

# WILLDAN GROUP, INC.

## FORM 10-Q (Quarterly Report)

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Address	2401 EAST KATELLA AVENUE, SUITE 300 ANAHEIM, CA 92806
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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 March 31, 2017

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**

(State or Other Jurisdiction of  
Incorporation or Organization)

**14-195112**

(IRS Employer Identification No.)

**2401 East Katella Avenue, Suite 300**

**Anaheim, California**

(Address of Principal Executive Offices)

**92806**

(Zip Code)

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

**Not Applicable**

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report).

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of May 4, 2017, there were 8,608,561 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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## CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

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

- 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 December 30, 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.

**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****WILLDAN GROUP, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(Unaudited)**

	<u>March 31, 2017</u>	<u>December 30, 2016</u>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 19,440,000	\$ 22,668,000
Accounts receivable, net of allowance for doubtful accounts of \$793,000 and \$785,000 at March 31, 2017 and December 30, 2016, respectively	31,240,000	30,285,000
Costs and estimated earnings in excess of billings on uncompleted contracts	29,179,000	18,988,000
Other receivables	228,000	699,000
Prepaid expenses and other current assets	3,160,000	2,601,000
Total current assets	<u>83,247,000</u>	<u>75,241,000</u>
Equipment and leasehold improvements, net	4,755,000	4,511,000
Goodwill	21,947,000	21,947,000
Other intangible assets, net	5,393,000	5,941,000
Other assets	682,000	707,000
Total assets	<u>\$ 116,024,000</u>	<u>\$ 108,347,000</u>
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 19,870,000	\$ 17,395,000
Accrued liabilities	22,426,000	19,049,000
Contingent consideration payable	1,375,000	1,925,000
Billings in excess of costs and estimated earnings on uncompleted contracts	8,121,000	8,377,000
Notes payable	3,275,000	3,972,000
Capital lease obligations	293,000	334,000
Total current liabilities	<u>55,360,000</u>	<u>51,052,000</u>
Contingent consideration payable	1,745,000	2,537,000
Notes payable	1,500,000	2,074,000
Capital lease obligations, less current portion	162,000	210,000
Deferred lease obligations	708,000	714,000
Deferred income taxes, net	1,870,000	1,842,000
Total liabilities	<u>61,345,000</u>	<u>58,429,000</u>
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$0.01 par value, 10,000,000 shares authorized, no shares issued and outstanding	—	—
Common stock, \$0.01 par value, 40,000,000 shares authorized; 8,559,000 and 8,348,000 shares issued and outstanding at March 31, 2017 and December 30, 2016, respectively	86,000	83,000
Additional paid-in capital	44,493,000	42,376,000
Retained earnings	10,100,000	7,459,000
Total stockholders' equity	<u>54,679,000</u>	<u>49,918,000</u>
Total liabilities and stockholders' equity	<u>\$ 116,024,000</u>	<u>\$ 108,347,000</u>

See accompanying notes to the unaudited condensed consolidated financial statements.

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

	<b>Three Months Ended</b>	
	<b>March 31, 2017</b>	<b>April 1, 2016</b>
Contract revenue	\$ 68,351,000	\$ 33,915,000
Direct costs of contract revenue (exclusive of depreciation and amortization shown separately below):		
Salaries and wages	10,801,000	8,534,000
Subcontractor services and other direct costs	39,895,000	11,733,000
Total direct costs of contract revenue	50,696,000	20,267,000
General and administrative expenses:		
Salaries and wages, payroll taxes and employee benefits	9,315,000	6,761,000
Facilities and facility related	1,124,000	1,110,000
Stock-based compensation	476,000	207,000
Depreciation and amortization	909,000	610,000
Other	3,867,000	3,122,000
Total general and administrative expenses	15,691,000	11,810,000
Income from operations	1,964,000	1,838,000
Other income (expense):		
Interest expense	(33,000)	(50,000)
Other, net	37,000	1,000
Total other income (expense), net	4,000	(49,000)
Income before income taxes	1,968,000	1,789,000
Income tax (benefit) expense	(673,000)	711,000
Net income	\$ 2,641,000	\$ 1,078,000
Earnings per share:		
Basic	\$ 0.32	\$ 0.13
Diluted	\$ 0.30	\$ 0.13
Weighted-average shares outstanding:		
Basic	8,281,000	7,996,000
Diluted	8,854,000	8,244,000

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

**WILLDAN GROUP, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY**  
**(Unaudited)**

	<u>Common Stock</u>		<u>Additional</u>	<u>Retained Earnings</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>	<u>Paid-in</u> <u>Capital</u>		
Balance at December 30, 2016	8,348,000	\$ 83,000	\$ 42,376,000	\$ 7,459,000	\$ 49,918,000
Shares of common stock issued in connection with employee stock purchase plan	38,000	1,000	343,000	—	344,000
Shares of common stock issued in connection with incentive stock plan	173,000	2,000	1,298,000	—	1,300,000
Stock-based compensation expense	—	—	476,000	—	476,000
Net income	—	—	—	2,641,000	2,641,000
Balance at March 31, 2017	<u>8,559,000</u>	<u>\$ 86,000</u>	<u>\$ 44,493,000</u>	<u>\$ 10,100,000</u>	<u>\$ 54,679,000</u>

See accompanying notes to the unaudited condensed consolidated financial statements

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

	<b>Three Months Ended</b>	
	<b>March 31,</b>	<b>April 1,</b>
	<b>2017</b>	<b>2016</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 2,641,000	\$ 1,078,000
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	919,000	610,000
Deferred income taxes, net	28,000	269,000
Provision for doubtful accounts	8,000	31,000
Stock-based compensation	476,000	207,000
Accretion and fair value adjustments of contingent consideration	167,000	(28,000)
Changes in operating assets and liabilities, net of effects from business acquisitions:		
Accounts receivable	(963,000)	(2,259,000)
Costs and estimated earnings in excess of billings on uncompleted contracts	(10,191,000)	(2,231,000)
Other receivables	471,000	(20,000)
Prepaid expenses and other current assets	(559,000)	(236,000)
Other assets	25,000	10,000
Accounts payable	2,475,000	(636,000)
Accrued liabilities	3,377,000	(864,000)
Billings in excess of costs and estimated earnings on uncompleted contracts	(256,000)	2,410,000
Deferred lease obligations	(6,000)	32,000
Net cash used in operating activities	<u>(1,388,000)</u>	<u>(1,627,000)</u>
<b>Cash flows from investing activities:</b>		
Purchase of equipment and leasehold improvements	(583,000)	(257,000)
Cash paid for acquisitions, net of cash acquired	—	(8,857,000)
Net cash used in investing activities	<u>(583,000)</u>	<u>(9,114,000)</u>
<b>Cash flows from financing activities:</b>		
Payments on contingent consideration	(1,508,000)	—
Payments on notes payable	(1,272,000)	(939,000)
Principal payments on capital lease obligations	(121,000)	(128,000)
Proceeds from stock option exercise	1,300,000	47,000
Proceeds from sales of common stock under employee stock purchase plan	344,000	113,000
Net cash used in financing activities	<u>(1,257,000)</u>	<u>(907,000)</u>
Net decrease in cash and cash equivalents	(3,228,000)	(11,648,000)
Cash and cash equivalents at beginning of period	22,668,000	16,487,000
Cash and cash equivalents at end of period	<u>\$ 19,440,000</u>	<u>\$ 4,839,000</u>
<b>Supplemental disclosures of cash flow information:</b>		
Cash paid during the period for:		
Interest	\$ 33,000	\$ 49,000
Income taxes	249,000	686,000
<b>Supplemental disclosures of noncash investing and financing activities:</b>		
Issuance of notes payable related to business acquisitions	\$ —	4,569,000
Issuance of common stock related to business acquisitions	—	2,230,000
Equipment acquired under capital leases	32,000	884,000

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

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

**March 31, 2017**  
**(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 2016 Annual Report on Form 10-K filed on March 10, 2017.

***Nature of Business***

Willdan Group, Inc. and subsidiaries (the “Company”) is a provider of professional technical and consulting services, including comprehensive energy efficiency services, 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, New Jersey, Ohio, Oregon, Texas, Utah, 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.

As of March 30, 2017, the Company had one variable interest entity (“VIE”). The Company manages the VIE and has the power to direct the activities that most significantly impact the joint venture’s performance, in addition to being obligated to absorb expected losses or receive benefits from the joint venture. Accordingly, the Company is the primary beneficiary of this VIE and consolidates the entity.

The Company accounts for variable interest entities in accordance with ASC 810, Consolidation (“ASC 810”). Under ASC 810, a VIE is created when: (a) the equity investment at risk in the entity is not sufficient to permit the entity to finance its activities without additional subordinated financial support provided by other parties, including the equity holders; (b) the entity’s equity holders as a group either (i) lack the direct or indirect ability to make decisions about the entity, (ii) are not obligated to absorb expected losses of the entity or (iii) do not have the right to receive expected residual returns of the entity; or (c) the entity’s equity holders have voting rights that are not proportionate to their economic interests, and the activities of the entity involve or are conducted on behalf of the equity holder with

disproportionately few voting rights. If an entity is deemed to be a VIE pursuant to ASC 810, the enterprise that has both (i) the power to direct the activities of a VIE that most significantly impact the entity’s economic performance and (ii) the obligation to absorb the expected losses of the entity or right to receive benefits from the entity that could be potentially significant to the VIE is considered the primary beneficiary and must consolidate the VIE. In accordance with ASC 810, the Company performs ongoing reassessments of whether an enterprise is the primary beneficiary of a VIE.

***Segment Information***

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

***Contract Accounting***

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	Time-and-materials, unit-based and fixed price (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. Many of the Company’s fixed price contracts involve a high degree of subcontracted fixed price effort and are relatively short in duration, thereby lowering the risks of not properly estimating the percent complete. Revenue on time-and-materials and unit-based contracts is recognized as the work is performed in accordance with the specific rates and 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.

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 allowances for doubtful accounts through specific identification of amounts considered to be uncollectible and potential write-offs, plus a non-specific allowance for other amounts for which some potential loss has been determined to be probable based on current and past experience. The Company's credit risk is minimal with governmental entities and large public utilities, 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 March 31, 2017 and December 30, 2016, the Company had retained accounts receivable of approximately \$6.2 million and \$5.2 million, respectively.

### ***Goodwill***

Goodwill represents the excess of costs over fair value of the assets acquired. The Company completes its annual testing of goodwill as of the last day of the first month of its fourth fiscal quarter each year to determine whether there is impairment. Goodwill, which has an indefinite useful life, is not amortized, but instead tested for impairment at least annually or more frequently if events and circumstances indicate that the asset might be impaired. Impairment losses for reporting units are recognized to the extent that a reporting unit's carrying amount exceeds its fair value.

### ***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 \$19.4 million of cash and cash equivalents as of March 31, 2017. 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, N.A. ("BMO"), which matures on January 20, 2020 (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.

### ***Recent Accounting Pronouncements***

#### ***Statement of Cash Flows***

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows: Clarification of Certain Cash Receipts and Cash Payments, which eliminates the diversity in practice related to the classification of certain cash receipts and payments in the statement of cash flows, by adding or clarifying guidance on eight specific cash flow issues. ASU 2016-15 is effective for annual and interim reporting periods beginning after December 15, 2017 and early adoption is permitted. ASU 2016-15 provides for retrospective application for all periods presented. The Company does not believe the guidance will have a material impact on its consolidated financial statements.

### *Revenue Recognition*

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers, 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 defers 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. In December 2016, the FASB issued ASU 2016-20, Revenue from Contracts with Customers (Topic 606), which further clarifies the current revenue recognition guidance. This update is intended to increase stakeholders' awareness of the proposals and to expedite improvements to ASU 2014-09. The Company is continuing to evaluate the impact that the new standard will have on the contract portfolio. The Company's approach will include a detailed review of contracts and comparing historical accounting policies and practices to the new standard. Because the standard may impact the Company's business processes, systems and controls, the Company will also develop a comprehensive change management plan to guide the implementation if, and as needed. The Company will adopt the requirements of the new standard effective December 30, 2017 and the Company has not yet selected a transition method. The Company is currently evaluating the impact the adoption of ASU 2016-20 will have on the Company's consolidated financial statements and related disclosures. The Company will adopt the requirements of the new standard effective December 30, 2017, and the Company has not yet selected a transition method.

### *Stock Compensation*

In March 2016, the FASB issued ASU 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 elected to early adopt ASU 2016-09 on a prospective basis in 2016.

### *Business Combinations*

In January 2017, the FASB issued ASU 2017-01, Business Combinations (Topic 805), which specifies the definition of a business that affects many areas of accounting including acquisitions, disposals, goodwill, and consolidation. The Company does not believe the guidance will have a material impact on its consolidated financial statements.

### *Leases*

In February 2016, the FASB issued ASU 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.

*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, 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 Willdan Group, Inc., 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 the Company's 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 \$15.1 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) 255,808 shares of common stock, par value \$0.01 per share, of Willdan Group, Inc. (the "Common Stock"), with a fair value on the date of closing of \$2.2 million, (iii) \$4.6 million in cash, payable in twenty-four (24) equal monthly installments beginning on March 26, 2016 (the "Installment Payments"), and (iv) offset by a \$0.6 million receivable paid to WES for working capital adjustments. 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 at closing.

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' engineering services. 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 a business combination 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 into new markets. The Company estimates that the entire \$6.2 million of goodwill resulting from the acquisition will be tax deductible. Consideration for the acquisition includes the following:

	<u>Genesys</u>
Cash paid, net of cash acquired	\$ 8,857,000
Other receivable for working capital adjustment	(604,000)
Issuance of common stock	2,228,000
Deferred purchase price, payable in 24 monthly installments	4,569,000
Total consideration	<u>\$ 15,050,000</u>

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

	<u>Genesys</u>
Current assets	\$ 14,952,000
Non-current assets	36,000
Cash	101,000
Property, plant and equipment	117,000
Liabilities	(12,643,000)
Customer relationships	3,260,000
Backlog	1,050,000
Tradename	1,690,000
Non-compete agreements	320,000
Goodwill	6,167,000
Net assets acquired	<u>\$ 15,050,000</u>

During the three months ended March 31, 2017, the acquisition of substantially all of the assets of Genesys contributed \$22.0 million in revenue and \$0.8 million of income from operations. There were no acquisition costs recorded during the three months ended March 31, 2017.

### 3. GOODWILL AND OTHER INTANGIBLE ASSETS

As of March 31, 2017, the Company had \$21.9 million of goodwill, which primarily relates to the Energy Efficiency Services reporting segment and the acquisition of substantially all of the assets of Genesys and 360 Energy Engineers, LLC (“360 Energy”) and the acquisition of Abacus Resource Management Company (“Abacus”) and also relates to the Public Finance Services reporting segment and the acquisition of Economists.com LLC. There were no changes in the carrying value of goodwill by reporting unit for the three months ended March 31, 2017 as the following table indicates:

<b>Reporting Unit:</b>	<u>December 30, 2016</u>	<u>Additions</u>	<u>Adjustments</u>	<u>March 31, 2017</u>
Energy Efficiency Services	\$ 21,198,000	\$ —	\$ —	\$ 21,198,000
Financial Services	749,000	—	—	749,000
	<u>\$ 21,947,000</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 21,947,000</u>

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The gross amounts and accumulated amortization of the Company's acquired identifiable intangible assets with finite useful lives as of March 31, 2017 included in other intangible assets, net in the accompanying condensed consolidated balance sheets, were as follows:

	March 31, 2017		December 30, 2016		Amortization Period (yrs)
	Gross Amount	Accumulated Amortization	Gross Amount	Accumulated Amortization	
Backlog	\$ 1,398,000	\$ 726,000	\$ 1,398,000	\$ 639,000	5.0
Tradename	2,739,000	1,370,000	2,739,000	1,142,000	2.5 - 3.5
Non-compete agreements	1,331,000	533,000	1,331,000	463,000	4.0
Customer relationships	3,260,000	706,000	3,260,000	543,000	5.0
	<u>\$ 8,728,000</u>	<u>\$ 3,335,000</u>	<u>\$ 8,728,000</u>	<u>\$ 2,787,000</u>	

The Company's amortization expense for acquired identifiable intangible assets with finite useful lives was \$0.5 million for the fiscal three months ended March 31, 2017 as compared to \$0.3 million for the fiscal three months ended April 1, 2016. Estimated amortization expense for acquired identifiable intangible assets for the remainder of fiscal 2017 is \$1.6 million and the succeeding years are as follows:

**Fiscal year:**

2018	\$ 1,951,000
2019	1,087,000
2020	674,000
2021	109,000
	<u>\$ 3,821,000</u>

**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	
	March 31, 2017	April 1, 2016
Net income	\$ 2,641,000	\$ 1,078,000
Weighted-average common shares outstanding	8,281,000	7,996,000
Effect of dilutive stock options and restricted stock awards	573,000	248,000
Weighted-average common stock outstanding-diluted	<u>8,854,000</u>	<u>8,244,000</u>
Earnings per share:		
Basic	\$ 0.32	\$ 0.13
Diluted	<u>\$ 0.30</u>	<u>\$ 0.13</u>

For the three months ended March 31, 2017, 10,000 options were excluded from the calculation of dilutive potential common shares, as compared to 516,000 options for the three months ended April 1, 2016. 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 2017 and 2016 periods. Accordingly, the inclusion of these options would have been anti-dilutive.

## 5. EQUIPMENT AND LEASEHOLD IMPROVEMENTS

Equipment and leasehold improvements consist of the following:

	March 31, 2017	December 30, 2016
Furniture and fixtures	\$ 2,705,000	\$ 2,353,000
Computer hardware and software	7,815,000	7,686,000
Leasehold improvements	1,116,000	1,094,000
Equipment under capital leases	972,000	1,076,000
Automobiles, trucks, and field equipment	1,526,000	1,446,000
	<u>14,134,000</u>	<u>13,655,000</u>
Accumulated depreciation and amortization	(9,379,000)	(9,144,000)
Equipment and leasehold improvements, net	<u>\$ 4,755,000</u>	<u>\$ 4,511,000</u>

## 6. ACCRUED LIABILITIES

Accrued liabilities consist of the following:

	March 31, 2017	December 30, 2016
Accrued bonuses	\$ 1,014,000	\$ 2,090,000
Accrued interest	2,000	1,000
Paid leave bank	2,291,000	2,129,000
Compensation and payroll taxes	1,243,000	2,006,000
Accrued legal	154,000	177,000
Accrued workers' compensation insurance	185,000	81,000
Accrued rent	174,000	166,000
Employee withholdings	1,132,000	1,337,000
Client deposits	155,000	139,000
Unvouchered accounts payable	14,761,000	8,100,000
Other	1,315,000	2,823,000
Total accrued liabilities	<u>\$ 22,426,000</u>	<u>\$ 19,049,000</u>

## 7. DEBT

Total debt obligations consist of the following:

	March 31, 2017	December 30, 2016
Outstanding borrowings on revolving credit facility	\$ 1,500,000	\$ —
Outstanding borrowings on delayed draw term loan	—	1,500,000
Notes payable for 360 Energy, bearing interest at 4%, payable in monthly principal and interest installments of \$88,752 through December 2017.	773,000	1,031,000
Notes payable for Abacus, bearing interest at 4%, payable in monthly principal and interest installments of \$54,281 through January 2017.	—	54,000
Notes payable for insurance, bearing interest at 2.98%, payable in monthly principal and interest installments of \$67,620 through October 2017.	400,000	599,000
Deferred purchase price for the acquisition of substantially all of the assets of Genesys, bearing interest at 0.650%, payable in monthly principal and interest installments of \$191,667 through March 2018.	2,102,000	2,862,000
Total debt obligations	<u>4,775,000</u>	<u>6,046,000</u>
Less current portion	3,275,000	3,972,000
Debt obligations, less current portion	<u>\$ 1,500,000</u>	<u>\$ 2,074,000</u>

*BMO Credit Facility*. On January 20, 2017, Willdan Group, Inc. and each of its subsidiaries, as guarantors (the “Guarantors”), entered into an Amended and Restated Credit Agreement (the “Credit Agreement”) with BMO as lender. The Credit Agreement amends and extends the Company’s prior credit agreement with BMO (the “Prior Credit Agreement”), which was set to mature on March 24, 2017. The Credit Agreement provides for a \$35.0 million revolving line of credit, including a \$10.0 million standby letter of credit sub-facility, and matures on January 20, 2020. Subject to satisfying certain conditions described in the Credit Agreement, the Company may request that BMO increase the aggregate amount under the revolving line of credit by up to \$25.0 million, for a total facility size of \$60.0 million; however, BMO is not obligated to do so. Unlike the Prior Credit Agreement, the revolving line of credit is no longer subject to a borrowing base limitation and the Credit Agreement no longer includes a delayed draw term loan facility.

Borrowings under the Credit Agreement bear interest at a rate equal to either, at the Company’s option, (i) the highest of the prime rate, the Federal Funds Rate plus 0.5% or one-month LIBOR plus 1% (the “Base Rate”) or (ii) LIBOR, in each case plus an applicable margin ranging from 0.25% to 1.00% with respect to Base Rate borrowings and 1.25% to 2.00% with respect to LIBOR borrowings. The applicable margin will be based upon the consolidated leverage ratio of the Company. The Company will also be required to pay a commitment fee for the unused portion of the revolving line of credit, which will range from 0.20% to 0.35% per annum, and fees on any letters of credit drawn under the facility, which will range from 0.94% to 1.50%, in each case, depending on the Company’s consolidated leverage ratio.

Borrowings under the revolving line of credit are guaranteed by all of the Company’s direct and indirect subsidiaries and secured by substantially all of the Company’s and the Guarantors’ assets.

The Credit Agreement contains customary representations and affirmative covenants, including certain notice and financial reporting requirements. The Credit Agreement also requires compliance with financial covenants that require the Company to maintain a maximum total leverage ratio and a minimum fixed charge coverage ratio.

The Credit Agreement includes customary negative covenants, including (i) restrictions on the incurrence of additional indebtedness by the Company or the Guarantors and the incurrence of additional liens on property, (ii) restrictions on permitted acquisitions, including that the total consideration payable for all permitted acquisitions (including potential future earn-out obligations) shall not exceed \$20.0 million during the term of the Credit Agreement and the total consideration for any individual permitted acquisition shall not exceed \$10.0 million without BMO’s consent, and (iii) limitations on asset sales, mergers and acquisitions. Further, the Credit Agreement limits the payment of future dividends and distributions and share repurchases by the Company; however, the Company is permitted to repurchase up to \$8.0 million of shares of common stock under certain conditions, including that, at the time of any such repurchase, (a) the Company is able to meet the financial covenant requirements under the Credit Agreement after giving effect to the share repurchase, (b) the Company has at least \$5.0 million of liquidity (unrestricted cash or undrawn availability under the revolving line of credit), and (c) no default exists or would arise under the Credit Agreement after giving effect to such repurchase. In addition, the Credit Agreement includes customary events of default. Upon the occurrence of an event of default, the interest rate will be increased by 2.0%, BMO has the option to make any loans then outstanding under the Credit Agreement immediately due and payable, and BMO is no longer obligated to extend further credit to the Company under the Credit Agreement.

To finance the acquisitions of Abacus and substantially all of the assets of 360 Energy on January 15, 2015, the Company borrowed \$2.0 million under its delayed draw term loan facility pursuant to the Company’s Prior Credit Agreement. On January 20, 2017, the remaining \$1.5 million of borrowings outstanding under the delayed draw term loan facility was converted into \$1.5 million of borrowings under the revolving credit facility pursuant to the Credit Agreement.

As of March 31, 2017, the Company was in compliance with the financial covenants under the Credit Agreement.

*Notes Payable*. 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 were fully amortizing and payable in equal monthly installments between January 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, pursuant to which any indebtedness under the Abacus Notes is subordinated to any indebtedness under the Credit Agreement. From issuance through March 31, 2017, the Company had made principal payments of approximately \$0.6 million on each of the Abacus Notes and, as of March 31, 2017, there were no outstanding balances for either of the Abacus Notes.

On January 15, 2015, in connection with the completion of the acquisition of substantially all of the assets 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, pursuant to which any indebtedness under the 360 Energy Note is subordinated to any indebtedness under the Credit Agreement. From issuance through March 31, 2017, the Company had made principal payments of approximately \$ 2.2 million on the 360 Energy Note and, as of March 31, 2017, the outstanding balance was \$ 0.8 million.

*Deferred Purchase Price.* The Asset Purchase and Merger Agreement for the acquisition of substantially all of the assets of Genesys dated March 4, 2016, included deferred payments to Messrs. Braun and Mineo in the amount of \$2.3 million (“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. From issuance through March 31, 2017, the Company made payments of \$ 1.2 million inclusive of interest and, as of March 31, 2017, the outstanding balances on the Deferred Payments to each of Messrs. Braun and Mineo was approximately \$ 1.1 million .

*Insurance Premiums .* The Company has also financed, from time to time, insurance premiums by entering into unsecured notes payable with insurance companies. During the Company’s annual insurance renewals in the fourth quarter of its fiscal year ended December 30, 2016, the Company elected to finance its insurance premiums for the upcoming fiscal year. The unpaid balance of the financed premiums totaled \$400,000 and \$599,000 for the three months ended March 31, 2017 and December 30, 2016, respectively.

## **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 member 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 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 each fiscal year, management assesses the available positive and negative evidence to estimate if sufficient future taxable income will be generated to utilize the existing deferred tax assets. For fiscal year 2016, the Company ultimately determined that it was more-likely-than-not that the entire California net operating loss will not 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 the Company's forecasted amount of net operating loss utilization for certain members of the combined group. As a result, the Company recorded a valuation allowance in the amount of \$72,000 at the end of fiscal year 2016 related to California net operating losses. There was no change to the valuation allowance as of March 31, 2017.

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 March 31, 2017, the Company recorded a liability of \$0.3 million for uncertain tax positions related to miscellaneous tax deductions taken in open tax years. Included in this amount are \$0.1 million of tax benefits that, if recognized, would affect the effective tax rate. No interest and penalties have been recorded related to unrecognized tax benefits as of March 31, 2017.

Based on management's estimates and determination of an effective tax rate for the year, the Company recorded an income tax benefit of \$0.7 million for the three months ended March 31, 2017, as compared to an income tax

expense of \$0.7 million for the three months ended April 1, 2016. During the three months ended March 31, 2017, the difference between the tax benefit recorded and the expense that would be recorded by applying the federal statutory rate is primarily attributable to tax deductions related to stock option exercises which were significant in the three months ended March 31, 2017. In accordance with ASU 2016-09 (see Note 1 “—Basis of Presentation, Organization and Operations of the Company”), the income tax benefit related to stock option exercises has been included as a reduction of 55.5% to the Company’s effective tax rate for the quarter ended March 31, 2017. The effective tax rate also varies from the federal statutory rate due to the impact of state income tax expense, an adjustment to the estimate of the deferred tax asset related to stock options from fiscal year 2016, and certain expenses that are non-deductible for tax purposes, including meals and entertainment, compensation expense related to incentive stock options, and employee gifts.

## 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 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 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 2016 Annual Report on Form 10-K filed on March 10, 2017. There were no intersegment sales in the three month periods ended March 31, 2017 and April 1, 2016. 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 months ended March 31, 2017 and as of and for the fiscal three months ended April 1, 2016 is as follows:

	Energy Efficiency Services	Engineering Services	Public Finance Services	Homeland Security Services	Unallocated Corporate	Intersegment	Consolidated Total
<b>Fiscal Three Months Ended March 31, 2017</b>							
Contract revenue	\$ 50,114,000	\$ 14,376,000	\$ 3,238,000	\$ 623,000	\$ —	\$ —	\$ 68,351,000
Segment profit (loss) before income tax expense	283,000	1,991,000	186,000	(26,000)	(466,000)	—	1,968,000
Net income (loss)	379,000	2,673,000	249,000	(35,000)	(625,000)	—	2,641,000
Segment assets(1)	74,185,000	13,059,000	5,834,000	796,000	45,280,000	(23,130,000)	116,024,000
<b>Fiscal Three Months Ended April 1, 2016</b>							
Contract revenue	\$ 18,979,000	\$ 11,262,000	\$ 2,989,000	\$ 685,000	\$ —	\$ —	\$ 33,915,000
Segment profit (loss) before income tax expense	890,000	1,067,000	50,000	25,000	(243,000)	—	1,789,000
Net income (loss)	536,000	643,000	30,000	15,000	(146,000)	—	1,078,000
Segment assets(1)	66,886,000	13,983,000	5,964,000	1,369,000	28,310,000	(23,130,000)	93,382,000

(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 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 alleged 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 City of Glendale sought monetary damages. The Company denied the allegations asserted in the lawsuit. The City of Glendale and the Company have settled this suit within insurance policy limits. The City of Glendale agreed to voluntarily dismiss the suit with prejudice and agreed to release any and all claims that it may have against the Company, whether known or unknown, pertaining to the subject matter of the suit. The settlement does not impose any restrictions on the Company.

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

### Overview

We are a provider of professional technical and consulting services to utilities, private industry, and public agencies at all levels of government. 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 nationwide network of offices in Arizona, California, Colorado, Florida, Illinois, Kansas, New Jersey, New York, Ohio, Oregon, Texas, Utah, Washington and Washington, DC. As of March 31, 2017, we had 831 employees 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 Illinois, New Jersey, Ohio, Texas, Utah and Washington. We currently serve 19 major utility customers across the country. Our business with public agencies is concentrated in Arizona, California and New York. 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 private sector projects. Since expanding into energy efficiency services, our client base has grown to include investor-owned and other public utilities as well as substantial energy users in government and business.

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 and is offered to clients under a variety of business names, including Willdan Energy Solutions, Abacus Resource Management, 360 Energy Engineers and Genesys Engineering. This segment is currently our largest segment based on contract revenue, representing approximately 73.3% and 56.0% of our consolidated contract revenue for the three months ended March 31, 2017 and April 1, 2016, respectively.

*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 21.0% and 33.2% of our consolidated contract revenue for the three months ended March 31, 2017 and April 1, 2016, 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 4.7% and 8.8% of our consolidated contract revenue for the three months ended March 31, 2017 and April 1, 2016, 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 0.9% and 2.0% of our consolidated contract revenue for the three months ended March 31, 2017 and April 1, 2016, respectively.

## **Components of Revenue and Expense**

### ***Contract Revenue***

We generally provide our services under contracts, purchase orders or retainer letters. The agreements we enter into with our clients typically incorporate one of four principal types of pricing provisions: time and materials, unit based, fixed price and service-related contracts. 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 half of our contracts are unit based or based on contractual rates per hour plus costs incurred. Some of these contracts include maximum contract prices, but contract maximums are often adjusted to reflect the level of effort to achieve client objectives and thus 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 involve a high degree of subcontracted fixed price effort and are relatively short in duration, thereby lowering the risks of not properly estimating the percent complete. Our 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 cost of performance.

Adjustments to contract cost estimates are made in the periods in which the facts requiring such revisions become known. When the revised estimate indicates a loss, such loss is 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 contracts, the renewal, termination or modification of a contract, in particular contracts with Consolidated Edison of New York, Inc. and the Dormitory Authority-State of New York, may have a material effect on our consolidated operations.

Some of our contracts include certain performance guarantees, such as a guaranteed energy saving quantity. Such guarantees are generally measured upon completion of a project. In the event that the measured performance level is less than the guaranteed level, any resulting financial penalty, including any additional work that may be required to fulfill the guarantee, is estimated and charged to direct expenses in the current period. We have not experienced any significant costs under such guarantees.

### ***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 material costs, subcontractor services, equipment 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 of our personnel are included in general and administrative expenses since no allocation of these 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 December 30, 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.

<b>Segment</b>	<b>Types of Contract (Revenue Recognition Method)</b>
Energy Efficiency Services	Time-and-materials, unit-based and fixed price (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 rates and 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 fixed price and 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 quarterly basis. Management determines allowances for doubtful accounts through specific identification of amounts considered to be uncollectible and potential write-offs, plus a non-specific allowance for other amounts for which some potential loss has been determined to be probable based on current and past experience. Our credit risk is minimal with governmental entities and large public utilities, but disputes may arise related to these receivable amounts. 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 December 30, 2016.

### ***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 three months ended

March 31, 2017 and April 1, 2016. We had goodwill of approximately \$21.9 million as of March 31, 2017 as the result of our various acquisitions in 2015 and 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 FASB issued ASU 2011-08, Intangibles—Goodwill and Other (Topic 350): Testing Goodwill for Impairment. This accounting guidance allows companies to perform a qualitative assessment on goodwill impairment to determine whether a quantitative assessment is necessary. The process of testing goodwill for impairment, pursuant to ASU 2011-08, now involves an optional qualitative assessment on goodwill impairment of our reporting units to determine whether a quantitative assessment is necessary. If a quantitative assessment is warranted, we then determine the fair value of the applicable reporting units. To estimate the fair value of our reporting units, we use both an income approach based on management's estimates of future cash flows and other market data and a market approach based upon multiples of EBITDA earned by similar public companies.

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

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

#### ***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 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 non-controlling 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 recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined, including the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date.

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 included elsewhere in this report.

### ***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 each fiscal year, management assesses the available positive and negative evidence to estimate if sufficient future taxable income will be generated to utilize the existing deferred tax assets. For fiscal year 2016, we ultimately determined that it was more-likely-than-not that the entire California net operating loss will not 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. As a result, we recorded a valuation allowance in the amount of \$72,000 at the end of fiscal year 2016 related to California net operating losses. There was no change to the valuation allowance as of March 31, 2017.

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.

## 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.

	<b>Fiscal Three Months Ended</b>	
	<b>March 31, 2017</b>	<b>April 1, 2016</b>
<b>Statement of Operations Data:</b>		
	%	
Contract revenue	100.0	100.0 %
Direct costs of contract revenue (exclusive of depreciation and amortization shown separately below):		
Salaries and wages	15.8	25.2
Subcontractor services and other direct costs	58.4	34.6
Total direct costs of contract revenue	74.2	59.8
General and administrative expenses:		
Salaries and wages, payroll taxes and employee benefits	13.6	19.9
Facilities and facility related	1.6	3.3
Stock-based compensation	0.7	0.6
Depreciation and amortization	1.3	1.8
Other	5.7	9.2
Total general and administrative expenses	23.0	34.8
Income from operations	2.9	5.4
Other income (expense):		
Interest expense	—	(0.1)
Other, net	0.1	—
Total other income (expense), net	0.1	(0.1)
Income before income taxes	2.9	5.3
Income tax (benefit) expense	(1.0)	2.1
	%	
Net income	3.9	3.2 %

### Three Months Ended March 31, 2017 Compared to Three Months Ended April 1, 2016

*Contract revenue* Our contract revenue was \$68.4 million for the three months ended March 31, 2017, with \$50.1 million attributable to the Energy Efficiency Services segment, \$14.4 million attributable to the Engineering Services segment, \$3.2 million attributable to the Public Finance Services segment, and \$0.6 million attributable to the Homeland Security Services segment. Consolidated contract revenue increased \$34.4 million, or 101.5%, to \$68.4 million for the three months ended March 31, 2017 as compared to \$33.9 million for the three months ended April 1, 2016. Included in the increase in consolidated contract revenue and contract revenue in our Energy Efficiency Services segment was incremental contract revenue of \$18.1 million attributable to our acquisition of substantially all of the assets of Genesys that we completed on March 4, 2016. Excluding the incremental contract revenue from such acquisition, our consolidated contract revenue increased by \$16.3 million primarily due to the ramp up of new contracts for energy efficiency services in California, Kansas, New York and Utah.

Contract revenue in our Energy Efficiency Services segment increased \$31.1 million, or 164.0%, to \$50.1 million for the three months ended March 31, 2017 as compared to \$19.0 million for the three months ended April 1, 2016. Excluding incremental revenue from our acquisition of substantially all of the assets of Genesys, revenue in our Energy Efficiency Services segment increased as a result of increased revenue generated from the ramp up of new contracts for energy efficiency services in California, Kansas, New York and Utah. Contract revenue for the Engineering Services segment increased \$3.1 million, or 27.7%, to \$14.4 million, for the three months ended March 31, 2017 as compared to \$11.3 million for the three months ended April 1, 2016. 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 Finance Services

segment increased \$0.2 million, or 8.3%, to \$ 3.2 million for the three months ended March 31, 2017 as compared to \$3.0 million for the three months ended April 1, 2016. Contract revenue for the Homeland Security Services segment decreased by \$0.1 million, or 9.1% for the three months ended March 31, 2017 to \$0.6 million as compared to \$0.7 million for the three months ended April 1, 2016. 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 \$50.7 million for the three months ended March 31, 2017, with \$40.6 million attributable to the Energy Efficiency Services segment, \$8.3 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 March 31, 2017 was direct costs of revenue of \$19.5 million attributable to our acquisition of substantially all of the assets of Genesys. Overall, direct costs increased by \$30.4 million, or 150.1%, to \$50.7 million for the three months ended March 31, 2017 from \$20.3 million for the three months ended April 1, 2016. This increase is primarily attributable to increases in direct costs within our Energy Efficiency Services of \$28.3 million, or 230.2%, which includes \$16.1 million contributed by Genesys. Excluding the acquisition of substantially all of the assets of Genesys for the Energy Efficiency Services segment, direct costs for Energy Efficiency Services increased by \$12.2 million, primarily due to higher use of subcontractor services and increases in salaries and wages. Direct costs for the Engineering Services increased \$2.1 million, or 34.2%. Direct costs of contract revenue in our Public Finance Services and Homeland Security Services segments remained flat.

Direct costs increased as a result of increases in salaries and wages of \$2.3 million and an increase in subcontractor services and other direct costs of \$28.2 million. Within direct costs of contract revenue, salaries and wages decreased to 15.8% of contract revenue for the three months ended March 31, 2017 from 25.2% for the three months ended April 1, 2016 and subcontractor services and other direct costs increased to 58.4% of contract revenue for the three months ended March 31, 2017 from 34.6% of contract revenue for the three months ended April 1, 2016. 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.

*General and administrative expenses.* General and administrative expenses increased by \$3.9 million, or 32.9%, to \$15.7 million for the three months ended March 31, 2017 from \$11.8 million for the three months ended April 1, 2016. This was due primarily to increases of \$3.5 million, \$0.1 million and \$0.1 million, in general and administrative expenses of the Energy Efficiency Services, Engineering Services and Public Finance Services segments. Homeland Security Services segment general and administrative expenses remained relatively flat. Unallocated corporate expenses increased by \$0.2 million. General and administrative expenses as a percentage of contract revenue decreased to 23.0% for the three months ended March 31, 2017 as compared to 34.8% for the three months ended April 1, 2016.

Of the \$3.9 million increase in general and administrative expenses, approximately \$2.6 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 \$0.7 million. Depreciation and amortization expenses increased by \$0.3 million. Facilities and facility related expenses remained relatively flat. Stock-based compensation expenses increased by \$0.3 million.

*Income from operations.* As a result of the above factors, our operating income was \$2.0 million for the three months ended March 31, 2017 as compared to operating income of \$1.8 million for the three months ended April 1, 2016. Income from operations as a percentage of contract revenue was 2.9% for the three months ended March 31, 2017, as compared to 5.4% in the prior year period. The decrease in operating margin was primarily due to new projects and programs that required additional resources and resulted in higher subcontractor costs, increased labor costs, and added focus on business development.

*Total other income (expense), net.* Total other income, net was \$4,000 for the three months ended March 31, 2017, as compared to total other expense, net of \$49,000 for the three months ended April 1, 2016. This decrease in expense is primarily the result of lower interest expense during the quarter ended March 31, 2017.

*Income tax (benefit) expense.* Income tax benefit was \$0.7 million for the three months ended March 31, 2017, as compared to an income tax expense of \$0.7 million for the three months ended April 1, 2016. The decrease of \$1.4 million, or 194.7% is primarily due to tax deductions related to stock option exercises. During the three months ended March 31, 2017, the difference between the tax benefit recorded and the expense that would be recorded by applying the federal statutory rate is primarily attributable to tax deductions related to stock option exercises which were significant in the three months ended March 31, 2017. In accordance with ASU 2016-09 (see Note 1 “—Basis of Presentation, Organization and Operations of the Company”), the income tax benefit related to stock option exercises has been included as a reduction of 55.5% to our effective tax rate for the quarter ended March 31, 2017. The effective tax rate also varies from the federal statutory rate due to the impact of state income tax expense, an adjustment to the estimate of the deferred tax asset related to stock options from fiscal year 2016, and certain expenses that are non-deductible for tax purposes, including meals and entertainment, compensation expense related to incentive stock options, and employee gifts.

*Net income.* As a result of the above factors, our net income was \$2.6 million for the three months ended March 31, 2017, as compared to net income of \$1.1 million for the three months ended April 1, 2016.

## **Liquidity and Capital Resources**

As of March 31, 2017, we had \$19.4 million of cash and cash equivalents. Our cash decreased by \$3.2 million since December 30, 2016 primarily due to cash used in operations of \$1.4 million and payments of \$2.8 million for contingent consideration and on notes payable related to our acquisitions, offset by \$1.3 million proceeds from stock option exercises. Our primary source of liquidity is cash generated from operations. We also have a revolving line of credit with BMO Harris Bank N.A. (“BMO”), which matures on January 20, 2020 and provides for a revolving line of credit of up to \$35.0 million, including a \$10.0 million standby letter of credit sub-facility. Subject to satisfying certain conditions described in the Credit Agreement, we may request that BMO increase the aggregate amount under the revolving line of credit by up to \$25.0 million, for a total facility size of \$60.0 million; however, BMO is not obligated to do so. 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 used in operating activities were \$1.4 million for the three months ended March 31, 2017, as compared to cash flows used in operating activities of \$1.6 million for the three months ended April 1, 2016. The cash flows used in operating activities in the three months ended March 31, 2017 resulted primarily from increases in accounts receivable and costs and estimated earnings in excess of billings on uncompleted contracts as a result of milestone billing arrangements contained in certain contracts that do not allow us to bill until various stages of our work are complete, partially offset by net income, as adjusted for non-cash activity such as depreciation and amortization and deferred taxes and increases in accrued liabilities and accounts payable. The cash flows used in operating activities for the three months ended April 1, 2016 resulted primarily from increases in accounts receivable and costs and estimated earnings in excess of billings on uncompleted contracts and decreases in accounts payable and accrued liabilities, partially offset by net income, as adjusted for non-cash activity such as depreciation and amortization and deferred taxes, and an increase in billings in excess of costs and estimated earnings on uncompleted contracts

### ***Cash flows from investing activities***

Cash flows used in investing activities were \$0.6 million for the three months ended March 31, 2017 as compared to cash flows used in investing activities of \$9.1 million for the three months ended April 1, 2016. The cash flows used in investing activities in the three months ended March 31, 2017 were primarily due to purchase of equipment

and leasehold equipment. We used cash for investing activities during the three months ended April 1, 2016 primarily for the acquisition of substantially all of the assets of Genesys.

***Cash flows from financing activities***

Cash flows used in financing activities were \$1.3 million for the three months ended March 31, 2017 as compared to cash flows used in financing activities of \$0.9 million for the three months ended April 1, 2016. The cash flows used in financing activities for the three months ended March 31, 2017 were primarily attributable to payments of \$2.8 million for contingent consideration and on notes payable related to our acquisitions, offset by \$1.3 million in proceeds from stock option exercises. The cash flows used in financing activities for the three months ended April 1, 2016 were primarily attributable to the payments on notes payable related to our acquisitions.

***Outstanding indebtedness***

*BMO Credit Facility*. On January 20, 2017, we and each of our subsidiaries, as guarantors (the “Guarantors”), entered into an Amended and Restated Credit Agreement (the “Credit Agreement”) with BMO, as lender. The Credit Agreement amends and extends our prior credit agreement with BMO (the “Prior Credit Agreement”), which was set to mature on March 24, 2017. The Credit Agreement provides for a \$35.0 million revolving line of credit, including a \$10.0 million standby letter of credit sub-facility, and matures on January 20, 2020. Subject to satisfying certain conditions described in the Credit Agreement, we may request that BMO increase the aggregate amount under the revolving line of credit by up to \$25.0 million, for a total facility size of \$60.0 million; however, BMO is not obligated to do so. Unlike the Prior Credit Agreement, the revolving line of credit is no longer subject to a borrowing base limitation and the Credit Agreement no longer includes a delayed draw term loan facility.

Borrowings under the Credit Agreement bear interest at a rate equal to either, at our option, (i) the highest of the prime rate, the Federal Funds Rate plus 0.5% or one-month London Interbank Offered Rate (“LIBOR”) plus 1% (the “Base Rate”) or (ii) LIBOR, in each case plus an applicable margin ranging from 0.25% to 1.00% with respect to Base Rate borrowings and 1.25% to 2.00% with respect to LIBOR borrowings. The applicable margin will be based upon our consolidated leverage ratio. We will also be required to pay a commitment fee for the unused portion of the revolving line of credit, which will range from 0.20% to 0.35% per annum, and fees on any letters of credit drawn under the facility, which will range from 0.94% to 1.50%, in each case, depending on our consolidated leverage ratio.

Borrowings under the revolving line of credit are guaranteed by all of our direct and indirect subsidiaries and secured by substantially all of our and the Guarantors’ assets.

The Credit Agreement contains customary representations and affirmative covenants, including certain notice and financial reporting requirements. The Credit Agreement also requires compliance with financial covenants that require us to maintain a maximum total leverage ratio and a minimum fixed charge coverage ratio.

The Credit Agreement includes customary negative covenants, including (i) restrictions on the incurrence of additional indebtedness by us or the Guarantors and the incurrence of additional liens on property, (ii) restrictions on permitted acquisitions, including that the total consideration payable for all permitted acquisitions (including potential future earn-out obligations) shall not exceed \$20.0 million during the term of the Credit Agreement and the total consideration for any individual permitted acquisition shall not exceed \$10.0 million without BMO’s consent, and (iii) limitations on asset sales, mergers and acquisitions. Further, the Credit Agreement limits the payment of future dividends and distributions and share repurchases by us; however, we are permitted to repurchase up to \$8.0 million of shares of common stock under certain conditions, including that, at the time of any such repurchase, (a) we are able to meet the financial covenant requirements under the Credit Agreement after giving effect to the share repurchase, (b) we have at least \$5.0 million of liquidity (unrestricted cash or undrawn availability under the revolving line of credit), and (c) no default exists or would arise under the Credit Agreement after giving effect to such repurchase. In addition, the Credit Agreement includes customary events of default. Upon the occurrence of an event of default, the interest rate will be increased by 2.0%, BMO has the option to make any loans then outstanding under the Credit Agreement immediately due and payable, and BMO is no longer obligated to extend further credit to us under the Credit Agreement.

As of March 31, 2017, we were in compliance with all covenants under the 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 December 30, 2016, we elected to finance our insurance premiums for the upcoming fiscal year. The unpaid balance of the financed premiums totaled \$400,000 and \$599,000 for the three months ended March 31, 2017 and December 30, 2016, respectively.

#### ***Contractual obligations***

We had no material changes in commitments for long-term debt obligations, operating lease obligations or capital lease obligations as of March 31, 2017, as compared to those disclosed in our table of contractual obligations included in our Annual Report on Form 10-K for the year ended December 30, 2016.

As noted in our Annual Report on Form 10-K for the year ended December 30, 2016, and as further discussed in Note 2 “–Business Combinations” we are obligated to pay earn-out payments in connection with our acquisition of Abacus and substantially all of the assets of 360 Energy in January 2015. As of March 31, 2017, we are obligated to pay (i) up to \$2.9 million in cash, payable in installments, if certain financial targets of our divisions made up of the assets acquired from, and former employees of, 360 Energy are met during fiscal years 2017 and 2018, and (ii) up to \$0.2 million in cash, payable in installments, if certain financial targets of our division made up of the assets acquired from, and former employees of, Economists.com, LLC are met during fiscal years 2016 and 2017. As of March 31, 2017, we had contingent consideration payable of \$3.1 million related to these acquisitions, which includes \$167,000 of accretion (net of fair value adjustments) related to the contingent consideration.

#### ***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**

##### *Statement of Cash Flows*

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows: Clarification of Certain Cash Receipts and Cash Payments, which eliminates the diversity in practice related to the classification of certain cash receipts and payments in the statement of cash flows, by adding or clarifying guidance on eight specific cash flow issues. ASU 2016-15 is effective for annual and interim reporting periods beginning after December 15, 2017 and early adoption is permitted. ASU 2016-15 provides for retrospective application for all periods presented. We do not believe the guidance will have a material impact on our consolidated financial statements.

##### *Revenue Recognition*

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers, 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 defers 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. In December 2016, the FASB issued ASU 2016-20, Revenue from Contracts with Customers (Topic 606), which further clarifies the current revenue recognition guidance. This update is intended to increase stakeholders' awareness of the proposals and to expedite improvements to ASU 2014-09. We are continuing to evaluate the impact that the new standard will have on the contract portfolio. Our approach will include a detailed review of contracts and comparing historical accounting policies and practices to the new standard. Because the standard may impact our business processes, systems and controls, we will also develop a comprehensive change management plan to guide the implementation if, and as needed. We will adopt the requirements of the new standard effective December 30, 2017 and we have not yet selected a transition method. We are currently evaluating the impact the adoption of ASU 2016-20 will have on our consolidated financial statements and related disclosures. We will adopt the requirements of the new standard effective December 30, 2017, and we have not yet selected a transition method.

#### *Stock Compensation*

In March 2016, the FASB issued ASU 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 in 2016.

#### *Business Combinations*

In January 2017, the FASB issued ASU 2017-01, Business Combinations (Topic 805), which specifies the definition of a business that affects many areas of accounting including acquisitions, disposals, goodwill, and consolidation. We do not believe the guidance will have a material impact on our consolidated financial statements.

#### *Leases*

In February 2016, the FASB issued ASU 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.

#### *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.

### **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 \$19.4 million as of March 31, 2017. This amount represents cash on hand in business checking accounts with BMO.

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

We are subject to interest rate risk in connection with borrowings under our revolving line of credit which bears interest at variable rates. At March 31, 2017, we had \$1.5 million of borrowings outstanding under our \$35.0 million revolving credit facility and \$2.6 million in letters of credit were issued with \$30.9 million available for borrowing after considering the credit agreement's debt covenants. Borrowings under the Credit Agreement bear interest at a rate equal to either, at our option, (i) the highest of the prime rate, the Federal Funds Rate plus 0.5% or one-month LIBOR plus 1% (the "Base Rate") or (ii) LIBOR, in each case plus an applicable margin ranging from 0.25% to 1.00% with respect to Base Rate borrowings and 1.25% to 2.00% with respect to LIBOR borrowings, and mature on January 20, 2020. The applicable margin will be based upon our consolidated leverage ratio. We will also be required to pay a commitment fee for the unused portion of the revolving line of credit, which will range from 0.20% to 0.35% per annum, and fees on any letters of credit drawn under the facility, which will range from 0.94% to 1.50%, in each case, depending on our consolidated leverage ratio. Our borrowings under the revolving line of credit bear interest at the LIBOR rate plus an applicable margin ranging between 1.25% and 2.00%, currently set at the LIBOR rate plus 1.25%, or 2.4% as of March 31, 2017 and matures on January 20, 2020. We do not have any interest rate hedges or swaps. Based upon the amount of outstanding indebtedness, a one percentage point change in the assumed interest rate would change our annual interest expense by approximately \$15,000 in 2017.

#### **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 Chief Executive Officer, Thomas Brisbin, and our Chief Financial Officer, Stacy McLaughlin, as appropriate to allow timely decisions regarding required disclosure.

In connection with the preparation of this Quarterly Report, an evaluation was performed under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures as of March 31, 2017. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective, at a reasonable assurance level, as of March 31, 2017. No change in our internal control over financial reporting occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## **PART II. OTHER INFORMATION**

#### **Item 1. Legal Proceedings**

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

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 alleged 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 City of Glendale sought monetary damages. We denied the allegations asserted in the lawsuit. The City of Glendale and we have settled this suit within insurance policy limits. The City of Glendale agreed to voluntarily dismiss the suit with prejudice and agreed to release any and all claims that it may have against us, whether known or unknown, pertaining to the subject matter of the suit. The settlement does not impose any restrictions on us.

**Item 1A. Risk Factors**

There are no material changes to the risk factors set forth in “Item 1A. Risk Factors,” of our Annual Report on Form 10-K for the year ended December 30, 2016.

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

None.

**Item 3. Defaults upon Senior Securities**

None.

**Item 4. Mine Safety Disclosures**

Not applicable.

**Item 5. Other Information**

None.

**Item 6. Exhibits**

<b>Exhibit Number</b>	<b>Exhibit Description</b>
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	Amended and Restated Credit Agreement, dated as of January 20, 2017, by and among Willdan Group, Inc., the Guarantors (as defined therein) and BMO Harris Bank N.A. (3)
10.2	Master Reaffirmation of and Amendment to Collateral Documents, dated as of January 20, 2017, by and among Willdan Group, Inc. and the other Debtors (as defined therein) and BMO Harris Bank N.A. (3)
31.1*	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to § 302 of the Sarbanes-Oxley Act of 2002*
31.2*	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to § 302 of the Sarbanes-Oxley Act of 2002*
32.1*	Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002
101	Interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Condensed Consolidated Balance Sheets as of March 31, 2017 and April 1, 2016; (ii) the Condensed Consolidated Statements of Operations for the three months ended March 31, 2017 and April 1, 2016; (iii) the Condensed Consolidated Statements of Stockholders Equity for the three months ended March 31, 2017; (iv) the Condensed Consolidated Statement of Cash Flows for the three months ended March 31, 2017 and April 1, 2016 and (v) 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 January 24, 2017.

**SIGNATURE**

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

**WILLDAN GROUP, INC.**

By: /s/ Stacy B. McLaughlin

Stacy B. McLaughlin

*Vice President and Chief Financial Officer*

Date: May 5, 2017

## SECTION 302 CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Thomas D. Brisbin, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Willdan Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 5, 2017

By: /s/ Thomas D. Brisbin  
Thomas D. Brisbin  
*Chief Executive Officer*

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## SECTION 302 CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Stacy B. McLaughlin, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Willdan Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 5, 2017

By: /s/ Stacy B. McLaughlin  
Stacy B. McLaughlin  
*Chief Financial Officer and Vice President*

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**Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. 1350,  
as Adopted Pursuant to § 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Quarterly Report on Form 10-Q of Willdan Group, Inc. (the "Company") for the quarterly period ended March 31, 2017, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Thomas D. Brisbin, as Chief Executive Officer of the Company, and Stacy B. McLaughlin, as Chief Financial Officer of the Company, each hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his or her knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ Thomas D. Brisbin  
Thomas D. Brisbin  
*Chief Executive Officer*  
May 5, 2017

By: /s/ Stacy B. McLaughlin  
Stacy B. McLaughlin  
*Chief Financial Officer and Vice President*  
May 5, 2017

This certification accompanies the Report pursuant to § 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of § 18 of the Securities Exchange Act of 1934, as amended. A signed original of this written statement required by § 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

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