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

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended July 1, 2016

OR

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

For the transition period from to

Commission file number 001-33076

WILLDAN GROUP, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware	14-195112

(State or other Jurisdiction of Incorporation or Organization)	(IRS Employer Identification No.)
2401 East Katella Avenue, Suite 300 Anaheim, California	92806
(Address of principal executive offices)	(Zip code)

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

Not Applicable

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

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

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

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

Large accelerated filer	Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company)	Smaller reporting company

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

As of August 3, 2016, there were 8,298,866 shares of common stock, $0.01 par value per share, of Willdan Group, Inc. issued and outstanding.

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WILLDAN GROUP, INC.

FORM 10-Q QUARTERLY REPORT

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

WILLDAN GROUP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(unaudited)

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

Commitments and contingencies		
Stockholders’ equity:		
Preferred stock, $0.01 par value, 10,000,000 shares authorized, no shares issued and outstanding	—	—
Common stock, $0.01 par value, 40,000,000 shares authorized; 8,283,000 and 7,904,000 shares issued and outstanding at July 1, 2016 and January 1, 2016, respectively	83,000	79,000
Additional paid-in capital	41,229,000	38,377,000
Retained earnings (accumulated deficit)	3,428,000	(840,000)
Total stockholders’ equity	44,740,000	37,616,000
Total liabilities and stockholders’ equity	$ 102,424,000	$ 72,345,000

See accompanying notes to condensed consolidated financial statements.

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WILLDAN GROUP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

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

See accompanying notes to condensed consolidated financial statements.

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WILLDAN GROUP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

(Unaudited)

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

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WILLDAN GROUP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

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

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

See accompanying notes to condensed consolidated financial statements.

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WILLDAN GROUP, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

July 1, 2016
(Unaudited)

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

Basis of Presentation

The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) and pursuant to the rules and regulations of the Securities and Exchange Commission and reflect all adjustments, which consist of only normal recurring adjustments, which are, in the opinion of management, necessary for a fair presentation of the consolidated results for the interim periods presented. The Company operates and reports its quarterly financial results based on the 13-week period ending on the Friday closest to March 31, June 30 and September 30 and the 13 or 14-week period ending on the Friday closest to December 31, as applicable, with consideration of business days. Results for the interim periods are not necessarily indicative of results for the full year. Certain information and footnote disclosures normally included in annual consolidated financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. The condensed consolidated financial statements should be read in conjunction with Willdan Group, Inc.’s 2015 Annual Report on Form 10-K filed on March 15, 2016.

Nature of Business

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

Principles of Consolidation

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

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Accounting for Contracts

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

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

Revenue on fixed price contracts is recognized on the percentage-of-completion method based generally on the ratio of direct costs (primarily exclusive of depreciation and amortization costs) incurred to date to estimated total direct costs at completion. Revenue on time-and-materials and unit-based contracts is recognized as the work is performed in accordance with the specific terms of the contract. The Company recognizes revenues for time-and-material contracts based upon the actual hours incurred during a reporting period at contractually agreed upon rates per hour and also includes in revenue all reimbursable costs incurred during a reporting period for which the Company has risk or on which the fee was based at the time of bid or negotiation. Certain of the Company's time-and-material contracts are subject to maximum contract values and, accordingly, revenue under these contracts is generally recognized under the percentage-of-completion method, consistent with fixed priced contracts. Revenue on contracts that are not subject to maximum contract values is recognized based on the actual number of hours the Company spends on the projects plus any actual out-of-pocket costs of materials and other direct incidental expenditures that the Company incurs on the projects. In addition, revenue from overhead percentage recoveries and earned fees are included in revenue. Revenue is recognized as the related costs are incurred. For unit-based contracts, the Company recognizes the contract price of units of a basic production product as revenue when the production product is delivered during a period. Revenue for amounts that have been billed but not earned is deferred and such deferred revenue is referred to as billings in excess of costs and estimated earnings on uncompleted contracts in the accompanying condensed consolidated balance sheets.

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

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

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Applying the percentage-of-completion method of recognizing revenue requires the Company to estimate the outcome of its long-term contracts. The Company forecasts such outcomes to the best of its knowledge and belief of current and expected conditions and its expected course of action. Differences between the Company's estimates and actual results often occur resulting in changes to reported revenue and earnings. Such changes could have a material effect on future consolidated financial statements. The Company did not have material revisions in estimates for contracts recognized using the percentage-of-completion method for any of the periods presented in the accompanying condensed consolidated financial statements.

Service-related contracts, including operations and maintenance services and a variety of technical assistance services, are accounted for over the period of performance, in proportion to the costs of performance. Award and incentive fees are recorded when they are fixed and determinable and consider customer contract terms.

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

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

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

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

Retainage is included in accounts receivable in the accompanying consolidated financial statements. Retainage represents the billed amount that is retained by the customer, in accordance with the terms of the contract, generally until performance is substantially complete. At July 1, 2016 and January 1, 2016, the Company had retained accounts receivable of approximately $5.1 million and $748,000, respectively.

Goodwill

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

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

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

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

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

Inherent in such fair value determinations are significant judgments and estimates, including but not limited to assumptions about future revenue, profitability and cash flows, operational plans and interpretation of current economic indicators and market valuations. To the extent these assumptions are incorrect or economic conditions that would impact the future operations of the reporting units change, any goodwill may be deemed to be impaired, and an impairment charge could result in a material adverse effect on the financial position or results of operations.

Fair Value of Financial Instruments

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

Use of Estimates

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

Liquidity

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

Reclassifications

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

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Recent Accounting Pronouncements

Revenue Recognition

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

Consolidations

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

Leases

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

Stock Compensation

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

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

Proposed Accounting Standards

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

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

2.BUSINESS COMBINATIONS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

3.GOODWILL AND OTHER INTANGIBLE ASSETS

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

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

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

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

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

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

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

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

4.EARNINGS PER SHARE (EPS)

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

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

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

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

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5.EQUIPMENT AND LEASEHOLD IMPROVEMENTS

Equipment and leasehold improvements consist of the following:

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

6.ACCRUED LIABILITIES

Accrued liabilities consist of the following:

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

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7.DEBT

Total debt obligations consist of the following:

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

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