
Costs and estimated earnings in excess of billings on uncompleted contracts	(1,093,000)	(1,279,000)
Other receivables	(138,000)	(6,000)
Prepaid expenses and other current assets	477,000	526,000
Other assets	(315,000)	7,000
Accounts payable	(381,000)	(2,552,000)
Changes in excess of outstanding checks over bank balance	633,000	(300,000)
Accrued liabilities	1,516,000	454,000
Billings in excess of costs and estimated earnings on uncompleted contracts	232,000	(107,000)
Deferred lease obligations	(47,000)	(71,000)
Net cash provided by operating activities	4,721,000	705,000
Cash flows from investing activities:		
Purchase of equipment and leasehold improvements	(33,000)	(65,000)
Proceeds from sale of equipment		5,000
Net cash used in investing activities	(33,000)	(60,000)
Cash flows from financing activities:		
Payments on notes payable	(198,000)	(246,000)
Principal payments on capital lease obligations	(41,000)	(36,000)
Proceeds from stock option exercise	45,000	
Proceeds from sales of common stock under employee stock purchase plan	28,000	37,000
Net cash used in financing activities	(166,000)	(245,000)
Net increase in cash and cash equivalents	4,522,000	400,000
Cash and cash equivalents at beginning of the period	8,134,000	10,006,000
Cash and cash equivalents at end of the period	\$ 12,656,000	\$ 10,406,000
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	\$ 4,000	\$ 27,000
Income taxes	15,000	49,000
Supplemental disclosures of noncash investing and financing activities:		
Equipment acquired under capital lease obligations	\$ 47,000	\$

See accompanying notes to condensed consolidated financial statements.

Table of Contents

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

March 28, 2014
(Unaudited)

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

Basis of Presentation

The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) and pursuant to the rules and regulations of the Securities and Exchange Commission and reflect all adjustments, which consist of only normal recurring adjustments, which are, in the opinion of management, necessary for a fair presentation of the consolidated results for the interim periods presented. Results for the interim periods are not necessarily indicative of results for the full year. Certain information and footnote disclosures normally included in annual consolidated financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. The consolidated financial statements should be read in conjunction with Willdan Group, Inc.'s 2013 Annual Report on Form 10-K filed on March 25, 2014.

Nature of Business

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

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.

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

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

Table of Contents

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

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

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

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

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

The value of retainage is included in accounts receivable in the accompanying consolidated financial statements. Retainage represents the billed amount that is retained by the customer, in accordance with the terms of the contract, generally until performance is substantially complete. At March 28, 2014 and December 27, 2013, the Company had retained accounts receivable of approximately \$685,000 and \$673,000, respectively.

Fair Value of Financial Instruments

The Company's financial instruments consist primarily of cash, cash equivalents, including restricted cash, accounts receivable, costs and estimated earnings in excess of billings on uncompleted contracts, other receivables, prepaid expenses and other current assets, excess of outstanding checks over bank balance, accounts payable, accrued liabilities and billings in excess of costs and estimated earnings on uncompleted contracts, and 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.

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*Liquidity*

The Company had \$12.7 million of cash and cash equivalents as of March 28, 2014. The Company's primary sources of liquidity are cash generated from operations and its revolving line of credit with BMO Harris Bank, National Association ("BMO"), which matures on March 24, 2016. While the Company believes that its cash and cash equivalents on hand, cash generated by operating activities and funds available under its line of credit will be sufficient to finance its operating activities for at least the next 12 months, if the Company does experience a cash flow shortage or violates the current terms of its credit agreement, the Company may have difficulty obtaining additional funds on favorable terms, if at all, to meet its obligations as they come due in the normal course of business.

2. EARNINGS PER SHARE (EPS)

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

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

	Three Months Ended	
	March 28, 2014	March 29, 2013
Net income	\$ 1,315,000	\$ 399,000
Weighted-average common shares outstanding	7,397,000	7,335,000
Effect of dilutive stock options	212,000	47,000
Weighted-average common stock outstanding-diluted	7,609,000	7,382,000
Earnings per share:		
Basic	\$ 0.18	\$ 0.05
Diluted	\$ 0.17	\$ 0.05

For the three months ended March 28, 2014, 275,000 options were excluded from the calculation of dilutive potential common shares, compared to 686,000 options for the same period last year. These options were not included in the computation of dilutive potential common shares because the assumed proceeds per share exceeded the average market price per share for the 2014 and 2013 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**3. EQUIPMENT AND LEASEHOLD IMPROVEMENTS**

Equipment and leasehold improvements consist of the following:

	March 28, 2014	December 27, 2013
Furniture and fixtures	\$ 3,039,000	\$ 3,039,000
Computer hardware and software	6,296,000	6,338,000
Leasehold improvements	761,000	776,000
Equipment under capital leases	835,000	831,000
Automobiles, trucks, and field equipment	560,000	533,000
	11,491,000	11,517,000
Accumulated depreciation and amortization	(10,825,000)	(10,826,000)
Equipment and leasehold improvements, net	\$ 666,000	\$ 691,000

4. ACCRUED LIABILITIES

Accrued liabilities consist of the following:

	March 28, 2014	December 27, 2013
Accrued bonuses	\$ 26,000	\$ 31,000
Paid leave bank	1,337,000	1,243,000
Compensation and payroll taxes	1,263,000	749,000
Accrued legal	324,000	356,000
Accrued workers compensation insurance	40,000	141,000
Accrued rent	323,000	367,000
Employee withholdings	763,000	343,000
Client deposits	326,000	232,000
Unvouchered accounts payable	2,743,000	2,282,000
Other	179,000	64,000
Total accrued liabilities	\$ 7,324,000	\$ 5,808,000

5. LINE OF CREDIT

Revolving Credit Facility: During fiscal year 2013, the Company had a revolving credit agreement with Wells Fargo Bank, N.A, which was entered into on December 23, 2011 and became effective as of January 1, 2012. Loans made under the revolving line of credit accrued interest at a floating rate of LIBOR plus 2.25%. The Company is also required to pay a 0.25% fee on unused commitments and customary fees on any letters of credit drawn under the facility. There were no outstanding borrowings under this agreement as of March 28, 2014. Loans made under the revolving line of credit accrue interest at a floating rate of LIBOR plus 2.25%. The Company also must pay a 0.25% fee on unused commitments and customary fees on any letters of credit drawn under the facility.

Edgar Filing: Willdan Group, Inc. - Form 10-Q

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

The Company also has a \$7.5 million revolving credit agreement with BMO Harris Bank, N.A. (BMO), which was entered into on March 24, 2014 and became effective as of March 24, 2014. The Company's credit agreement with BMO provides for a revolving line of credit of up to \$7.5 million, subject to a borrowing base calculation, including a \$5.0 million standby letter of credit sub-facility and a \$2.5 million secured term loan. All borrowings under the revolving line of credit are limited to a borrowing base equal to roughly 75% of the eligible

Table of Contents

accounts receivable plus 50% of the lower of cost or market value of our eligible inventory, each term as defined in the credit agreement. As of March 28, 2014, \$6.9 million was available for borrowing and there were no outstanding borrowings under the revolving line of credit. The line of credit matures on March 24, 2016. Loans made under the revolving line of credit will accrue interest at either (i) a floating rate equal to 0.75% above the base rate in effect from time to time or (ii) a floating rate of 1.75% above LIBOR, with the interest rate to be selected by the Company.

Borrowings under the revolving line of credit are guaranteed by all of the Company's subsidiaries (the Guarantors) and secured by all of the Company's and the Guarantors' accounts receivable and other rights to payment, general intangibles, inventory and equipment. Pursuant to the credit agreement, the Company also must pay a fee of up to 0.3% on unused commitments and customary fees on any letters of credit drawn under the facility. In connection with the new credit facility entered into during the first fiscal quarter of 2014, no cash amounts are restricted as of March 28, 2014 compared to \$5.0 million as of December 27, 2013.

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

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

Insurance Premiums: The Company has also financed, from time to time, insurance premiums by entering into unsecured notes payable with insurance companies. During the Company's annual insurance renewals in the fourth quarter of its fiscal year ended December 27, 2013, the Company elected to finance its insurance premiums for the upcoming fiscal year.

6. COMMITMENTS

Leases

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

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

Employee Benefit Plans

The Company has a qualified profit sharing plan (the Plan) pursuant to Code Section 401(a) and qualified cash or deferred arrangement pursuant to Code Section 401(k) covering substantially all employees. Employees may elect to contribute up to 50% of compensation limited to the amount allowed by tax laws. Company contributions are made solely at the discretion of the Company's board of directors.

The Company has a discretionary bonus plan for regional managers, division managers and others as determined by the Company president. Bonuses are awarded if certain financial goals are achieved. The financial goals are not stated in the plan; rather they are judgmentally determined each year. In addition, the board of directors may declare discretionary bonuses to key employees and all employees are eligible for what the Company refers to as the "hot hand" bonus program, which pays awards for outstanding performance. The Company's compensation committee of the board of directors determines the compensation of the president.

Table of Contents

Post Employment Health Benefits

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

7. INCOME TAXES

Income taxes are accounted for under the asset and liability method and are determined using an estimated annual effective tax rate. 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.

Based on management's estimates and determination of an effective tax rate for the year, the Company recorded an income tax expense of \$44,000 for the three months ended March 28, 2014 as compared to an income tax expense of \$49,000 for the three months ended March 29, 2013.

8. SEGMENT INFORMATION

The Company has four reporting segments: Engineering Services, Energy Efficiency Services, Public Finance Services and Homeland Security Services. The Engineering Services segment consists of Willdan Engineering, Willdan Infrastructure and Public Agency Resources. The Engineering Services segment offers a broad range of engineering and planning services to our public and private sector clients. The Energy Efficiency Services segment, which consists of Willdan Energy Solutions, provides energy efficiency and sustainability consulting services to utilities, state agencies, municipalities, private industry and non-profit organizations. Prior to December 30, 2011, the energy efficiency and sustainability services were aggregated into the Engineering Services segment. Given the manner in which the chief operating decision maker reviews financial results and allocates resources, these services now comprise a separate reporting segment. 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 included in the Company's 2013 Annual Report on Form 10-K filed on March 25, 2014. There were no intersegment sales in the three months ended March 28, 2014. 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

Financial information with respect to the reportable segments as of and for the fiscal three months ended March 28, 2014 and for the fiscal three months ended March 29, 2013 is as follows:

	Engineering Services	Energy Efficiency Services	Public Finance Services	Homeland Security Services	Unallocated Corporate	Intersegment	Consolidated Total
Fiscal Three Months Ended March 28, 2014							
Contract revenue	\$ 8,892,000	\$ 10,359,000	\$ 2,490,000	\$ 945,000	\$	\$	\$ 22,686,000
Segment income before income taxes	529,000	528,000	237,000	65,000			1,359,000
Net income	514,000	507,000	231,000	63,000			1,315,000
Segment assets(1)	9,209,000	10,150,000	3,221,000	1,465,000	40,512,000	(23,130,000)	41,427,000
Fiscal Three Months Ended March 29, 2013							
Contract revenue	\$ 8,225,000	\$ 9,941,000	\$ 2,271,000	\$ 948,000	\$	\$	\$ 21,385,000
Segment income before income taxes	71,000	294,000	67,000	16,000			448,000
Net income	63,000	258,000	63,000	15,000			399,000
Segment assets(1)	8,565,000	11,711,000	3,509,000	1,112,000	37,850,000	(23,129,000)	39,618,000

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

9. 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

Edgar Filing: Willdan Group, Inc. - Form 10-Q

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.

Table of Contents

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the financial statements included elsewhere in this Quarterly Report and the audited financial statements for the year ended December 27, 2013, included in our Annual Report on Form 10-K (File No. 001-33076). This Quarterly Report contains, in addition to unaudited historical information, forward-looking statements, which involve risk and uncertainties. The words believe, expect, estimate, may, will, could, plan, or continue and similar expressions are intended to identify forward-looking statements. Our actual results could differ significantly from the results discussed in such forward-looking statements. Factors that could cause or contribute to such differences in results and outcomes include, without limitation, those discussed under the headings Item 1A. Risk Factors in our 2013 Annual Report on Form 10-K. Readers are urged not to place undue reliance on these forward-looking statements, which speak only as of the date of this Quarterly Report on Form 10-Q. We undertake no obligation to (and we expressly disclaim any obligation to) revise or update any forward-looking statement, whether as a result of new information, subsequent events, or otherwise (except as may be required by law), in order to reflect any event or circumstance which may arise after the date of this Quarterly Report on Form 10-Q.

Overview

We are a provider of 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 March 28, 2014, we had a staff of 577 which includes licensed engineers and other professionals. Historically, our clients have primarily been public agencies in communities with populations ranging from 10,000 to 300,000 people. We believe communities of this size are underserved by large outsourcing companies that tend to focus on securing large federal and state projects, as well as projects for the private sector. Since fiscal 2008, we have begun to provide increased services to public and private utilities that service major metropolitan communities and commercial and industrial firms, particularly in connection with the growth of our energy efficiency and sustainability services. We seek to establish close working relationships with our clients and expand the breadth and depth of the services we provide to them over time.

Edgar Filing: Willdan Group, Inc. - Form 10-Q

While we currently serve communities throughout the country, our business with public agencies is concentrated in California and Arizona. We provide services to approximately 57% of the 482 cities and approximately 72% of the 58 counties in California. We also serve special districts, school districts, a range of public agencies and private industry. Our business with public and private utilities is concentrated in California and New York.

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

Engineering Services. Our Engineering Services segment includes the operations of our subsidiaries, Willdan Engineering, Willdan Infrastructure and Public Agency Resources (PARs). Willdan Engineering provides civil engineering-related and city planning services to our clients. PARs primarily provides staffing to Willdan Engineering. Contract revenue for the Engineering Services segment represented approximately 39.2% and 38.5% of our consolidated contract revenue for the three months ended March 28, 2014 and March 29, 2013, respectively.

Table of Contents

Energy Efficiency Services. Our Energy Efficiency Services segment consists of the business of our subsidiary, Willdan Energy Solutions, which offers energy efficiency and sustainability consulting services to utilities, public agencies and private industry. This segment is currently our largest segment based on contract revenue, representing approximately 45.7% and 46.5% of our consolidated contract revenue for the three months ended March 28, 2014 and March 29, 2013, respectively.

Public Finance Services. Our Public Finance Services segment consists of the business of our subsidiary, Willdan Financial Services, which offers economic and financial consulting services to public agencies. Contract revenue for the Public Finance Services segment represented approximately 11% and 10.6% of our consolidated contract revenue for the three months ended March 28, 2014 and March 29, 2013, respectively.

Homeland Security Services. Our Homeland Security Services segment consists of the business of our subsidiary, Willdan Homeland Solutions, which offers national preparedness and interoperability services and communications and technology solutions. Contract revenue for our Homeland Security Services segment represented approximately 4.2% and 4.4% of our consolidated contract revenue for the three months ended March 28, 2014 and March 29, 2013, respectively.

Recent Developments

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

Components of Income and Expense

Contract Revenue

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

Edgar Filing: Willdan Group, Inc. - Form 10-Q

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

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

Table of Contents

Direct Costs of Contract Revenue

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

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

General and Administrative Expenses

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

Critical Accounting Policies

This discussion and analysis of financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with generally accepted accounting principles in the U.S., or GAAP. To prepare these financial statements in conformity with GAAP, we must make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amount of revenue and expenses in the reporting period. Our actual results may differ from these estimates. We have provided a summary of our significant accounting policies in Note 2 to our consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 27, 2013. 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.

Table of Contents

For further information on the types of contracts under which we perform our services, see Management's Discussion and Analysis of Financial Condition and Results of Operations Components of Income and Expense Contract Revenue elsewhere in this report.

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.

Statement of Operations Data	Fiscal Three Months Ended	
	March 28, 2014	March 29, 2013
Contract revenue	100.0%	100.0%
Direct costs of contract revenue (exclusive of depreciation and amortization shown separately below):		
Salaries and wages	27.3	27.3
Subconsultant services and other direct costs	30.8	29.0
Total direct costs of contract revenue	58.2	56.3
General and administrative expenses:		
Salaries and wages, payroll taxes, employee benefits	21.7	25.9
Facilities and facility related	4.7	5.6
Stock-based compensation	0.2	0.2
Lease abandonment, net		0.1
Depreciation and amortization	0.5	0.7
Other	9.0	9.1
Total general and administrative expenses	36.0	41.6
Income from operations	5.8	2.1
Other income (expense):		
Interest income		
Interest expense		(0.1)
Other, net	0.2	0.1
Total other income, net	0.2	
Income before income taxes	6.0	2.1
Income tax expense	0.2	0.2
Net income	5.8%	1.9%

Three Months Ended March 28, 2014 Compared to Three Months Ended March 29, 2013

Contract revenue. Our contract revenue was \$22.7 million for the three months ended March 28, 2014, with \$8.9 million attributable to the Engineering Services segment, \$10.4 million attributable to the Energy Efficiency Services segment, \$2.5 million attributable to the Public Finance Services segment, and \$0.9 million attributable to the Homeland Security Services segment. Consolidated contract revenue increased \$1.3 million, or 6.1%, to \$22.7 million for the three months ended March 28, 2014 from \$21.4 million for the three months ended March 29, 2013. This increase was due primarily to an increase of \$0.7 million, or 8.1%, in contract revenue of the Engineering Services segment as a result of the increase in demand for the building and safety, and construction management services of our subsidiary Willdan Engineering. Contract revenue for the Energy Efficiency Services segment increased \$0.4 million, or 4.2%, to \$10.4 million for the three months ended March 28, 2014 from \$9.9 million for the three months ended March 29, 2013. Contract revenue for the Public Finance Services segment remained flat for the three months ended March 28, 2014 as compared to the three months ended March 29, 2013. Contract revenue for the Homeland Security Services segment decreased slightly to \$945,000 for the three months ended March 28, 2014 from \$948,000 for the three months ended March 29, 2013.

Edgar Filing: Willdan Group, Inc. - Form 10-Q

Contract revenue for the Energy Efficiency Services segment increased primarily as a result of an increase in the direct installation of energy efficiency measures from the energy efficiency audits in New York and California. Contract revenue for the Engineering Services segment increased primarily due to greater demand for our city engineering services in northern California.

Table of Contents

Direct costs of contract revenue. Direct costs of contract revenue were \$13.2 million for the three months ended March 28, 2014, with \$4.8 million attributable to the Engineering Services segment, \$6.8 million attributable to the Energy Efficiency Services segment, \$1.0 million attributable to the Public Finance Services segment, and \$0.6 million attributable to the Homeland Security Services segment. Overall, direct costs increased by \$1.2 million, or 9.7%, to \$13.2 million for the three months ended March 28, 2014 from \$12.0 million for the three months ended March 29, 2013. This increase is primarily attributable to increases in direct costs within our Engineering Services, Energy Efficiency Services and Public Finance Services segments of \$0.5 million, or 11.4% and \$0.6 million, or 9.3%, and \$0.1 million, or 14.2%, respectively. Direct costs of contract revenue in our Homeland Security Services segment remained flat.

Direct costs increased as a result of increases in subconsultant services and other direct costs of \$0.8 million and an increase in salaries and wages of \$0.4 million. Within direct costs of contract revenue, salaries and wages remained flat at 27.3% of contract revenue for the three months ended March 28, 2014 as compared to the three months ended March 29, 2013 and subconsultant services and other direct costs increased to 30.8% of contract revenue for the three months ended March 28, 2014 from 29.0% of contract revenue for the three months ended March 29, 2013. 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.

General and administrative expenses. General and administrative expenses decreased by \$0.7 million, or 7.9%, to \$8.2 million for the three months ended March 28, 2014 from \$8.9 million for the three months ended March 29, 2013. This was due primarily to decreases of \$0.4 million, \$0.2 million and \$0.1 million, in general and administrative expenses of the Energy Efficiency Services, Engineering Services, and Public Finance Services, segments, respectively. General and administrative expenses in our Homeland Security Services Segment and our unallocated corporate expenses both remained flat. General and administrative expenses as a percentage of contract revenue decreased to 36.0% for the three months ended March 28, 2014 as compared to 41.6% for the three months ended March 29, 2013.

Of the \$0.7 million decrease in general and administrative expenses, approximately \$0.6 million relates to decreases in salaries and wages, payroll taxes and employee benefits. The decrease in employee related costs primarily resulted from decreased headcount within our corporate offices. Facilities and facility related expenses decreased by \$0.1 million. Depreciation and amortization expenses decreased by \$0.1 million and this increase was offset by a \$0.1 million increase in other general and administrative expenses.

Income from operations. As a result of the above factors, our operating income was \$1.3 million for the three months ended March 28, 2014 as compared to operating income of \$0.5 million for the three months ended March 29, 2013. Income from operations as a percentage of contract revenue was 5.8% for the three months ended March 28, 2014, as compared to 2.1% in the prior year period.

Other income (expense). Other income (expense), net was \$47,000 for the three months ended March 28, 2014, as compared to \$(9,000) for the three months ended March 29, 2013.

Income tax expense. Income tax expense was \$44,000 for the three months ended March 28, 2014, as compared to \$49,000 for the three months ended March 29, 2013.

Edgar Filing: Willdan Group, Inc. - Form 10-Q

Net income. As a result of the above factors, our net income was \$1.3 million for the three months ended March 28, 2014, as compared to a net income of \$0.4 million for the three months ended March 29, 2013.

Liquidity and Capital Resources

We had \$12.7 million of cash and cash equivalents as of March 28, 2014. Our primary sources of liquidity are cash generated from operations and our revolving line of credit with BMO Harris Bank, N.A., which matures on March 24, 2016. In connection with the new credit facility entered into during the first fiscal quarter of 2014, no cash amounts are restricted as of March 28, 2014 compared to \$5.0 million as of December 27, 2013. While we believe that our cash and cash equivalents on hand, cash generated by operating activities and funds available under our line of credit will be sufficient to finance our operating activities for at least the next 12 months, if we do experience a cash flow shortage or violate the current terms of our credit agreement, we may have difficulty obtaining additional funds on favorable terms, if at all, to meet our obligations as they come due in the normal course of business.

Table of Contents

Cash flows from operating activities

Cash flows provided by operating activities were \$4.7 million for the three months ended March 28, 2014, as compared to \$0.7 million for the three months ended March 29, 2013. The cash flows provided by operating activities in the three months ended March 28, 2014 were comparatively higher than the prior year period due primarily to a higher net income, an increase in accrued liabilities, an excess of outstanding checks over bank balance and a smaller decrease in accounts payable, partially offset by a smaller decrease in accounts receivable.

Cash flows from investing activities

Cash flows used in investing activities remained relatively flat for the three months ended March 28, 2014 as compared to the three months ended March 29, 2013. Cash used in investing activities primarily reflects purchases of equipment and leasehold improvements.

Cash flows from financing activities

Cash flows used in financing activities were \$0.2 million for the three months ended March 28, 2014 compared to cash flows used in financing activities of \$0.2 million for the three months ended March 29, 2013. The cash flows used in financing activities for the three months ended March 28, 2014 were primarily attributable to proceeds from stock option exercises, partially offset by payments on notes payable. Cash used in financing activities for the three months ended March 29, 2013 was primarily attributable to payments on notes payable.

Outstanding indebtedness

Revolving Credit Facility: On March 20, 2014, we amended our credit agreement with Wells Fargo Bank N.A. to reduce the size of the facility from \$5.0 million to \$75,905 and extended its maturity from April 1, 2014 to June 1, 2014. As of March 28, 2014, there were no outstanding borrowings under this agreement as and we were in compliance with each of our covenants under the Wells Fargo credit agreement. We amended the Wells Fargo credit facility in connection with entering into a new credit facility with BMO Harris Bank, N.A. (**BMO**).

We currently have a revolving credit agreement with BMO Harris Bank, N.A. (**BMO**), which was entered into on March 24, 2014 and became effective as of March 24, 2014. Our credit agreement with BMO provides for a revolving line of credit of up to \$7.5 million, subject to a borrowing base calculation, including a \$5.0 million standby letter of credit sub-facility and a \$2.5 million secured term loan. All borrowings under the revolving line of credit are limited to a borrowing base equal to roughly 75% of the eligible accounts receivable plus 50% of the lower of cost or market value of our eligible inventory, each term as defined in the credit agreement. As of March 28, 2014, \$6.9 million was available for borrowing and there were no outstanding borrowings under the revolving line of credit. The line of credit matures on March 24, 2016. Loans made under the revolving line of credit will accrue interest at either (i) a floating rate equal to 0.75% above the base rate in effect from time to time or (ii) a floating rate equal to 1.75% above LIBOR, with the interest rate to be selected by us.

Edgar Filing: Willdan Group, Inc. - Form 10-Q

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

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

The credit agreement also includes customary negative covenants, including (i) restrictions on the incurrence of additional indebtedness by us or the Guarantors other than indebtedness existing on the date of the credit agreement, (ii) restrictions on the total consideration for all permitted acquisitions (including potential future earn-out obligations) shall not exceed \$2.5 million during the term of the agreement and the total consideration for any individual permitted acquisition shall not exceed \$750,000 without BMO's consent, and (iii) limitations on asset

Table of Contents

sales, mergers and acquisitions. In addition, the credit agreement includes customary events of default. Upon the occurrence of an event of default, the interest rate may be increased by 2.0%, BMO has the option to make any loans then outstanding under the credit agreement immediately due and payable, and BMO is no longer obligated to extend further credit to us under the credit agreement.

Loans made under the Wells Fargo credit facility during fiscal year 2013 accrued interest at a floating rate of LIBOR plus 2.25%. We also were required to pay a 0.25% fee on unused commitments and customary fees on any letters of credit drawn under the facility. There were no outstanding borrowings under the Wells Fargo credit facility as of March 28, 2014 and we were in compliance with each of our covenants under the Wells Fargo credit agreement as of March 28, 2014.

Insurance Premiums: 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 27, 2013, we elected to finance our insurance premiums for the upcoming fiscal year.

Contractual obligations

We had no material changes in commitments for long-term debt obligations, operating lease obligations or capital lease obligations as of March 28, 2014, as compared to those disclosed in our table of contractual obligations included in our Annual Report on Form 10-K for the year ended December 27, 2013.

Off-Balance Sheet Arrangements

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

Recent Accounting Pronouncements

As of March 28, 2014, the impact of recent accounting pronouncements on the Company is not expected to be material to the consolidated financial statements.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

Edgar Filing: Willdan Group, Inc. - Form 10-Q

In addition to current and historical information, this report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements relate to our future operations, prospects, potential products, services, developments and business strategies. These statements can, in some cases, be identified by the use of words like may, will, should, could, would, intend, plan, anticipate, believe, estimate, predict, project, potential, or continue or the negative of such terms or other comparable 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 available cash and cash equivalents being sufficient to meet normal operating requirements.

Table of Contents

These statements involve certain known and unknown risks and uncertainties that could cause our actual results to differ materially from those expressed or implied in our forward-looking statements. Such risks and uncertainties include, among others, those listed in this report. The forward-looking statements in this report, as well as subsequent written and oral forward-looking statements attributable to us or persons acting on our behalf, are hereby expressly qualified in their entirety by the cautionary statements in this report, including the risk factors in our Annual Report on Form 10-K for the year ended December 27, 2013. We do not intend, and undertake no obligation, to update any of our forward-looking statements after the date of this report to reflect actual results or future events or circumstances.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

We had cash and cash equivalents of \$12.7 million as of March 28, 2014. This amount includes \$5.4 million invested in the Wells Fargo Stage Coach Sweep Investment Account, \$1.0 million invested in the Wells Fargo Money Market Mutual Fund and \$5.0 million invested in the Wells Fargo Collateral Investment Account. The balance of \$1.3 million represents cash on hand in business checking accounts. Although these investments are subject to variable interest rates, we do not believe we are subject to significant market risk for these short-term investments.

We do not engage in trading activities and do not participate in foreign currency transactions or utilize derivative financial instruments. As of March 28, 2014, we had no outstanding debt under our revolving credit facility that bears interest at variable rates.

Item 4. Controls and Procedures

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

In connection with the preparation of this Quarterly 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 March 28, 2014. 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 March 28, 2014. 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.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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

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.

Item 1A. Risk Factors

There are no material changes to the risk factors set forth in Item 1A. Risk Factors, of our Annual Report on Form 10-K for the year ended December 27, 2013.

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

None.

Item 3. Defaults upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Table of Contents

Item 6. Exhibits

Exhibit Number	Exhibit Description
3.1	First Amended and Restated Certificate of Incorporation of Willdan Group, Inc., including amendments thereto(1)
3.2	Amended and Restated Bylaws of Willdan Group, Inc.(2)
4.1	Specimen Stock Certificate for shares of the Registrant's Common Stock(1)
4.2	The Company agrees to furnish to the Securities and Exchange Commission upon request a copy of each instrument with respect to issues of long-term debt of Willdan Group, Inc. and its subsidiaries, the authorized principal amount of which does not exceed 10% of the consolidated assets of Willdan Group, Inc. and its subsidiaries.
10.1	Credit Agreement, dated March 24, 2014, between Willdan Group, Inc. and BMO Harris Bank, National Association(3)
10.2	Form of Delayed Draw Term Note for \$2,500,000, dated as of March 24, 2014, by Willdan Group, Inc. in favor of BMO Harris Bank, N.A. (included as Exhibit C-1 to the Credit Agreement with BMO Harris Bank, N.A., filed as Exhibit 10.1)(3)
10.3	Revolving Line of Credit Note for \$7,500,000, dated as of March 24, 2014, by Willdan Group, Inc. in favor of BMO Harris Bank, National Association (included as Exhibit C-2 to the Credit Agreement with BMO Harris Bank, N.A., filed as Exhibit 10.1)(3)
10.4	^ Security Agreement, dated as of March 24, 2014, between Willdan Group, Inc. and BMO Harris Bank, National Association(3)
31.1	* Certification of Chief Executive Officer pursuant to Rule 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to § 302 of the Sarbanes-Oxley Act of 2002*
31.2	* Certification of Chief Financial Officer pursuant to Rule 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to § 302 of the Sarbanes-Oxley Act of 2002*
32.1	* Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002
101	Interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Condensed Consolidated Balance Sheets as of March 28, 2014 and December 27, 2013; (ii) the Condensed Consolidated Statements of Operations for the three months ended March 28, 2014 and March 29, 2013; (iii) the Condensed Consolidated Statement of Cash Flows for the three months ended March 28, 2014 and March 29, 2013 and (iv) the Notes to the Condensed Consolidated Financial Statements.

* Filed herewith.

^ Indicates that certain information contained herein has been omitted and confidentially submitted separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions

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

(2) Incorporated by reference to Willdan Group, Inc.'s Quarterly Report on Form 10-Q, filed with the Securities and Exchange Commission on August 13, 2009.

Edgar Filing: Willdan Group, Inc. - Form 10-Q

(3) Incorporated by reference to Willdan Group, Inc.'s Annual Report on Form 10-K, filed with the Securities and Exchange Commission on March 25, 2014.

[Table of Contents](#)

SIGNATURE

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

WILLDAN GROUP, INC.

By: */s/ Stacy B. McLaughlin*
Stacy B. McLaughlin
Vice President and Chief Financial Officer
Date: May 8, 2014