Willdan Group, Inc.
Form 10-Q
August 04, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended July 1, 2016

OR

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	14-195112

(State or other Jurisdiction of Incorporation or Organization)	(IRS Employer Identification No.)
2401 East Katella Avenue, Suite 300 Anaheim, California	92806
(Address of principal executive offices)	(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 August 3, 2016, there were 8,298,866 shares of common stock, $0.01 par value per share, of Willdan Group, Inc. issued and outstanding.

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WILLDAN GROUP, INC.

FORM 10-Q QUARTERLY REPORT

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

WILLDAN GROUP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(unaudited)

	July 1, 2016	January 1, 2016
Assets		
Current assets:		
Cash and cash equivalents	$ 10,468,000	$ 16,487,000
Accounts receivable, net of allowance for doubtful accounts of $1,017,000 and $760,000 at July 1, 2016 and January 1, 2016, respectively	29,603,000	17,929,000
Costs and estimated earnings in excess of billings on uncompleted contracts	25,443,000	13,840,000
Other receivables	997,000	177,000
Prepaid expenses and other current assets	2,300,000	2,082,000
Total current assets	68,811,000	50,515,000
Equipment and leasehold improvements, net	4,239,000	3,684,000
Goodwill	25,288,000	16,097,000
Other intangible assets, net	3,660,000	1,545,000
Other assets	426,000	504,000
Total assets	$ 102,424,000	$ 72,345,000
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 15,483,000	$ 5,561,000
Accrued liabilities	17,314,000	10,334,000
Contingent consideration payable	2,782,000	1,420,000
Billings in excess of costs and estimated earnings on uncompleted contracts	9,627,000	6,218,000
Notes payable	5,549,000	4,039,000
Capital lease obligations	254,000	444,000
Total current liabilities	51,009,000	28,016,000
Contingent consideration payable	1,926,000	4,305,000
Notes payable	2,045,000	1,085,000
Capital lease obligations, less current portion	167,000	255,000
Deferred lease obligations	747,000	737,000
Deferred income taxes, net	1,790,000	331,000
Total liabilities	57,684,000	34,729,000

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; 8,283,000 and 7,904,000 shares issued and outstanding at July 1, 2016 and January 1, 2016, respectively	83,000	79,000
Additional paid-in capital	41,229,000	38,377,000
Retained earnings (accumulated deficit)	3,428,000	(840,000)
Total stockholders’ equity	44,740,000	37,616,000
Total liabilities and stockholders’ equity	$ 102,424,000	$ 72,345,000

See accompanying notes to condensed consolidated financial statements.

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WILLDAN GROUP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended		Six Months Ended	
	July 1, 2016	July 3, 2015	July 1, 2016	July 3, 2015
Contract revenue	$ 58,941,000	$ 36,773,000	$ 92,856,000	$ 70,070,000
Direct costs of contract revenue (exclusive of depreciation and amortization shown separately below):				
Salaries and wages	9,798,000	8,210,000	18,332,000	16,195,000
Subcontractor services and other direct costs	31,294,000	14,685,000	43,027,000	26,506,000
Total direct costs of contract revenue	41,092,000	22,895,000	61,359,000	42,701,000
General and administrative expenses:				
Salaries and wages, payroll taxes and employee benefits	8,449,000	6,282,000	15,210,000	12,923,000
Facilities and facility related	829,000	948,000	1,939,000	1,996,000
Stock-based compensation	257,000	154,000	464,000	278,000
Depreciation and amortization	956,000	498,000	1,566,000	927,000
Other	3,394,000	3,192,000	6,516,000	5,812,000
Total general and administrative expenses	13,885,000	11,074,000	25,695,000	21,936,000
Income from operations	3,964,000	2,804,000	5,802,000	5,433,000
Other (expense) income:				
Interest expense	(44,000)	(58,000)	(94,000)	(108,000)
Other, net	1,000	(36,000)	2,000	18,000
Total other expense, net	(43,000)	(94,000)	(92,000)	(90,000)
Income before income taxes	3,921,000	2,710,000	5,710,000	5,343,000
Income tax expense	731,000	1,108,000	1,442,000	2,246,000
Net income	$ 3,190,000	$ 1,602,000	$ 4,268,000	$ 3,097,000
Earnings per share:				
Basic	$ 0.39	$ 0.20	$ 0.53	$ 0.40
Diluted	$ 0.37	$ 0.20	$ 0.51	$ 0.38
Weighted-average shares outstanding:				
Basic	8,207,000	7,824,000	8,102,000	7,795,000
Diluted	8,530,000	8,136,000	8,395,000	8,106,000

See accompanying notes to condensed consolidated financial statements.

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WILLDAN GROUP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

(Unaudited)

	Common Stock		Additional Paid-in	Retained Earnings	
	Shares	Amount	Capital	(Accumulated Deficit)	Total
Balance at January 1, 2016	7,904,000	79,000	38,377,000	(840,000)	37,616,000
Shares of common stock issued in connection with employee stock purchase plan	14,000	—	113,000	—	113,000
Shares of common stock issued in connection with incentive stock plan	109,000	2,000	47,000	—	49,000
Stock issued to acquire business	256,000	2,000	2,228,000	—	2,230,000
Stock-based compensation expense	—	—	464,000	—	464,000
Net income	—	—	—	4,268,000	4,268,000
Balance at July 1, 2016	8,283,000	$ 83,000	$ 41,229,000	$ 3,428,000	$ 44,740,000

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WILLDAN GROUP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Six Months Ended	
	July 1, 2016	July 3, 2015
Cash flows from operating activities:		
Net income	$ 4,268,000	$ 3,097,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,566,000	921,000
Deferred income taxes	856,000	940,000
Loss on sale/disposal of equipment	3,000	3,000
Provision for doubtful accounts	61,000	440,000
Stock-based compensation	464,000	278,000
Accretion of contingent consideration	110,000	—
Changes in operating assets and liabilities, net of effects from business acquisitions:		
Accounts receivable	2,157,000	(5,598,000)
Costs and estimated earnings in excess of billings on uncompleted contracts	(10,512,000)	(4,269,000)
Other receivables	64,000	(115,000)
Prepaid expenses and other current assets	(218,000)	810,000
Other assets	112,000	77,000
Accounts payable	(1,706,000)	3,789,000
Accrued liabilities	6,592,000	217,000
Billings in excess of costs and estimated earnings on uncompleted contracts	3,409,000	2,158,000
Deferred lease obligations	10,000	85,000
Net cash provided by operating activities	7,236,000	2,833,000
Cash flows from investing activities:		
Purchase of equipment and leasehold improvements	(989,000)	(1,329,000)
Cash paid for acquisitions, net of cash acquired	(8,857,000)	(8,168,000)
Net cash used in investing activities	(9,846,000)	(9,497,000)
Cash flows from financing activities:		
Payments on contingent consideration	(1,127,000)	—
Payments on notes payable	(2,099,000)	(1,131,000)
Proceeds from notes payable	—	2,000,000
Principal payments on capital lease obligations	(345,000)	(107,000)
Proceeds from stock option exercise	49,000	347,000
Proceeds from sales of common stock under employee stock purchase plan	113,000	78,000
Net cash (used in) provided by financing activities	(3,409,000)	1,187,000
Net decrease in cash and cash equivalents	(6,019,000)	(5,477,000)
Cash and cash equivalents at beginning of period	16,487,000	18,173,000
Cash and cash equivalents at end of period	$ 10,468,000	$ 12,696,000

Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	$ 94,000	$ 104,000
Income taxes	1,134,000	367,000
Supplemental disclosures of noncash investing and financing activities:		
Issuance of notes payable related to business acquisitions	$ 4,569,000	4,250,000
Issuance of common stock related to business acquisitions	2,230,000	1,485,000
Contingent consideration related to business acquisitions	—	6,110,000
Other receivable for working capital adjustment	884,000	—
Equipment acquired under capital leases	73,000	113,000

See accompanying notes to condensed consolidated financial statements.

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WILLDAN GROUP, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

July 1, 2016
(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. The Company operates and reports its quarterly financial results based on the 13-week period ending on the Friday closest to March 31, June 30 and September 30 and the 13 or 14-week period ending on the Friday closest to December 31, as applicable, with consideration of business days. 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 condensed consolidated financial statements should be read in conjunction with Willdan Group, Inc.'s 2015 Annual Report on Form 10-K filed on March 15, 2016.

Nature of Business

Willdan Group, Inc. and subsidiaries ("Willdan Group" or the "Company") is a provider of professional technical and consulting services, including comprehensive energy efficiency solutions, for utilities, private industry, and public agencies at all levels of government, primarily in California and New York. The Company also has operations in Arizona, Colorado, Florida, Illinois, Kansas, Oregon, Texas, Washington and Washington, D.C. The Company enables its clients 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 energy efficiency, engineering and planning, 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 Energy Solutions, Willdan Engineering, Public Agency Resources, Willdan Financial Services and Willdan Homeland Solutions and their respective subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

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Accounting for Contracts

The Company enters into contracts with its clients that contain various types of pricing provisions, including fixed price, time-and-materials, unit-based and service related provisions. The following table reflects the Company's four reportable segments and the types of contracts that each most commonly enters into for revenue generating activities.

Segment	Types of Contract (Revenue Recognition Method)
Energy Efficiency Services	Unit-based and time-and-materials (percentage-of-completion method)
Engineering Services	Time-and-materials, unit-based and fixed price (percentage-of-completion method)
Public Finance Services	Service related contracts (proportional performance method)
Homeland Security Services	Service related contracts (proportional performance method)

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. The Company recognizes revenues for time-and-material contracts based upon the actual hours incurred during a reporting period at contractually agreed upon rates per hour and also includes in revenue all reimbursable costs incurred during a reporting period for which the Company has risk or on which the fee was based at the time of bid or negotiation. Certain of the Company's time-and-material contracts are subject to maximum contract values and, accordingly, revenue under these contracts is generally recognized under the percentage-of-completion method, consistent with fixed priced contracts. Revenue on contracts that are not subject to maximum contract values is recognized based on the actual number of hours the Company spends on the projects plus any actual out-of-pocket costs of materials and other direct incidental expenditures that the Company incurs on the projects. In addition, revenue from overhead percentage recoveries and earned fees are included in revenue. Revenue is recognized as the related costs are incurred. For unit-based contracts, the Company recognizes the contract price of units of a basic production product as revenue when the production product is delivered during a period. 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 condensed 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, for contracts that are recognized under the percentage-of-completion method, 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.

The Company considers whether its contracts require combining for revenue recognition purposes. If certain criteria are met, revenues for related contracts may be recognized on a combined basis. With respect to the Company's contracts, it is rare that such criteria are present. The Company may enter into certain contracts which include separate phases or elements. If each phase or element is negotiated separately based on the technical resources required and/or the supply and demand for the services being provided, the Company evaluates if the contracts should be segmented. If certain criteria are met, the contracts would be segmented which could result in revenues being assigned to the different elements or phases with different rates of profitability based on the relative value of each element or phase to the estimated total contract revenue.

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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. The Company did not have material revisions in estimates for contracts recognized using the percentage-of-completion method for any of the periods presented in the accompanying condensed consolidated financial statements.

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. Award and incentive fees are recorded when they are fixed and determinable and consider customer contract terms.

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.

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 July 1, 2016 and January 1, 2016, the Company had retained accounts receivable of approximately $5.1 million and $748,000, respectively.

Goodwill

Goodwill represents the excess of costs over the 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.

The Company tests goodwill at least annually for possible impairment. The Company completes annual testing of goodwill as of the last day of the first month of its fourth fiscal quarter each year to evaluate possible impairment. In addition to the annual test, the Company regularly evaluates whether events and circumstances have occurred that may indicate a potential impairment of goodwill. As of July 1, 2016, the Company had $25.3 million of goodwill, which primarily relates to its Energy Efficiency Services reporting segment and the acquisition of the assets of Genesys, and the acquisitions of Abacus Resource Management Company (“Abacus”) and 360 Energy Engineers, LLC (“360 Energy”)

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and also relates to its Public Finance Services reporting segment and the acquisition of Economists.com, LLC (“Economists, LLC”).

The Company tests goodwill for impairment at the level of its reporting units, which are components of its operating segments. The process of testing goodwill for impairment involves an optional qualitative assessment on goodwill impairment of its reporting units to determine whether a quantitative assessment is necessary. If a quantitative assessment is warranted, the Company will then determine the fair value of the applicable reporting units. To estimate the fair value of its reporting units, the Company uses both an income approach based on management’s estimates of future cash flows and other market data and a market approach based upon multiples of EBITDA earned by similar public companies.

Once the fair value is determined, the Company then compares 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, the Company performs 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 future revenue, profitability and cash flows, operational plans and 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 the reporting units change, any goodwill may be deemed to be impaired, and an impairment charge could result in a material adverse effect on the financial position or results of operations.

Fair Value of Financial Instruments

The Company’s financial instruments consist primarily of cash, cash equivalents, accounts receivable, costs and estimated earnings in excess of billings on uncompleted contracts, other receivables, prepaid expenses and other current assets, accounts payable, accrued liabilities, contingent consideration 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 and contingent consideration 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.

Liquidity

The Company had $10.5 million of cash and cash equivalents as of July 1, 2016. The Company's primary source of liquidity is cash generated from operations. The Company also has a revolving line of credit with BMO Harris Bank, National Association ("BMO"), which matures on March 24, 2017 (see Note 7). The Company believes that its cash and cash equivalents on hand, cash generated by operating activities and funds available under its line of credit (if needed and if available) will be sufficient to finance its operating activities for at least the next 12 months.

Reclassifications

Certain prior year amounts have been reclassified for consistency with the current period presentation. These reclassifications had no effect on the reported results of operations.

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Recent Accounting Pronouncements

Revenue Recognition

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers ("ASU 2014-09"), which clarifies existing accounting literature relating to how and when revenue is recognized by an entity. ASU 2014-09 affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets and supersedes the revenue recognition requirements in Topic 605, Revenue Recognition, and most industry-specific guidance. ASU 2014-09 requires an entity to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. In doing so, an entity will need to exercise a greater degree of judgment and make more estimates than under the current guidance. These may include identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price, and allocating the transaction price to each separate performance obligation. ASU 2014-09 also supersedes some cost guidance included in Subtopic 605-35, Revenue Recognition-Construction-Type and Production-Type Contracts. In August 2015, the FASB issued Update 2015-14, which deferred the implementation of ASU 2014-09 for one year from the initial effective date. ASU 2014-09 is effective for public companies for interim and annual reporting periods beginning after December 15, 2017, and is to be applied either retrospectively or using the cumulative effect transition method, with early adoption not permitted. The Company has not yet selected a transition method, and is currently evaluating the impact the adoption of ASU 2014-09 will have on its consolidated financial statements and related disclosures.

Consolidations

In February 2015, the FASB issued Update 2015-02, which amends the consolidation requirements in Accounting Standards Codification 810 and changes the consolidation analysis required under GAAP. The standard became effective for the Company on January 2, 2016. The impact of the new standard on the Company's consolidated financial statements was not material.

Leases

In February 2016, the FASB issued ASU No. 2016-02, "Leases" (Topic 842). The FASB issued this update to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The updated guidance is effective for annual periods beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption of the update is permitted. The Company is evaluating the impact of the adoption of this update on its consolidated financial statements and related disclosures.

Stock Compensation

On March 30, 2016, the FASB issued ASU No. 2016-09, "Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting," which amends the current stock compensation guidance. The amendments simplify the accounting for the taxes related to stock based compensation, including

adjustments to how excess tax benefits and a company's payments for tax withholdings should be classified. The standard is effective for fiscal periods beginning after December 15, 2016, with early adoption permitted. The Company has elected to early adopt ASU 2016-09 on a prospective basis, which did not have a material impact for the quarter ended July 1, 2016.

Proposed Accounting Standards

A variety of proposed or otherwise potential accounting standards are currently being studied by standard-setting organizations and certain regulatory agencies. Because of the tentative and preliminary nature of such proposed

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standards, the Company has not yet determined the effect, if any, that the implementation of such proposed standards would have on its consolidated financial statements.

2.BUSINESS COMBINATIONS

On March 4, 2016, the Company and the Company's wholly-owned subsidiary, Willdan Energy Solutions ("WES") acquired substantially all of the assets of Genesys Engineering P.C. ("Genesys") and assumed certain specified liabilities of Genesys (collectively, the "Purchase") pursuant to an Asset Purchase and Merger Agreement, dated as of February 26, 2016 (the "Agreement"), by and among the Company, WES, WESGEN (as defined below), Genesys and Ronald W. Mineo ("Mineo") and Robert J. Braun ("Braun" and, together with Mineo, the "Genesys Shareholders"). On March 5, 2016, pursuant to the terms of the Agreement, WESGEN, Inc., a non-affiliated corporation ("WESGEN"), merged (the "Merger" and, together with the Purchase, the "Acquisition") with Genesys, with Genesys remaining as the surviving corporation. Genesys was acquired to strengthen our power engineering capability in the northeastern U.S., and also to increase client exposure and experience with universities.

Pursuant to the terms of the Agreement, WES or WESGEN, as applicable, paid the Genesys Shareholders an aggregate purchase price (the "Purchase Price") of approximately $14.8 million, including post-closing working capital and tax adjustments. The Purchase Price consisted of (i) $6.0 million in cash, paid at closing, and $2.9 million paid in cash after closing for working capital and tax adjustments, (ii) a $0.9 million receivable payable to WES for working capital adjustments, (iii) 255,808 shares of Common Stock, par value $0.01 per share, of the Company (the "Common Stock"), with a fair value of $2.2 million based on the volume-weighted average price of shares of the Common Stock for the ten trading days immediately prior to, but not including, February 26, 2016, and (iv) $4.6 million in cash, payable in twenty-four (24) equal monthly installments beginning on March 26, 2016 (the "Installment Payments"). Until the third anniversary of the Closing Date (the "Closing Date"), the Genesys Shareholders are prohibited from transferring or disposing of any Common Stock received in connection with the Acquisition.

The Agreement contains customary representations and warranties regarding the Company, WES, WESGEN, Genesys and the Genesys Shareholders, indemnification provisions and other provisions customary for transactions of this nature. Pursuant to the terms of the Agreement, the Company and WES also provided guarantees to the Genesys Shareholders which guarantee certain of WESGEN's and Genesys' obligations under the Agreement, including the Installment Payments.

The Company used cash on hand to pay the $8.9 million due to the Genesys Shareholders.

Genesys continues to be a professional corporation organized under the laws of the State of New York, wholly-owned by one or more licensed engineers. Pursuant to New York law, the Company does not own capital stock of Genesys. The Company has entered into an agreement with the post-Closing Date owners of Genesys pursuant to which such owners will be prohibited from selling, transferring or encumbering their ownership interest in Genesys without the Company's consent. Notwithstanding the Company's rights regarding the transfer of Genesys' stock, the Company does not have control over the professional decision making of Genesys. The Company has entered into an administrative services agreement with Genesys pursuant to which WES will provide Genesys with ongoing administrative, operational and other non-professional support services.

The acquisition was accounted for as business combinations in accordance with ASC 805. Under ASC 805, the Company recorded the acquired assets and assumed liabilities at their estimated fair value with the excess allocated to goodwill. Goodwill represents the value the Company expects to achieve through the operational synergies and the

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expansion of the Company into new markets. The Company estimates that the entire $9.2 million of goodwill resulting from the acquisition will be tax deductible. Consideration for the acquisition includes the following:

	Genesys
Cash paid	$ 8,857,000
Other receivable for working capital adjustment	(884,000)
Issuance of common stock	2,230,000
Deferred purchase price, payable in 24 monthly installments	4,569,000
Total consideration	$ 14,772,000

The following table summarizes the preliminary amounts for the acquired assets recorded at their estimated fair value as of the acquisition date:

	Genesys
Current assets	$ 14,985,000
Non-current assets	36,000
Cash	101,000
Property, plant and equipment	117,000
Liabilities	(12,726,000)
Customer relationships	835,000
Backlog	700,000
Tradename	673,000
Non-compete agreements	860,000
Goodwill	9,191,000
Net assets acquired	$ 14,772,000

As of July 1, 2016, the Company had not completed its final estimate of fair value of the assets acquired and liabilities assumed due to the timing of such transactions and incomplete information necessary to finalize such estimates of fair value. Accordingly, the Company has preliminarily estimated the fair values of the assets acquired and the liabilities assumed. The Company will finalize the fair value estimates within twelve months of the acquisition date.

The acquisition date fair value of the intangible assets were preliminarily estimated using comparable values ascribed in other recent transactions as well as taking into account Genesys' market position in their respective market. These assets are deemed to have a finite life.

The following unaudited pro forma financial information for the three and six months ended July 1, 2016 and July 3, 2015 assumes the acquisition of the assets of Genesys occurred on January 2, 2015 as follows:

	Three Months Ended		Six Months Ended	
	July 1,	July 3,	July 1,	July 3,
In thousands (except per share data)	2016	2015	2016	2015
Pro forma revenue	$ 58,941	$ 44,138	$ 101,668	$ 83,069
Pro forma income from operations	3,964	2,559	6,623	5,280
Pro forma net income	$ 3,190	$ 1,513	$ 4,792	$ 3,058

This pro forma supplemental information does not purport to be indicative of what the company's operating results would have been had these transactions occurred on January 2, 2015 and may not be indicative of future operating results.

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During the three and six months ended July 1, 2016, the acquisition of the assets of Genesys contributed $15.5 million and $19.4 million in revenue and $0.3 million and $0.4 million of income from operations, respectively.

Acquisition related costs of $165,000 were expensed as incurred in general and administrative expenses, of which $56,000 was recorded by the Company during the three and six month periods ended July 1, 2016.

3.GOODWILL AND OTHER INTANGIBLE ASSETS

As of July 1, 2016, the Company had $25.3 million of goodwill, which primarily relates to the Energy Efficiency Services reporting segment and the acquisition of the assets of Genesys and the acquisitions of Abacus and 360 Energy and also relates to the Public Finance Services reporting segment and the acquisition of Economists LLC. The changes in the carrying value of goodwill by reporting unit for the six months ended July 1, 2016 were as follows:

	January 1, 2016	Additions	July 1, 2016
Reporting Unit:			
Energy Efficiency Services	$ 15,348,000	$ 9,191,000	$ 24,539,000
Financial Services	749,000	—	749,000
	$ 16,097,000	$ 9,191,000	$ 25,288,000

The gross amounts and accumulated amortization of the Company’s acquired identifiable intangible assets with finite useful lives as of July 1, 2016 included in intangible assets, net in the accompanying condensed consolidated balance sheets, were as follows:

	July 1, 2016		January 1, 2016		
	Gross Amount	Accumulated Amortization	Gross Amount	Accumulated Amortization	Amortization Period (yrs)
Backlog	$ 1,048,000	$ 580,000	$ 348,000	$ 340,000	1.0
Tradename	1,722,000	591,000	1,049,000	329,000	2.5 - 3.5
Non-compete agreements	1,871,000	367,000	1,011,000	194,000	4.0
Customer relationships	835,000	278,000	—	—	1.0
	$ 5,476,000	$ 1,816,000	$ 2,408,000	$ 863,000	

The Company's amortization expense for acquired identifiable intangible assets with finite useful lives was $0.6 million and $1.0 million for the fiscal three and six months ended July 1, 2016, respectively as compared to $0.3 million

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and $0.6 million for the fiscal three and six months ended July 3, 2015. Estimated amortization expense for acquired identifiable intangible assets for the remainder of fiscal 2016 is $1.3 million and the succeeding years are as follows:

Fiscal year:	
2017	$ 1,215,000
2018	700,000
2019	417,000
2020	44,000
	$ 2,376,000

The purchase price allocation for Genesys as described in Note 2 is preliminary as of July 1, 2016. Accordingly, goodwill and intangible assets presented in this footnote will be updated should there be purchase price allocation adjustments as the valuation of assets acquired and liabilities assumed is finalized.

4.EARNINGS PER SHARE (EPS)

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

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

	Three months ended		Six months ended	
	July 1, 2016	July 3, 2015	July 1, 2016	July 3, 2015
Net income	$ 3,190,000	$ 1,602,000	$ 4,268,000	$ 3,097,000
Weighted-average common shares outstanding	8,207,000	7,824,000	8,102,000	7,795,000
Effect of dilutive stock options and restricted stock awards	323,000	312,000	293,000	311,000
Weighted-average common stock outstanding-diluted	8,530,000	8,136,000	8,395,000	8,106,000
Earnings per share:				
Basic	$ 0.39	$ 0.20	$ 0.53	$ 0.40
Diluted	$ 0.37	$ 0.20	$ 0.51	$ 0.38

For the three and six months ended July 1, 2016, 360,000 and 331,000 options were excluded from the calculation of dilutive potential common shares, respectively, as compared to 228,000 options for each of the same periods last year. These options were not included in the computation of dilutive potential common shares because the assumed proceeds per share exceeded the average market price per share for the 2016 and 2015 periods. Accordingly, the inclusion of these options would have been anti-dilutive.

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5.EQUIPMENT AND LEASEHOLD IMPROVEMENTS

Equipment and leasehold improvements consist of the following:

	July 1, 2016	January 1, 2016
Furniture and fixtures	$ 2,288,000	$ 2,270,000
Computer hardware and software	7,277,000	6,496,000
Leasehold improvements	1,088,000	1,072,000
Equipment under capital leases	826,000	1,266,000
Automobiles, trucks, and field equipment	1,323,000	984,000
	12,802,000	12,088,000
Accumulated depreciation and amortization	(8,563,000)	(8,404,000)
Equipment and leasehold improvements, net	$ 4,239,000	$ 3,684,000

6.ACCRUED LIABILITIES

Accrued liabilities consist of the following:

	July 1, 2016	January 1, 2016
Accrued bonuses	$ 1,424,000	$ 922,000
Accrued interest	—	4,000
Paid leave bank	2,053,000	1,710,000
Compensation and payroll taxes	1,668,000	1,494,000
Accrued legal	277,000	523,000
Accrued workers’ compensation insurance	50,000	268,000
Accrued rent	170,000	169,000
Employee withholdings	1,158,000	942,000
Client deposits	146,000	106,000
Unvouchered accounts payable	9,808,000	3,061,000
Other	560,000	1,135,000
Total accrued liabilities	$ 17,314,000	$ 10,334,000

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7.DEBT

Total debt obligations consist of the following:

	July 1, 2016	January 1, 2016
Outstanding borrowings on delayed draw term loan	$ 1,650,000	$ 1,850,000
Notes payable for 360 Energy Engineers, LLC, 36 month term, bearing interest at 4%, payable in monthly principal and interest installments of $88,752 through December 2017.	1,537,000	2,033,000
Notes payable for Abacus, 24 month term, bearing interest at 4%, payable in monthly principal and interest installments of $54,281 through January 2017.	374,000	690,000
Notes payable for insurance, 11 month term, bearing interest at 2.773%, payable in monthly principal and interest installments of $55,868 through October 2016.	221,000	551,000
Deferred purchase price for the acquisition of the assets of Genesys, bearing interest at 0.650%, payable in monthly principal and interest installments of $191,667 through March 2018.	3,812,000	—
Total debt obligations	7,594,000	5,124,000
Less current portion	5,549,000	4,039,000
Debt obligations, less current portion	$ 2,045,000	$ 1,085,000

To finance the acquisitions of Abacus and 360 Energy on January 15, 2015, the Company borrowed $2.0 million under its delayed draw term loan facility pursuant to the BMO Credit Agreement described below. The term loan bears interest at the LIBOR rate plus an applicable margin ranging between 2.25% and 2.75%, set at the LIBOR rate plus 2.50% as of July 1, 2016, and matures on March 24, 2017. Interest on the term loan is payable quarterly, beginning April 13, 2015. Principal on the term loan is payable on the last day of each March, June, September and December in each year, with the amount of each such principal installment equal to: (i) $75,000 on the last day of September and December 2016 and (ii) all of the remaining outstanding principal amount on March 24, 2017. The term loan is governed by the terms of the BMO Credit Agreement.

On January 15, 2015, in connection with the completion of the acquisition of Abacus, WES issued promissory notes to Mark Kinzer (the "Kinzer Note") and Steve Rubbert (the "Rubbert Note" and, together with the Kinzer Note, the "Abacus Notes"). The initial outstanding principal amounts of the Kinzer Note and the Rubbert Note were $0.6 million and $0.6 million, respectively. The Abacus Notes provide for a fixed interest rate of 4% per annum. The Abacus Notes are fully amortizing and payable in equal monthly installments between February 15, 2015 and their January 15, 2017 maturity date. The Abacus Notes contain events of default provisions customary for documents of this nature. Mr. Kinzer and Mr. Rubbert have entered into a Subordination Agreement, dated as of January 15, 2015, in favor of BMO Harris, pursuant to which any indebtedness under the Abacus Notes is subordinated to any indebtedness under the BMO Credit Agreement. Through July 1, 2016 the Company had made principal payments of approximately $0.4 million on each of the Abacus Notes and as of July 1, 2016, the outstanding balance was $0.2 million on each of the Abacus Notes.

On January 15, 2015, in connection with the completion of the acquisition of 360 Energy, WES issued a promissory note to 360 Energy (the "360 Energy Note"). The initial outstanding principal amount of the 360 Energy Note was $3.0 million. The 360 Energy Note provides for a fixed interest rate of 4% per annum. The 360 Energy Note is fully amortizing and payable in equal monthly installments between January 31, 2015 and its December 31, 2017 maturity date. The 360 Energy Note contains events of default provisions customary for documents of this nature. 360 Energy has entered into a Subordination Agreement, dated as of January 15, 2015, in favor of BMO Harris, pursuant to which any indebtedness under the 360 Energy Note is subordinated to any indebtedness under the BMO Credit Agreement. Through July 1, 2016 the Company had made principal payments of approximately $1.5 million on the 360 Energy Note and the outstanding balance was $1.5 million as of July 1, 2016.

The Asset Purchase and Merger Agreement for the acquisition of the assets of Genesys dated March 4, 2016, included deferred payments to Robert J. Braun ("Braun") and Ronald W. Mineo ("Mineo") in the amount of $2.3 million

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("Deferred Payments"), each. The Deferred Payments are to be paid in twenty-four (24) equal monthly installments in the amount of $95,834, inclusive of interest at the rate of 0.65% per annum. Payments commenced April 4, 2016 and conclude March 4, 2018. Through July 1, 2016 the Company made payments of $0.4 million inclusive of interest and as of July 1, 2016, the outstanding balances on the Deferred Payments to each of Messrs. Braun and Mineo was approximately $1.9 million.

BMO Credit Facility. The Company and its subsidiaries and Genesys, as guarantors, have entered into a credit agreement (as amended, the "BMO Credit Agreement") with BMO Harris Bank, N.A., or BMO, that provides for a revolving line of credit of up to $7.5 million, subject to a borrowing base calculation, and a delayed draw term loan facility of up to $3.0 million. The $7.5 million revolving credit facility includes a $5.0 million standby letter of credit sub-facility. As of July 1, 2016, there were no outstanding borrowings under the revolving line of credit and approximately $1.7 million in loans outstanding under the term loan facility and, after considering the BMO Credit Agreement's borrowing base calculation and debt covenants (each as described below), $7.5 million under the revolving line of credit and $1.3 million under the delayed draw term loan facility were available for borrowing.

The term loan bears interest, at the Company's option, at (a) the base rate plus an applicable margin ranging between 1.25% and 1.75%, or (b) the LIBOR rate plus an applicable margin ranging between 2.25% and 2.75%. Borrowings under the revolving line of credit bear interest, at the Company's option, at (a) the base rate plus an applicable margin ranging between 0.75% and 1.25%, or (b) the LIBOR rate plus an applicable margin ranging between 1.75% and 2.25%. The applicable margin is determined based on the Company's total leverage ratio. Interest on the term loan is payable quarterly, beginning April 13, 2015 and was 3.1% as of July 1, 2016. Principal on the term loan is payable on the last day of each March, June, September, and December in each year, with the amount of each such principal installment equal to: (i) $75,000 on the last day of September and December 2016, and (ii) all of the remaining outstanding principal amount on March 24, 2017. The Company is currently in the process of negotiating a refinancing of the credit facility under the BMO Credit Agreement; however, the Company may not be able to refinance such facility on terms favorable to it or at all. In the event the Company does not refinance the credit facility, the Company intends to repay any outstanding amounts with cash on hand. The term loan is governed by the terms of the BMO Credit Agreement.

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 the Company's eligible inventory, each term as defined in the BMO Credit Agreement. Under the BMO Credit Agreement, as of July 1, 2016, no cash amounts are restricted. The revolving line of credit matures on March 24, 2017 and term loans can be requested at any time prior to February 22, 2017, which would mature March 24, 2017.

Borrowings under the term loan facility and the revolving line of credit are guaranteed by all of the Company's subsidiaries and Genesys (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 BMO Credit Agreement, the Company also must pay a fee of up to 0.3% on unused commitments and customary fees on any letters of credit drawn under the facility.

The BMO Credit Agreement contains customary representations and affirmative covenants, including financial covenants that require the Company 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 BMO Credit Agreement) measured on a rolling basis of not more than 2.0; (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 the sum of (a) the Company's tangible net worth as of December 31, 2015, plus (b) 50% of net income (only if positive) for each fiscal quarter ending after February 29, 2016, plus (c) the aggregate proceeds received by the Company from the issuance or sale of equity interests in the Company after February 29, 2016, minus (d) the aggregate dollar amount of stock repurchases after February 29, 2016, plus or minus, as applicable, (e) 80% of any adjustments to tangible net worth of the Company arising as a result of certain acquisitions identified to BMO Harris.

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The BMO Credit Agreement also includes customary negative covenants, including (i) restrictions on the incurrence of additional indebtedness by the Company or the Guarantors other than indebtedness existing on the date of the BMO Credit Agreement, (ii) restrictions on the total consideration for all permitted acquisitions (including potential future earn-out obligations) shall not exceed $1.5 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 BMO Credit Agreement immediately due and payable, and BMO is no longer obligated to extend further credit to the Company under the BMO Credit Agreement. As of July 1, 2016, the Company was in compliance with the covenants under the BMO 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 January 1, 2016, the Company elected to finance its insurance premiums for the upcoming fiscal year.

8.COMMITMENTS

Leases

The Company is obligated under capital leases for certain furniture and office equipment that expire at various dates through the year 2019.

The Company also leases certain office facilities under non-cancelable operating leases that expire at various dates through the year 2023.

Employee Benefit Plans

The Company has a qualified profit sharing 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 bonuses for outstanding performance. The Company's compensation committee of the board of directors determines the compensation of the president and chief executive officer.

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.

9.INCOME TAXES

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences of temporary differences between the financial reporting basis and tax basis of the Company's assets and liabilities, subject to a judgmental assessment of the 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

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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. Significant judgment is applied when assessing the need for valuation allowances. Areas of estimation include the Company's consideration of future taxable income and ongoing prudent and feasible tax planning strategies. Should a change in circumstances lead to a change in judgment about the utilization of deferred tax assets in future years, the Company would adjust the related valuation allowances in the period that the change in circumstances occurs, along with a corresponding increase or charge to income.

During fiscal year 2015, the Company assessed the available positive and negative evidence to estimate if sufficient future taxable income will be generated to utilize the existing deferred tax assets. The Company has ultimately determined that it is not more-likely-than-not that the entire California net operating loss will be utilized prior to expiration. Significant pieces of objective evidence evaluated included the Company's history of utilization of California net operating losses in prior years for each of its subsidiaries, as well as its forecasted amount of net operating loss utilization for certain members of the combined group. Based on this evaluation, as of January 1, 2016, the Company recorded a valuation allowance in the amount of $73,000 related to California net operating losses. There was no change to the valuation allowance as of July 1, 2016.

For acquired business entities, if the Company identifies changes to acquired deferred tax asset valuation allowances or liabilities related to uncertain tax positions during the measurement period and they relate to new information obtained about facts and circumstances that existed as of the acquisition date, those changes are considered a measurement period adjustment and the Company records the offset to goodwill. The Company records all other changes to deferred tax asset valuation allowances and liabilities related to uncertain tax positions in current period income tax expense.

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. As of July 1, 2016, the Company has not recorded a liability for uncertain tax positions.

Based on management's estimates and determination of an effective tax rate for the year, the Company recorded an income tax expense of $0.7 million and $1.4 million for the three and six months ended July 1, 2016, respectively, as compared to $1.1 million and $2.2 million for the three and six months ended July 3, 2015, respectively. During the six months ended July 1, 2016, the Company determined that certain deductions related to energy efficient commercial building deductions were higher than what was estimated in the income tax provision for 2015. Accordingly, the Company has recorded a reduction of income tax expense of approximately $0.5 million as a change in estimate for the three and six month periods ended July 1, 2016. The difference between the tax expense recorded and the expense that would be recorded by applying the federal statutory rate primarily relates to state income taxes, tax benefit related to the energy efficient commercial building deduction, and certain expenses that are non-deductible for tax purposes, including meals and entertainment, lobbying and compensation expense related to incentive stock options.

10.SEGMENT INFORMATION

The Company has four reporting segments: Energy Efficiency Services, Engineering Services, Public Finance Services and Homeland Security Services. The Energy Efficiency Services segment, which consists of Willdan Energy Solutions, provides energy efficiency consulting services to utilities, state agencies, municipalities, private industry and non-profit organizations. 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 the Company's public and private sector clients. 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

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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 2015 Annual Report on Form 10-K filed on March 15, 2016. There were no intersegment sales in the three and six month periods ended July 1, 2016 and July 3, 2015. 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.

Financial information with respect to the reportable segments as of and for the fiscal three and six months ended July 1, 2016 and as of and for the fiscal three and six months ended July 3, 2015 is as follows:

	Energy Efficiency Services	Engineering Services	Public Finance Services	Homeland Security Services	Unallocated Corporate	Intersegment	Consolidated Total
Fiscal Three Months Ended July 1, 2016							
Contract revenue	$ 42,606,000	$ 12,696,000	$ 3,018,000	$ 621,000	$ —	$ —	$ 58,941,000
Segment profit (loss) before income tax expense	2,308,000	2,019,000	(42,000)	63,000	(427,000)	—	3,921,000
Net income (loss)	1,854,000	1,664,000	(24,000)	50,000	(354,000)	—	3,190,000
Segment assets(1)	71,146,000	13,735,000	6,135,000	409,000	34,129,000	(23,130,000)	102,424,000
Fiscal Three Months Ended July 3, 2015							
Contract revenue	$ 21,537,000	$ 11,505,000	$ 3,025,000	$ 706,000	$ —	$ —	$ 36,773,000
Segment profit (loss) before income tax	1,549,000	1,024,000	150,000	(22,000)	9,000	—	2,710,000

xpense							
Net income (loss)	918,000	578,000	118,000	(12,000)	—	—	1,602,000
Segment assets(1)	40,622,000	14,037,000	4,907,000	880,000	41,912,000	(23,130,000)	79,228,000
Fiscal Six Months Ended July 1, 2016							
Contract revenue	$ 61,586,000	$ 23,957,000	$ 6,007,000	$ 1,306,000	$ —	$ —	$ 92,856,000
Segment profit (loss) before income tax expense	3,198,000	3,085,000	8,000	88,000	(669,000)	—	5,710,000
Net income (loss)	2,390,000	2,306,000	6,000	66,000	(500,000)	—	4,268,000
Segment assets(1)	71,146,000	13,735,000	6,135,000	409,000	34,129,000	(23,130,000)	102,424,000
Fiscal Six Months Ended July 3, 2015							
Contract revenue	$ 40,443,000	$ 22,309,000	$ 5,696,000	$ 1,622,000	$ —	$ —	$ 70,070,000
Segment profit (loss) before income tax expense	3,381,000	2,160,000	191,000	77,000	(466,000)	—	5,343,000
Net income (loss)	1,959,000	1,204,000	160,000	44,000	(270,000)	—	3,097,000
Segment assets(1)	40,622,000	14,037,000	4,907,000	880,000	41,912,000	(23,130,000)	79,228,000

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

11.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

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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.

City of Glendale v. Willdan Financial Services, Superior Court of California, Los Angeles County

A complaint was filed against the Company on July 16, 2014 relating to a project performed by Willdan Financial Services to prepare a Cost of Services Analysis (a “COSA”) for the Department of Water and Power of the City of Glendale, California (the “City of Glendale”). The purpose of the COSA was to assist the City of Glendale in setting water rates for property owners. The lawsuit alleges that the City of Glendale suffered damages due to mistakes in the COSA, as follows: the City of Glendale received less revenue than anticipated in an amount exceeding $9,000,000; the City of Glendale was required to retain another consultant to prepare a new COSA at the cost of $130,000; and the City of Glendale incurred costs associated with noticing and conducting public hearings at a cost of $83,052. The Company denies the allegations asserted in the lawsuit and will vigorously defend against the claims. Additionally, this matter is covered under the Company’s professional liability insurance policy which has limits of $5,000,000 per claim and $10,000,000 annual aggregate.

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the financial statements included elsewhere in this Quarterly Report and the audited financial statements for the year ended January 1, 2016, 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 si 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 2015 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 utilities, private industry, and public agencies at all levels of government. Nationwide, we enable our clients to realize cost and energy savings by providing a wide range of specialized services. We assist our clients with a broad range of complementary services relating to:

- Energy Efficiency and Sustainability;
- Engineering and Planning;
- 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, Colorado, Florida, Illinois, Kansas, Oregon, Texas, Washington and Washington, DC. As of July 1, 2016 we had a staff of 770, which includes licensed engineers and other professionals.

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. Our business with public and private utilities is concentrated primarily in California and New York, but we also have business with utilities in Texas, Illinois, Ohio and Washington State. We currently serve

17 major utility customers across the country. Our business with public agencies is primarily concentrated in California and Arizona. We provide services to many of the cities and counties in California. We also serve special districts, school districts, a range of public agencies and private industry.

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

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 66.3% and 57.7% of our consolidated contract revenue for the six months ended July 1, 2016 and July 3, 2015, respectively. The percent of contract revenue contributed by our Energy Efficiency Services segment increased year over year primarily as a result of our acquisition of the assets of Genesys in March 2016.

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Engineering Services. Our Engineering Services segment includes the operations of our subsidiaries, Willdan Engineering, Willdan Infrastructure and Public Agency Resources ("PARs"). Willdan Engineering provides civil engineering related and city planning services, geotechnical and other engineering consulting services to our clients. Willdan Infrastructure, which was launched in fiscal year 2013, provides engineering services to larger rail, port, water, mining and other civil engineering projects. PARs primarily provides staffing to Willdan Engineering. Contract revenue for the Engineering Services segment represented approximately 25.8% and 31.8% of our consolidated contract revenue for the six months ended July 1, 2016 and July 3, 2015, 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 6.5% and 8.1% of our consolidated contract revenue for the six months ended July 1, 2016 and July 3, 2015, 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 1.4% and 2.3% of our consolidated contract revenue for the six months ended July 1, 2016 and July 3, 2015, respectively.

Components of Revenue 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 24% of our contracts are based on contractual rates per hour plus costs incurred. Some of these contracts include maximum contract prices, but the majority of these contracts are not expected to exceed the maximum. Contract revenue on our fixed price contracts is determined on the percentage of completion method based generally on the ratio of direct costs incurred to date to estimated total direct costs at completion. Many of our fixed price contracts are relatively short in duration, thereby lowering the risks of not properly estimating the percent complete.

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

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

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

Direct Costs of Contract Revenue

Direct costs of contract revenue consist primarily of 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, 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

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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.

Other companies may classify as direct costs of contract revenue some of the costs that we classify as general and administrative costs. We expense direct costs of contract revenue when incurred.

General and Administrative Expenses

General and administrative expenses include the costs of the marketing and support staffs, other marketing expenses, management and administrative personnel costs, payroll taxes, bonuses and employee benefits for all of our employees and the portion of salaries and wages not allocated to direct costs of contract 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, marketing costs and acquisition 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 January 1, 2016. We describe below those accounting policies that require material subjective or complex judgments and that have the most significant impact on our financial condition and results of operations. Our management evaluates these estimates on an ongoing basis, based upon information currently available and on various assumptions management believes are reasonable as of the date of this report.

Contract Accounting

We enter into contracts with our clients that contain various types of pricing provisions, including fixed price, time-and-materials, unit-based, and service related provisions. The following table reflects our four reportable

segments and the types of contracts that each most commonly enters into for revenue generating activities.

Segment	Types of Contract (Revenue Recognition Method)	
Energy Efficiency Services	Unit-based and time-and-materials	(percentage-of-completion method)
Engineering Services	Time-and-materials, unit-based and fixed price	(percentage-of-completion method)
Public Finance Services	Service related contracts	(proportional performance method)
Homeland Security Services	Service related contracts	(proportional performance method)

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

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accordance with the specific terms of the contract. We recognize revenues for time-and-material contracts based upon the actual hours incurred during a reporting period at contractually agreed upon rates per hour and also include in revenue all reimbursable costs incurred during a reporting period for which we have risk or on which the fee was based at the time of bid or negotiation. Certain of our time-and-material contracts are subject to maximum contract values and, accordingly, revenue under these contracts is generally recognized under the percentage-of-completion method, consistent with fixed priced contracts. Revenue on contracts that are not subject to maximum contract values is recognized based on the actual number of hours we spend on the projects plus any actual out-of-pocket costs of materials and other direct incidental expenditures that we incur on the projects. In addition, revenue from overhead percentage recoveries and earned fees are included in revenue. Revenue is recognized as the related costs are incurred. For unit-based contracts, we recognize the contract price of units of a basic production product as revenue when the production product is delivered during a period. 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 condensed 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, for contracts that are recognized under the percentage-of-completion method, 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.

We consider whether our contracts require combining for revenue recognition purposes. If certain criteria are met, revenues for related contracts may be recognized on a combined basis. With respect to our contracts, it is rare that such criteria are present. We may enter into certain contracts which include separate phases or elements. If each phase or element is negotiated separately based on the technical resources required and/or the supply and demand for the services being provided, we evaluate if the contracts should be segmented. If certain criteria are met, the contracts would be segmented which could result in revenues being assigned to the different elements or phases with different rates of profitability based on the relative value of each element or phase to the estimated total contract revenue.

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 future consolidated financial statements. We did not have material revisions in estimates for contracts recognized using the percentage-of-completion method for any of the periods presented in the accompanying condensed consolidated financial statements.

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. Award and incentive fees are recorded when they are fixed and determinable and consider customer contract terms.

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” in our Annual Report on Form 10-K for the year ended January 1, 2016.

Business Combinations

The acquisition method of accounting for business combinations requires us to use significant estimates and assumptions, including fair value estimates, as of the business combination date and to refine those estimates as necessary during the measurement period (defined as the period, not to exceed one year, in which we may adjust the

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provisional amounts recognized for a business combination) based upon new information about facts that existed on the business combination date.

Under the acquisition method of accounting, we recognize separately from goodwill the identifiable assets acquired, the liabilities assumed, and any noncontrolling interests in an acquiree, at the acquisition date fair value. We measure goodwill as of the acquisition date as the excess of consideration transferred over the net of the acquisition date amounts of the identifiable assets acquired and liabilities assumed. Costs that we incur to complete the business combination such as investment banking, legal and other professional fees are not considered part of consideration. We charge these acquisition costs to other general and administrative expense as they are incurred.

Should the initial accounting for a business combination be incomplete by the end of a reporting period that falls within the measurement period, we report provisional amounts in our financial statements. During the measurement period, we adjust the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the measurement of the amounts recognized as of that date and we record those adjustments to our financial statements. We apply those measurement period adjustments that we determine to be significant prospectively to comparative information in our financial statements, including adjustments to depreciation and amortization expense.

On March 4, 2016, we and our wholly-owned subsidiary, WES, acquired substantially all of the assets and certain specified liabilities of Genesys Engineering P.C. ("Genesys"), a New York based energy engineering company. For further discussion of our acquisitions, see Note 2 "—Business Combinations" of notes to our condensed consolidated financial statements.

As of July 1, 2016, we have not completed our final estimate of fair value of the assets acquired and liabilities assumed due to the timing of the transaction and incomplete information necessary to finalize such estimates of fair value. Accordingly, we have preliminarily estimated the fair values of the assets acquired and the liabilities assumed. We will finalize the fair value estimates within twelve months of the acquisition date. See Note 2 "—Business Combinations" of notes to our condensed consolidated financial statements.

Goodwill

We test our goodwill at least annually for possible impairment. We complete our annual testing of goodwill as of the last day of the first month of our fourth fiscal quarter each year to determine whether there is impairment. In addition to our annual test, we regularly evaluate whether events and circumstances have occurred that may indicate a potential impairment of goodwill. We did not recognize any goodwill impairment charges during the six months ended July 1, 2016 and July 3, 2015. We had goodwill of approximately $25.3 million as of July 1, 2016 as the result of two acquisitions in January 2015, one acquisition in April 2015 and one acquisition in March 2016.

We test our goodwill for impairment at the level of our reporting units, which are components of our operating segments. In September 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2011 08 ("ASU 2011 08"), Intangibles—Goodwill and Other (Topic 350): Testing Goodwill for Impairment. This accounting guidance allows companies to perform a qualitative assessment on goodwill impairment to determine whether a quantitative assessment is necessary. If a quantitative assessment is warranted, we then determine the fair

value of the applicable reporting units. To estimate the fair value of our reporting units, we use both an income approach based on management's estimates of future cash flows and other market data and a market approach based upon multiples of EBITDA earned by similar public companies.

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

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Inherent in such fair value determinations are significant judgments and estimates, including but not limited to assumptions about our future revenue, profitability and cash flows, our operational plans and our interpretation of current economic indicators and market valuations. To the extent these assumptions are incorrect or economic conditions that would impact the future operations of our reporting units change, any goodwill may be deemed to be impaired, and an impairment charge could result in a material adverse effect on our financial position or results of operation. All of our goodwill is contained in our Energy Efficiency Services and Public Finance Services Segments. At our measurement date, the estimated fair value of our Energy Solutions and Public Finance Services reporting unit exceeded the carrying value. A reduction in estimated fair value of our Willdan Energy Solutions and Public Finance Services reporting unit could result in an impairment charge in future periods.

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 the 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. Significant judgment is applied when assessing the need for valuation allowances. Areas of estimation include our consideration of future taxable income and ongoing prudent and feasible tax planning strategies. Should a change in circumstances lead to a change in judgment about the utilization of deferred tax assets in future years, we would adjust the related valuation allowances in the period that the change in circumstances occurs, along with a corresponding increase or charge to income.

During fiscal year 2015, we assessed the available positive and negative evidence to estimate if sufficient future taxable income will be generated to utilize the existing deferred tax assets. We have ultimately determined that it is not more-likely-than-not that the entire California net operating loss will be utilized prior to expiration. Significant pieces of objective evidence evaluated included our history of utilization of California net operating losses in prior

years for each of our subsidiaries, as well as our forecasted amount of net operating loss utilization for certain members of the combined group. Based on this evaluation, as of January 1, 2016, we recorded a valuation allowance in the amount of $73,000 related to California net operating losses. There was no change to the valuation allowance as of July 1, 2016.

For acquired business entities, if we identify changes to acquired deferred tax asset valuation allowances or liabilities related to uncertain tax positions during the measurement period and they relate to new information obtained about facts and circumstances that existed as of the acquisition date, those changes are considered a measurement period adjustment and we record the offset to goodwill. We record all other changes to deferred tax asset valuation allowances and liabilities related to uncertain tax positions in current period income tax expense.

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.

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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 Three Months Ended				Fiscal Six Months Ended			
	July 1, 2016		July 3, 2015		July 1, 2016		July 3, 2015	
Statement of Operations Data:								
Contract revenue	100.0	%	100.0	%	100.0	%	100.0	%
Direct costs of contract revenue (exclusive of depreciation and amortization shown separately below):								
Salaries and wages	16.6		22.3		19.7		23.1	
Subcontractor services and other direct costs	53.1		40.0		46.3		37.8	
Total direct costs of contract revenue	69.7		62.3		66.1		60.9	
General and administrative expenses:								
Salaries and wages, payroll taxes and employee benefits	14.3		17.1		16.4		18.4	
Facilities and facility related	1.4		2.6		2.1		2.8	
Stock-based compensation	0.4		0.3		0.5		0.4	
Depreciation and amortization	1.6		1.4		1.7		1.3	
Other	5.8		8.7		7.0		8.3	
Total general and administrative expenses	23.6		30.1		27.7		31.3	
Income from operations	6.7		7.6		6.2		7.8	
Other (expense) income:								
Interest expense	(0.1)		(0.2)		(0.1)		(0.2)	
Other, net	0.0		(0.1)		0.0		0.0	
Total other expense, net	(0.1)		(0.3)		(0.1)		(0.1)	
Income before income taxes	6.7		7.4		6.1		7.6	
Income tax expense	1.2		3.0		1.6		3.2	
Net income	5.4	%	4.4		4.6	%	4.4	%

Three Months Ended July 1, 2016 Compared to Three Months Ended July 3, 2015

Contract revenue   Our contract revenue was $58.9 million for the three months ended July 1, 2016, with $42.6 million attributable to the Energy Efficiency Services segment, $12.7 million attributable to the Engineering Services segment, $3.0 million attributable to the Public Finance Services segment, and $0.6 million attributable to the Homeland Security Services segment. Consolidated contract revenue increased $22.2 million, or 60.3%, to $58.9 million for the three months ended July 1, 2016 as compared to $36.8 million for the three months ended July 3, 2015. Included in our consolidated contract revenue and contract revenue in our Energy Efficiency Services segment for the three months ended July 1, 2016 was incremental contract revenue of $15.5 million attributable to our

acquisition of the assets of Genesys that we completed on March 4, 2016. Excluding the incremental contract revenue from the acquisition, our consolidated contract revenue increased by $6.7 million.

Contract revenue in our Energy Efficiency Services segment increased $21.1 million, or 97.8%, to $42.6 million for the three months ended July 1, 2016 as compared to $21.5 million for the three months ended July 3, 2015. Excluding incremental revenue from our acquisition of the assets of Genesys, revenue in our Energy Efficiency Services segment increased as a result of increased revenue generated during the three months ended July 1, 2016 compared to the same period last year from the assets of 360 Energy Engineers, LLC ("360 Energy") acquired in January 2015. Contract revenue for the Engineering Services segment increased $1.2 million, or 10.3%, to $12.7 million, for the three months ended July 1, 2016 as compared to $11.5 million for the three months ended July 3, 2015. Contract revenue for the Engineering Services segment increased primarily due to greater demand for our city engineering services in California, our building and safety services, and our construction management services. Contract revenue for the Public

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Finance Services segment remained relatively flat at $3.0 million for the three months ended July 1, 2016 as compared to the three months ended July 3, 2015. Contract revenue for the Homeland Security Services segment decreased by $0.1 million, or 11.9% for the three months ended July 1, 2016 to $0.6 million as compared to $0.7 million for the three months ended July 3, 2015. Revenue in the Homeland Security Services segment decreased due to slightly lower levels of activity in the traditional planning, training and exercise consulting services business.

Direct costs of contract revenue. Direct costs of contract revenue were $41.1 million for the three months ended July 1, 2016, with $32.2 million attributable to the Energy Efficiency Services segment, $7.1 million attributable to the Engineering Services segment, $1.4 million attributable to the Public Finance Services segment, and $0.4 million attributable to the Homeland Security Services segment. Included in direct costs of contract revenue for the three months ended July 1, 2016 was incremental direct costs of revenue of $13.8 million attributable to our acquisition of the assets of Genesys. Overall, direct costs increased by $18.2 million, or 79.5%, to $41.1 million for the three months ended July 1, 2016 from $22.9 million for the three months ended July 3, 2015. This increase is primarily attributable to increases in direct costs within our Energy Efficiency Services of $17.7 million, or 122.2%, which includes $13.8 million contributed by Genesys. Excluding the acquisition of the assets of Genesys for the Energy Efficiency Services segment, direct costs increased by $3.9 million, primarily due to an increase in sub-contractor services utilized by 360 Energy. Direct costs for the Engineering Services and Public Finance Services segments increased $0.4 million, or 5.9%, and $0.2 million, or 13.8%, respectively. Direct costs of contract revenue in our Homeland Security Services segment decreased by $0.1 million.

Direct costs increased as a result of increases in salaries and wages of $1.6 million and an increase in subcontractor services and other direct costs of $16.6 million. Within direct costs of contract revenue, salaries and wages decreased to 16.6% of contract revenue for the three months ended July 1, 2016 from 22.3% for the three months ended July 3, 2015 and subcontractor services and other direct costs increased to 53.1% of contract revenue for the three months ended July 1, 2016 from 39.9% of contract revenue for the three months ended July 3, 2015. Subcontractor 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 subcontractors than our other segments. The increased revenue in our Energy Efficiency Services segment resulted in large part due to the additional revenue contributed by our acquisition of the assets of Genesys in March 2016.

General and administrative expenses. General and administrative expenses increased by $2.8 million, or 25.4%, to $13.9 million for the three months ended July 1, 2016 from $11.1 million for the three months ended July 3, 2015. This was due primarily to increases of $2.6 million and $0.1 million, in general and administrative expenses of the Energy Efficiency Services and Public Finance Services segments, respectively and partially offset by a decrease of $0.1 million in the Homeland Security Services segment. General and administrative expenses for the Engineering Services segment remained flat. Unallocated corporate expenses increased by $0.2 million. General and administrative expenses as a percentage of contract revenue decreased to 23.6% for the three months ended July 1, 2016 as compared to 30.1% for the three months ended July 3, 2015.

Of the $2.8 million increase in general and administrative expenses, approximately $2.2 million relates to increases in salaries and wages, payroll taxes and employee benefits. The increase in employee related costs primarily resulted

from increased headcount within our Energy Efficiency and Engineering Services segments. As noted under "-Components of Revenue and Expenses-Direct Costs of Contract Revenue," we include salaries and wages not spent directly generating revenue under existing contracts in general and administrative expenses. Other general and administrative expenses increased by $0.2 million. Depreciation and amortization expenses increased by $0.5 million. Facilities and facility related expenses decreased by $0.1 million. Stock-based compensation expenses increased by $0.1 million.

Income from operations. As a result of the above factors, our operating income was $4.0 million for the three months ended July 1, 2016 as compared to operating income of $2.8 million for the three months ended July 3, 2015. Income from operations as a percentage of contract revenue was 6.7% for the three months ended July 1, 2016, as compared to 7.6% in the prior year period.

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Total other expense, net. Total other expense, net was $43,000 for the three months ended July 1, 2016, as compared to other expense, net of $94,000 for the three months ended July 3, 2015. This decrease in expense is primarily the result of minimal other expense during the quarter ended July 1, 2016.

Income tax expense. Income tax expense was $0.7 million for the three months ended July 1, 2016, as compared to $1.1 million for the three months ended July 3, 2015. The decrease of $0.4 million, or 34.0% is primarily due to energy efficient commercial building deductions under Internal Revenue Code 179D that we are utilizing in 2016. We determined that certain deductions related to energy efficient commercial building deductions were higher than what was estimated in the income tax provision for 2015. Accordingly, the Company has recorded a reduction of income tax expense of approximately $0.5 million as a change in estimate for the three months ended July 1, 2016. Income tax expense for the three months ended July 1, 2016 primarily relates to federal and state income taxes. The difference between the tax expense recorded and the expense that would be recorded by applying the federal statutory rate primarily relates to state income taxes and certain expenses that are non-deductible for federal tax purposes, including meals and entertainment, lobbying and compensation expense related to incentive stock options. Additionally, the income tax expense in the current quarter reflects an adjustment to the tax effected value of deferred tax assets and liabilities resulting from changes in the estimated effective state income tax rate.

Net income. As a result of the above factors, our net income was $3.2 million for the three months ended July 1, 2016, as compared to net income of $1.6 million for the three months ended July 3, 2015.

Six Months Ended July 1, 2016 Compared to Six Months Ended July 3, 2015

Contract revenue. Our contract revenue was $92.9 million for the six months ended July 1, 2016, with $61.6 million attributable to the Energy Efficiency Services segment, $24.0 million attributable to the Engineering Services segment, $6.0 million attributable to the Public Finance Services segment, and $1.3 million attributable to the Homeland Security Services segment. Consolidated contract revenue increased $22.8 million, or 32.5%, to $92.9 million for the six months ended July 1, 2016 as compared to $70.1 million for the six months ended July 3, 2015. Included in our consolidated contract revenue and contract revenue in our Energy Efficiency Services segment for the six months ended July 1, 2016 was incremental contract revenue of $19.4 million attributable to the acquisition of the assets of Genesys that we completed on March 4, 2016. Excluding the incremental contract revenue from the acquisition, our consolidated contract revenue increased by $3.4 million, primarily due to a delayed 2016 ConEd contract extension that was resolved during the quarter.

Contract revenue in our Energy Efficiency Services segment increased $21.1 million, or 52.3%, to $61.6 million for the six months ended July 1, 2016 as compared to $40.4 million for the six months ended July 3, 2015. Excluding the incremental contract revenue from our acquisition of the assets of Genesys, our contract revenue for the Energy Efficiency Services segment increased by $1.7 million, primarily as a result of increased revenue generated during the six months ended July 1, 2016 compared to the same period last year from the assets of 360 Energy acquired in January 2015. Contract revenue for the Engineering Services and Public Finance Services segments increased $1.6

million, or 7.4%, and $0.3 million, or 5.5%, respectively, for the six months ended July 1, 2016 as compared to the six months ended July 3, 2015. Contract revenue for the Engineering Services segment increased primarily due to greater demand for our building and safety services in California and Arizona and our construction management services. These increases were offset by a decrease in contract revenue for the Homeland Security Services segment of $0.3 million, or 19.5% for the six months ended July 1, 2016 to $1.3 million as compared to $1.6 million for the six months ended July 3, 2015. Revenue in the Homeland Security Services segment decreased due to slightly lower levels of activity in the traditional planning, training, and exercise consulting services business.

Direct costs of contract revenue. Direct costs of contract revenue were $61.4 million for the six months ended July 1, 2016, with $44.5 million attributable to the Energy Efficiency Services segment, $13.3 million attributable to the Engineering Services segment, $2.7 million attributable to the Public Finance Services segment, and $0.8 million attributable to the Homeland Security Services segment. Included in direct costs of contract revenue for the six months ended July 1, 2016 was incremental direct costs of contract revenue of $17.2 million attributable to our acquisition of the assets of Genesys. Overall, direct costs increased by $18.7 million, or 43.7%, to $61.4 million for the six months ended July 1, 2016 from $42.7 million for the six months ended July 3, 2015. This increase is primarily attributable to

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increases in direct costs within our Energy Efficiency Services segment of $17.8 million, or 66.4%, $17.2 million of which was contributed by Genesys. Excluding the acquisition of the assets of Genesys, direct costs within the Energy Efficiency Services segment increased by $0.6 million, primarily as a result of the increase in sub-contractor services used by 360 Energy. Direct costs for the Engineering Services and Public Finance Services segments increased $0.8 million, or 6.3%, and $0.3 million, or 14.6%, respectively. Direct costs of contract revenue in our Homeland Security Services segment decreased by $0.2 million or 22.0%.

Direct costs increased as a result of an increase in salaries and wages of $2.1 million and subcontractor services and other costs of $16.5 million. Within direct costs of contract revenue, salaries and wages decreased to 19.7% of contract revenue for the six months ended July 1, 2016 from 23.1% for the six months ended July 3, 2015 and subcontractor services and other direct costs increased to 46.3% of contract revenue for the six months ended July 1, 2016 from 37.8% of contract revenue for the six months ended July 3, 2015. Subcontractor services increased primarily due to the increased use of subcontractors to perform work primarily for Genesys in our Energy Efficiency Services segment.

General and administrative expenses. General and administrative expenses increased by $3.8 million, or 17.1%, to $25.7 million for the six months ended July 1, 2016 from $21.9 million for the six months ended July 3, 2015. This was due primarily to increases of $3.6 million, $0.1 million and $0.1 million, in general and administrative expenses of the Energy Efficiency Services, the Engineering Services and the Public Finance Services, segments, respectively. General and administrative expenses in our Homeland Security Service segment and unallocated corporate expenses each remained flat. General and administrative expenses as a percentage of contract revenue decreased to 27.7% for the six months ended July 1, 2016 as compared to 31.3% for the six months ended July 3, 2015.

Of the $3.8 million increase in general and administrative expenses, approximately $2.3 million, $0.2 million, $0.6 million and $0.7 million relates to increases in salaries and wages, stock compensation expense, depreciation and amortization, and other general and administrative expenses, respectively. Facilities and facility related expenses remained flat.

Income from operations. As a result of the above factors, our operating income was $5.8 million for the six months ended July 1, 2016 as compared to operating income of $5.4 million for the six months ended July 3, 2015. The increase in income from operations was primarily due to higher revenue in the Energy Efficiency Services segment. Income from operations as a percentage of contract revenue was 6.2% for the six months ended July 1, 2016, as compared to 7.8% in the prior year period.

Total other expense, net. Total other expense, net was $92,000 for the six months ended July 1, 2016, as compared to $90,000 for the six months ended July 3, 2015. This increase in expense is primarily due to minimal other income as an offset to interest expense.

Income tax expense. Income tax expense was $1.4 million for the six months ended July 1, 2016, as compared to $2.2 million for the six months ended July 3, 2015. The decrease of $0.8 million, or 35.8% is primarily due to energy efficient commercial building deductions under Internal Revenue Code 179D that we are utilizing in 2016. We determined that certain deductions related to energy efficient commercial building deductions were higher than what was estimated in the income tax provision for 2015. Accordingly, the Company has recorded a reduction of income tax expense of approximately $0.5 million as a change in estimate for the six months ended July 1, 2016. Income tax expense for the six months ended July 1, 2016 primarily relates to federal and state income taxes. The difference between the tax expense recorded and the expense that would be recorded by applying the federal statutory rate primarily relates to state income taxes, tax benefit related to the energy efficient commercial building deduction, and certain expenses that are non-deductible for federal tax purposes, including meals and entertainment, lobbying and compensation expense related to incentive stock options.

Net income. As a result of the above factors, our net income was $4.3 million for the six months ended July 1, 2016, as compared to net income of $3.1 million for the six months ended July 3, 2015.

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Liquidity and Capital Resources

As of July 1, 2016, we had $10.5 million of cash and cash equivalents. Our cash decreased by $6.0 million since January 1, 2016 due to our payment of $8.9 million in cash for the acquisition of substantially all of the assets of Genesys. Our primary source of liquidity is cash generated from operations. We also have a revolving line of credit with BMO Harris Bank, N.A., which matures on March 24, 2017 and provides for a revolving line of credit of up to $7.5 million, subject to a borrowing base calculation, and a delayed draw term loan facility of up to $3.0 million. We are currently in the process of negotiating a refinancing of the credit facility under the BMO Credit Agreement; however, we may not be able to refinance such credit facility on terms favorable to us or at all. In the event we do not refinance the credit facility, we intend to repay any outstanding amounts due with cash on hand. We believe that our cash and cash equivalents on hand, cash generated by operating activities and available borrowings under our revolving line of credit will be sufficient to finance our operating activities for at least the next 12 months.

Cash flows from operating activities

Cash flows provided by operating activities were $7.2 million for the six months ended July 1, 2016, as compared to cash flows provided by operating activities of $2.8 million for the six months ended July 3, 2015. The cash flows provided by operating activities in the six months ended July 1, 2016 were comparatively higher than the prior period due to an increase in cash flows from collections of accounts receivable, and increases in accrued liabilities, billings in excess of costs and net income, partially offset by decreases in cash flows related to timing of working capital payments.

Cash flows from investing activities

Cash flows used in investing activities were $9.8 million for the six months ended July 1, 2016 as compared to cash flows used in investing activities of $9.5 million for the six months ended July 3, 2015. The cash flows used in investing activities in the six months ended July 1, 2016 were primarily due to cash paid in March 2016 for the acquisition of the assets of Genesys. We used cash for investing activities during the six months ended July 3, 2015 primarily for the acquisitions of Abacus and 360 Energy on January 15, 2015 and Economists LLC on April 3, 2015. Capital expenditures remained relatively unchanged.

Cash flows from financing activities

Cash flows used in financing activities were $3.4 million for the six months ended July 1, 2016 as compared to cash flows provided by financing activities of $1.2 million for the six months ended July 3, 2015. The cash flows used in

financing activities for the six months ended July 1, 2016 were primarily attributable to payments on notes payable to Abacus and 360 Energy and cash paid for earn-out payments owed to the sellers of 360 Energy, which we acquired in January 2015. The cash flows provided by financing activities for the six months ended July 3, 2015 was primarily attributable to proceeds from notes payable and proceeds from stock option exercises, which was partially offset by payments on notes payable to Abacus and 360 Energy.

Outstanding indebtedness

BMO Credit Facility. We and our subsidiaries and Genesys, as guarantors, have entered into a credit agreement (as amended, the "BMO Credit Agreement") with BMO Harris Bank, N.A., or BMO, that provides for a revolving line of credit of up to $7.5 million, subject to a borrowing base calculation, and a delayed draw term loan facility of up to $3.0 million. The $7.5 million revolving credit facility includes a $5.0 million standby letter of credit sub-facility. As of July 1, 2016, there were no outstanding borrowings under the revolving line of credit and approximately $1.7 million in loans outstanding under the term loan facility and, after considering the BMO Credit Agreement's borrowing base calculation and debt covenants (each as described below), $7.5 million under the revolving line of credit and $1.3 million under the delayed draw term loan facility were available for borrowing.

The term loan bears interest, at our option, at (a) the base rate plus an applicable margin ranging between 1.25% and 1.75%, or (b) the LIBOR rate plus an applicable margin ranging between 2.25% and 2.75%. Borrowings under the

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revolving line of credit bear interest, at our option, at (a) the base rate plus an applicable margin ranging between 0.75% and 1.25%, or (b) the LIBOR rate plus an applicable margin ranging between 1.75% and 2.25%. The applicable margin is determined based on our total leverage ratio. Interest on the term loan is payable quarterly, beginning April 13, 2015 and was 3.1% as of July 1, 2016. Principal on the term loan is payable on the last day of each March, June, September, and December in each year, with the amount of each such principal installment equal to: (i) $75,000 on the last day of September and December 2016, and (ii) all of the remaining outstanding principal amount on March 24, 2017. The Company is currently in the process of negotiating a refinancing of the credit facility under the BMO Credit Agreement; however, the Company may not be able to refinance such facility on terms favorable to it or at all. In the event the Company does not refinance the credit facility, the Company intends to repay any outstanding amounts with cash on hand. The term loan is governed by the terms of the BMO Credit Agreement.

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 BMO Credit Agreement. Under the BMO Credit Agreement, as of July 1, 2016, no cash amounts are restricted. The revolving line of credit matures on March 24, 2017 and term loans can be requested at any time prior to February 22, 2017, which would mature March 24, 2017.

Borrowings under the term loan facility and the revolving line of credit are guaranteed by all of our subsidiaries and Genesys (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 BMO 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 BMO 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 BMO Credit Agreement) measured on a rolling basis of not more than 2.0; (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 the sum of (a) our tangible net worth as of December 31, 2015, plus (b) 50% of net income (only if positive) for each fiscal quarter ending after February 29, 2016, plus (c) the aggregate proceeds received by us from the issuance or sale of equity interests in us after February 29, 2016, minus (d) the aggregate dollar amount of stock repurchases after February 29, 2016, plus or minus, as applicable, (e) 80% of any adjustments to tangible net worth of us arising as a result of certain acquisitions identified to BMO Harris.

The BMO 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 BMO Credit Agreement, (ii) restrictions on the total consideration for all permitted acquisitions (including potential future earn-out obligations) shall not exceed $1.5 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 BMO Credit Agreement immediately due and payable, and BMO is no longer obligated to extend further credit to us under the BMO Credit Agreement. As of July 1, 2016, we were in compliance with the covenants under the BMO Credit Agreement.

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 January 1, 2016, we elected to finance our insurance premiums for the upcoming fiscal year.

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Contractual obligations

Since January 1, 2016, we closed our acquisition of the assets of Genesys. In connection with that acquisition, we agreed to pay $4.6 million of the purchase price in cash, payable in twenty-four (24) equal monthly installments of $191,667 beginning on April 4, 2016. We also paid $8.9 million in cash, using our cash on hand, on March 4, 2016, the closing date of the acquisition.

As noted in our Annual Report on Form 10-K for the year ended January 1, 2016, we also may be obligated to pay up to $7.9 million in earn-out payments in connection with our acquisition of 360 Energy and Abacus. We are obligated to pay (i) up to $1.4 million in cash, based on the achievement of certain financial targets by Abacus by the end of our 2016 and 2017 fiscal years and (ii) up to $6.5 million in cash, based on the achievement of certain financial targets by WES's division made up of the assets acquired from, and the former employees of 360 Energy, by the end of our 2016, 2017 and 2018 fiscal years.

On April 3, 2015, our wholly-owned subsidiary, WFS closed its acquisition of substantially all of the assets of Economists LLC. WFS may be obligated to pay Economists LLC up to $0.6 million in cash, based on the achievement of certain financial targets by the WFS division made up of the assets acquired from, and the former employees of Economists LLC at the end of our 2016 and 2017 fiscal years.

Off-Balance Sheet Arrangements

Other than operating lease commitments, we do not have any off-balance sheet financing arrangements or liabilities. In addition, our policy is not to enter into derivative instruments, futures or forward contracts. Finally, we do 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.

Recent Accounting Pronouncements

Revenue Recognition

In May 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers ("ASU 2014-09"), which clarifies existing accounting literature relating to how and when revenue is recognized by an entity. ASU 2014-09 affects any entity that either enters into contracts with customers to transfer

goods or services or enters into contracts for the transfer of nonfinancial assets and supersedes the revenue recognition requirements in Topic 605, Revenue Recognition, and most industry-specific guidance. ASU 2014-09 requires an entity to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. In doing so, an entity will need to exercise a greater degree of judgment and make more estimates than under the current guidance. These may include identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price, and allocating the transaction price to each separate performance obligation. ASU 2014-09 also supersedes some cost guidance included in Subtopic 605-35, Revenue Recognition-Construction-Type and Production-Type Contracts. In August 2015, the FASB issued Update 2015-14, which deferred the implementation of ASU 2014-09 for one year from the initial effective date. ASU 2014-09 is effective for public companies for interim and annual reporting periods beginning after December 15, 2017, and is to be applied either retrospectively or using the cumulative effect transition method, with early adoption not permitted. We have not yet selected a transition method, and are currently evaluating the impact the adoption of ASU 2014-09 will have on our condensed consolidated financial statements and related disclosures.

Consolidations

In February 2015, the FASB issued Update 2015-02, which amends the consolidation requirements in Accounting Standards Codification 810 and changes the consolidation analysis required under GAAP. The standard became effective for us on January 2, 2016. The impact of the new standard on our consolidated financial statements was not material.

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Leases

In February 2016, the FASB issued ASU No. 2016-02, “Leases” (topic 842). The FASB issued this update to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The updated guidance is effective for annual periods beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption of the update is permitted. We are evaluating the impact of the adoption of this update on our consolidated financial statements and related disclosures.

Stock Compensation

On March 30, 2016, the FASB issued ASU No. 2016-09, “Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting,” which amends the current stock compensation guidance. The amendments simplify the accounting for the taxes related to stock-based compensation, including adjustments to how excess tax benefits and a company's payments for tax withholdings should be classified. The standard is effective for fiscal periods beginning after December 15, 2016, with early adoption permitted. We elected to early adopt ASU 2016-09 on a prospective basis, which did not have a material impact for the quarter ended July 1, 2016.

Proposed Accounting Standards

A variety of proposed or otherwise potential accounting standards are currently being studied by standard-setting organizations and certain regulatory agencies. Because of the tentative and preliminary nature of such proposed standards, we have not yet determined the effect, if any, that the implementation of such proposed standards would have on our consolidated financial statements.

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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,” “estima “project,” “potential,” or “continue” or the negative of such terms or other comparable terminology. This report includes, among others, forward-looking statements regarding our:

- Ability to achieve energy savings goals on our contracts;
- Expectations about future customers;
- Expectations regarding the industries and geographies that we primarily serve, including the impact of economic conditions in those industries and geographies;
- Ability to successfully integrate our recent acquisitions;
- Expectations about our 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 and retain executive officers and key employees;
- Expectations about the impact of legislation on our business and that of our customers;
- 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 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 January 1, 2016. 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 $10.5 million as of July 1, 2016. This amount represents cash on hand in business checking accounts with BMO Harris Bank.

We do not engage in trading activities and do not participate in foreign currency transactions or utilize derivative financial instruments.

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We are subject to interest rate risk in connection with borrowings under our revolving line of credit and delayed draw term loan facility, each of which bears interest at variable rates. At July 1, 2016, we had no borrowings outstanding under our $7.5 million revolving credit facility, with $7.5 million available for borrowing after considering the credit agreement's borrowing base calculation and debt covenants, and we had approximately $1.7 million of term loans outstanding that bear interest at variable rates. Borrowings under our 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. Our term loan bears interest at the LIBOR rate plus an applicable margin ranging between 2.25% and 2.75%, currently set at the LIBOR rate plus 2.50%, or 3.1% as of July 1, 2016 and matures on March 24, 2017. We do not have any interest rate hedges or swaps. Based upon the amount outstanding under these loans, a one percentage point change in the assumed interest rate would change our annual interest expense by approximately $17,250 in 2016.

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 July 1, 2016. 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 July 1, 2016. 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.

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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.

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 consolidated financial statements.

City of Glendale v. Willdan Financial Services, Superior Court of California, Los Angeles County

A complaint was filed against us on July 16, 2014 relating to a project performed by Willdan Financial Services to prepare a Cost of Services Analysis (a “COSA”) for the Department of Water and Power of the City of Glendale, California (the “City of Glendale”). The purpose of the COSA was to assist the City of Glendale in setting water rates for property owners. The lawsuit alleges that the City of Glendale suffered damages due to mistakes in the COSA, as follows: the City of Glendale received less revenue than anticipated in an amount exceeding $9,000,000; the City of Glendale was required to retain another consultant to prepare a new COSA at the cost of $130,000; and the City of Glendale incurred costs associated with noticing and conducting public hearings at a cost of $83,052. We deny the

allegations asserted in the lawsuit and will vigorously defend against the claims. Additionally, this matter is covered by our professional liability insurance policy up to its policy limits.

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 January 1, 2016.

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

None.

Item 3. Defaults upon Senior Securities

None.

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Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

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		Form of Director and Officer Indemnification (3).
10.2		Willdan Group, Inc. Amended and Restated 2008 Performance Incentive Plan (4).
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 July 1, 2016 and July 3, 2015; (ii) the Condensed Consolidated Statements of Operations for the three and six months ended July 1, 2016 and July 3, 2015; (iii) the Condensed Consolidated Statements of Stockholders Equity for the three and six months ended July 1, 2016; (iv) the Condensed Consolidated Statement of Cash Flows for the three and six months ended July 1, 2016 and July 3, 2015 and (iv) the Notes to the Condensed Consolidated Financial Statements.

* Filed herewith.

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

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

(3) Incorporated by reference to Willdan Group, Inc.'s Current Report on Form 8-K, filed with the Securities and Exchange Commission on June 13, 2016.

(4) Incorporated by reference to Willdan Group, Inc.'s Current Report on Form 8-K, filed with the Securities and Exchange Commission on June 14, 2016.

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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: August 4, 2016