

Willdan Group, Inc.
Form 10-Q
August 08, 2013
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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 28, 2013

OR

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

For the transition period from to

Commission file number 001-33076

WILLDAN GROUP, INC.

(Exact Name of Registrant as Specified in Its Charter)

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Delaware
(State or other Jurisdiction of
Incorporation or Organization)

14-195112
(IRS Employer Identification No.)

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

92806
(Zip code)

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

Not Applicable

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

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

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

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

As of August 5, 2013, there were 7,352,772 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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WILLDAN GROUP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

	June 28, 2013	December 28, 2012
Assets		
Current assets:		
Cash and cash equivalents	\$ 8,475,000	\$ 10,006,000
Accounts receivable, net of allowance for doubtful accounts of \$512,000 and \$303,000 at June 28, 2013 and December 28, 2012, respectively	11,040,000	15,484,000
Costs and estimated earnings in excess of billings on uncompleted contracts	10,241,000	9,860,000
Other receivables	68,000	95,000
Prepaid expenses and other current assets	1,222,000	1,782,000
Total current assets	31,046,000	37,227,000
Equipment and leasehold improvements, net	762,000	979,000
Other intangible assets, net		12,000
Other assets	298,000	307,000
Deferred income taxes, net of current portion	3,452,000	3,452,000
Total assets	\$ 35,558,000	\$ 41,977,000
Liabilities and Stockholders Equity		
Current liabilities:		
Excess of outstanding checks over bank balance	\$ 818,000	\$ 1,188,000
Borrowings under line of credit		3,000,000
Accounts payable	3,440,000	6,983,000
Accrued liabilities	5,110,000	5,306,000
Billings in excess of costs and estimated earnings on uncompleted contracts	3,559,000	3,419,000
Current portion of notes payable	169,000	628,000
Current portion of capital lease obligations	136,000	152,000
Current portion of deferred income taxes	3,452,000	3,452,000
Total current liabilities	16,684,000	24,128,000
Capital lease obligations, less current portion	74,000	124,000
Deferred lease obligations	237,000	374,000
Total liabilities	16,995,000	24,626,000
Commitments and contingencies		
Stockholders equity:		
Preferred stock, \$0.01 par value, 10,000,000 shares authorized, no shares issued and outstanding	74,000	73,000

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Common stock, \$0.01 par value, 40,000,000 shares authorized: 7,353,000 and 7,335,000 shares issued and outstanding at June 28, 2013 and December 28, 2012, respectively

Additional paid-in capital	34,547,000	34,423,000
Accumulated (deficit) earnings	(16,058,000)	(17,145,000)
Total stockholders' equity	18,563,000	17,351,000
Total liabilities and stockholders' equity	\$ 35,558,000	\$ 41,977,000

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	
	June 28, 2013	June 29, 2012	June 28, 2013	June 29, 2012
Contract revenue	\$ 20,496,000	\$ 23,481,000	\$ 41,881,000	\$ 48,949,000
Direct costs of contract revenue (exclusive of depreciation and amortization shown separately below):				
Salaries and wages	6,129,000	5,976,000	11,972,000	11,933,000
Subconsultant services and other direct costs	5,309,000	11,140,000	11,500,000	22,377,000
Total direct costs of contract revenue	11,438,000	17,116,000	23,472,000	34,310,000
General and administrative expenses:				
Salaries and wages, payroll taxes and employee benefits	4,948,000	5,839,000	10,486,000	12,267,000
Facilities and facilities related	1,149,000	1,240,000	2,337,000	2,435,000
Stock-based compensation	38,000	77,000	88,000	131,000
Depreciation and amortization	127,000	181,000	276,000	355,000
Lease abandonment, net		26,000	13,000	30,000
Impairment of goodwill		15,208,000		15,208,000
Other	2,078,000	3,377,000	4,034,000	6,113,000
Total general and administrative expenses	8,340,000	25,948,000	17,234,000	36,539,000
Income (loss) from operations	718,000	(19,583,000)	1,175,000	(21,900,000)
Other income (expense), net:				
Interest income	2,000	1,000	5,000	2,000
Interest expense	(50,000)	(30,000)	(77,000)	(52,000)
Other, net	10,000	(21,000)	25,000	(21,000)
Total other expense, net	(38,000)	(50,000)	(47,000)	(71,000)
Income (loss) before income taxes	680,000	(19,633,000)	1,128,000	(21,971,000)
Income tax (benefit) expense	(8,000)	(2,657,000)	41,000	(3,584,000)
Net income (loss)	\$ 688,000	\$ (16,976,000)	\$ 1,087,000	\$ (18,387,000)
Earnings per share:				
Basic and diluted	\$ 0.09	\$ (2.33)	\$ 0.15	\$ (2.52)
Weighted-average shares outstanding:				
Basic	7,353,000	7,297,000	7,336,000	7,294,000
Diluted	7,401,000	7,297,000	7,383,000	7,294,000

See accompanying notes to condensed consolidated financial statements.

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

	Six Months Ended	
	June 28, 2013	June 29, 2012
Cash flows from operating activities:		
Net income (loss)	\$ 1,087,000	\$ (18,387,000)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	310,000	387,000
Deferred income taxes		(3,584,000)
Impairment of goodwill		15,208,000
Lease abandonment expense, net	13,000	30,000
Loss on sale of equipment	(6,000)	22,000
Provision for doubtful accounts	162,000	432,000
Stock-based compensation	88,000	131,000
Changes in operating assets and liabilities:		
Accounts receivable	4,282,000	(5,498,000)
Costs and estimated earnings in excess of billings on uncompleted contracts	(381,000)	10,066,000
Other receivables	27,000	89,000
Prepaid expenses and other current assets	560,000	231,000
Other assets	9,000	34,000
Accounts payable	(3,543,000)	2,826,000
Accrued liabilities	(196,000)	(2,045,000)
Billings in excess of costs and estimated earnings on uncompleted contracts	140,000	1,063,000
Deferred lease obligations	(150,000)	(86,000)
Net cash provided by operating activities	2,402,000	919,000
Cash flows from investing activities:		
Purchase of equipment and leasehold improvements	(86,000)	(220,000)
Proceeds from sale of equipment	11,000	8,000
Net cash used in investing activities	(75,000)	(212,000)
Cash flows from financing activities:		
Changes in excess of outstanding checks over bank balance	(370,000)	(448,000)
Payments on notes payable	(459,000)	(489,000)
Borrowings under line of credit	266,000	11,663,000
Repayments on line of credit	(3,266,000)	(8,919,000)
Principal payments on capital lease obligations	(66,000)	(88,000)
Proceeds from sales of common stock under employee stock purchase plan	37,000	75,000
Net cash (used in) provided by financing activities	(3,858,000)	1,794,000
Net increase in cash and cash equivalents	(1,531,000)	2,501,000
Cash and cash equivalents at beginning of the period	10,006,000	3,001,000
Cash and cash equivalents at end of the period	\$ 8,475,000	\$ 5,502,000
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	\$ 81,000	\$ 51,000
Income taxes	155,000	45,000
Supplemental disclosures of noncash investing and financing activities:		
Equipment acquired under capital lease obligations	\$ 7,000	\$ 10,000

See accompanying notes to condensed consolidated financial statements.

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

June 28, 2013
(Unaudited)

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

Basis of Presentation

The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) and pursuant to the rules and regulations of the Securities and Exchange Commission and reflect all adjustments, which consist of only normal recurring adjustments, which are, in the opinion of management, necessary for a fair presentation of the consolidated results for the interim periods presented. Results for the interim periods are not necessarily indicative of results for the full year. Certain information and footnote disclosures normally included in annual consolidated financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. The consolidated financial statements should be read in conjunction with Willdan Group, Inc.'s 2012 Annual Report on Form 10-K filed on March 26, 2013.

Nature of Business

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

Principles of Consolidation

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

Accounting for Contracts

The Company enters into contracts with its clients that contain three principal types of pricing provisions: fixed price, time-and-materials, and unit-based. Revenue on fixed price contracts is recognized on the percentage-of-completion method based generally on the ratio of direct costs (primarily exclusive of depreciation and amortization costs) incurred to date to estimated total direct costs at completion. Revenue on time-and-materials and unit-based contracts is recognized as the work is performed in accordance with the specific terms of the contract. Contracts that provide for multiple services or deliverables are evaluated as multiple element arrangements to determine the appropriate unit of accounting, allocation of contract value, and method of revenue recognition for each element. Revenue for amounts that have been billed but not earned is deferred and such deferred revenue is referred to as billings in excess of costs and estimated earnings on uncompleted contracts in the accompanying consolidated balance sheets. Service-related contracts, including operations and maintenance services and a variety of technical assistance services, are accounted for over the period of performance, in proportion to the costs of performance.

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

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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.

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

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

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

The value of retainage is included in accounts receivable in the accompanying consolidated financial statements. Retainage represents the billed amount that is retained by the customer, in accordance with the terms of the contract, generally until performance is substantially complete. At June 28, 2013 and December 28, 2012, the Company had retained accounts receivable of approximately \$632,000 and \$642,000, respectively.

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, excess of outstanding checks over bank balance, accounts payable, accrued liabilities and billings in excess of costs and estimated earnings on uncompleted contracts and approximate their fair values because of the relatively short period of time between the origination of these instruments and their expected realization or payment. The carrying amounts of debt obligations approximate their fair values since the terms are comparable to terms currently offered by local lending institutions for loans of similar terms to companies with comparable credit risk.

Use of Estimates

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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 \$8.5 million of cash and cash equivalents as of June 28, 2013. The Company's primary sources of liquidity are cash generated from operations and its revolving line of credit with Wells Fargo Bank, National Association (Wells Fargo), which matures on April 1, 2014. While the Company believes that its cash and cash equivalents on hand, cash generated by operating activities and funds available under its line of credit will be sufficient to finance its operating activities for at least the next 12 months, if the Company does experience a cash flow shortage or violates the current terms of its credit agreement, the Company may have difficulty obtaining additional funds on favorable terms, if at all, to meet its obligations as they come due in the normal course of business.

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As of June 28, 2013 and December 28, 2012, the Company had no goodwill. The gross amounts and accumulated amortization of the Company's acquired identifiable intangible assets with finite useful lives as of June 28, 2013 and December 28, 2012, included in intangible assets, net in the accompanying consolidated balance sheets, were as follows:

	June 28, 2013		December 28, 2012		Amortization Period (yrs)
	Gross Amount	Accumulated Amortization	Gross Amount	Accumulated Amortization	
Backlog	\$ 920,000	\$ 920,000	\$ 920,000	\$ 920,000	1
Training materials/courses	282,000	282,000	282,000	270,000	5
Non-compete agreements	30,000	30,000	30,000	30,000	3
	\$ 1,232,000	\$ 1,232,000	\$ 1,232,000	\$ 1,220,000	

The Company's amortization expense for acquired identifiable intangible assets with finite useful lives was \$3,000 and \$12,000 for the fiscal three and six months ended June 28, 2013, as compared to \$10,000 and \$19,000 for the fiscal three and six months ended June 29, 2012.

3. EARNINGS PER SHARE (EPS)

Basic EPS is computed by dividing net income (loss) available to common stockholders by the weighted-average number of common shares outstanding. Diluted EPS is computed by dividing net income (loss) 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	
	June 28, 2013	June 29, 2012	June 28, 2013	June 29, 2012
Net income (loss)	\$ 688,000	\$ (16,976,000)	\$ 1,087,000	\$ (18,387,000)
Weighted-average common shares				
Outstanding-basic	7,353,000	7,297,000	7,336,000	7,294,000
Effect of dilutive stock options	48,000		47,000	
Weighted-average common shares outstanding-diluted	7,401,000	7,297,000	7,383,000	7,294,000
Earnings (loss) per share:				
Basic	\$ 0.09	\$ (2.33)	\$ 0.15	\$ (2.52)
Diluted	\$ 0.09	\$ (2.33)	\$ 0.15	\$ (2.52)

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For the three months and six months ended June 28, 2013, 686,000 options and 25,000 restricted stock grants were excluded from the calculation of dilutive potential common shares, compared to 689,000 options for 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 2012 and 2013 periods and because of the net loss position for the 2012 period. Accordingly, the inclusion of these options would have been anti-dilutive. For periods in which the Company incurs net losses, dilutive potential common shares are excluded as they would be anti-dilutive.

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Equipment and leasehold improvements consist of the following:

	June 28, 2013	December 28, 2012
Furniture and fixtures	\$ 3,103,000	\$ 3,163,000
Computer hardware and software	6,286,000	6,299,000
Leasehold improvements	772,000	769,000
Equipment under capital leases	815,000	808,000
Automobiles, trucks, and field equipment	508,000	495,000
	11,484,000	11,534,000
Accumulated depreciation and amortization	(10,722,000)	(10,555,000)
Equipment and leasehold improvements, net	\$ 762,000	\$ 979,000

5. ACCRUED LIABILITIES

Accrued liabilities consist of the following:

	June 28, 2013	December 28, 2012
Accrued bonuses	\$ 38,000	\$ 52,000
Paid leave bank	1,389,000	1,288,000
Compensation and payroll taxes	788,000	729,000
Accrued legal	281,000	338,000
Accrued workers compensation insurance	95,000	209,000
Accrued rent	347,000	356,000
Employee withholdings	316,000	215,000
Client deposits	318,000	88,000
Unvouchered accounts payable	1,479,000	1,800,000
Other	59,000	231,000
Total accrued liabilities	\$ 5,110,000	\$ 5,306,000

6. LINE OF CREDIT

Revolving Credit Facility: The Company currently has a revolving credit facility with Wells Fargo, dated January 1, 2012, which it amended, effective as of April 1, 2013. The amended credit agreement provides for a \$5.0 million revolving line of credit, including a \$250,000 standby letter of credit sub-facility, and matures on April 1, 2014. There were no outstanding borrowings under this agreement as of June 28, 2013. Loans made under the revolving line of credit accrue interest at a floating rate of LIBOR plus 2.25%. The Company also must pay a 0.25% fee on unused commitments and customary fees on any letters of credit drawn under the facility.

Borrowings under the revolving line of credit are guaranteed by all of the Company's subsidiaries except Public Agency Resources (the Guarantors) and secured by all of the Company's and the Guarantors' accounts receivable and other rights to payment, general intangibles, inventory and equipment. The credit agreement also grants Wells Fargo a security interest in all funds deposited in the Company's demand deposit account with Wells Fargo.

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The credit agreement contains customary representations and affirmative covenants, including a financial covenant that requires the Company to maintain a tangible net worth of at least \$15.5 million on June 30, 2013, \$16.5 million on September 30, 2013, and \$17.5 million on December 31, 2013 and thereafter. As of June 28, 2013, the Company's tangible net worth as defined under the credit agreement was \$18.6 million.

The credit agreement also includes customary negative covenants, including (i) restrictions on the incurrence of additional indebtedness by the Company or the Guarantors other than purchase money indebtedness not to exceed \$2.0 million and indebtedness existing on the date of the credit agreement, (ii) restrictions on the payment of dividends on the Company's stock and redemptions, repurchases or other acquisitions of the Company's stock, except that the Company can repurchase stock with an aggregate fair market value up to \$5.0 million in any calendar year, and (iii) limitations on asset sales, mergers and acquisitions. In addition, the credit agreement includes customary events of default.

7. COMMITMENTS

Leases

The Company is obligated under capital leases for certain furniture and office equipment that expire at various dates through the year 2015.

The Company also leases certain office facilities under non-cancelable operating leases that expire at various dates through the year 2016 and is committed under non-cancelable operating leases for the lease of computer equipment and automobiles through the year 2013 and 2014, respectively.

Employee Benefit Plans

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

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

Post Employment Health Benefits

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

8. INCOME TAXES

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

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

Based on management's estimates and determination of an effective tax rate for the year, the Company recorded an income tax benefit of \$8,000 and an income tax expense of \$41,000 for the three and six months ended June 28, 2013 as compared to an income tax benefit of \$2.7 million and \$3.6 million for the three and six months ended June 29, 2012.

9. SEGMENT INFORMATION

The Company has four reporting segments: Engineering Services, Energy Efficiency Services, Public Finance Services and Homeland Security Services. The Engineering Services segment consists of Willdan Engineering and Public Agency Resources. The Engineering Services segment offers a broad range of engineering and planning services to our public and private sector clients. The Energy Efficiency Services segment, which consists of Willdan Energy Solutions, provides energy efficiency and sustainability consulting services to utilities, state agencies, municipalities, private industry and non-profit organizations. 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 2012 Annual Report on Form 10-K filed on March 26, 2013. There were no intersegment sales in the three and six months ended June 28, 2013. Management evaluates the performance of each segment based upon income or loss from operations before income taxes. Certain segment asset information including expenditures for long-lived assets has not been presented as it is not reported to or reviewed by the chief operating decision maker. In addition, enterprise-wide service line contract revenue is not included as it is impracticable to report this information for each group of similar services.

Financial information with respect to the reportable segments as of and for the fiscal three and six months ended June 28, 2013 and for the fiscal three and six months ended June 29, 2012 is as follows:

	Engineering Services	Energy Efficiency Services	Public Finance Services	Homeland Security Services	Unallocated Corporate	Intersegment	Consolidated Total
Fiscal Three Months Ended June 28, 2013							
Contract revenue	\$ 8,685,000	\$ 8,004,000	\$ 2,650,000	\$ 1,157,000	\$	\$	\$ 20,496,000
Segment profit before income taxes	328,000	85,000	173,000	94,000			680,000
Net income	322,000	107,000	168,000	91,000			688,000
Segment assets(1)	9,345,000	9,062,000	3,802,000	1,297,000	35,182,000	(23,129,000)	35,558,000

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**Fiscal Three
Months Ended
June 29, 2012**

Contract revenue	\$	8,281,000	\$	11,578,000	\$	2,603,000	\$	1,019,000	\$		\$	23,481,000	
Segment (loss) profit before income taxes		(565,000)		(19,065,000)		143,000		(146,000)				(19,633,000)	
Net (loss) income		(400,000)		(16,583,000)		94,000		(87,000)				(16,976,000)	
Segment assets(1)		9,643,000		19,464,000		3,470,000		1,821,000		35,030,000		(23,129,000)	46,299,000

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	Engineering Services	Energy Efficiency Services	Public Finance Services	Homeland Security Services	Unallocated Corporate	Intersegment	Consolidated Total
Fiscal Six Months Ended June 28, 2013							
Contract revenue	\$ 16,910,000	\$ 17,945,000	\$ 4,921,000	\$ 2,105,000	\$	\$	\$ 41,881,000
Segment profit before income taxes	399,000	379,000	240,000	110,000			1,128,000
Net income	385,000	365,000	231,000	106,000			1,087,000
Segment assets(1)	9,345,000	9,062,000	3,802,000	1,297,000	35,182,000	(23,130,000)	35,558,000
Fiscal Six Months Ended June 29, 2012							
Contract revenue	\$ 16,140,000	\$ 25,918,000	\$ 4,879,000	\$ 2,012,000	\$	\$	\$ 48,949,000
Segment (loss) profit before income taxes	(1,209,000)	(20,711,000)	317,000	(368,000)			(21,971,000)
Net (loss) income	(785,000)	(17,570,000)	195,000	(227,000)			(18,387,000)
Segment assets(1)	9,643,000	19,464,000	3,470,000	1,821,000	35,030,000	(23,129,000)	46,299,000

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

10. 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

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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.

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the financial statements included elsewhere in this Quarterly Report and the audited financial statements for the year ended December 28, 2012, included in our Annual Report on Form 10-K (File No. 001-33076). This Quarterly Report contains, in addition to unaudited historical information, forward-looking statements, which involve risk and uncertainties. The words believe, expect, estimate, may, will, could, plan, or continue and similar expressions are intended to identify forward-looking statements. Our actual results could differ significantly from the results discussed in such forward-looking statements. Factors that could cause or contribute to such differences in results and outcomes include, without limitation, those discussed under the headings Risk Factors in our 2012 Annual Report on Form 10-K and our Quarterly Report on Form 10-Q for the quarter ended March 29, 2013. Readers are urged not to place undue reliance on these forward-looking statements, which speak only as of the date of this Quarterly Report on Form 10-Q. We undertake no obligation to (and we expressly disclaim any obligation to) revise or update any forward-looking statement, whether as a result of new information, subsequent events, or otherwise (except as may be required by law), in order to reflect any event or circumstance which may arise after the date of this Quarterly Report on Form 10-Q.

Overview

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

- Engineering and Planning;

- Energy Efficiency and Sustainability;

- Economic and Financial Consulting; and

- National Preparedness and Interoperability

We operate our business through a network of offices located primarily in California and New York. We also have operations in Arizona, Florida, Texas, Washington and Washington, DC. As of June 28, 2013, we had a staff of 537 which includes licensed engineers and other professionals. Historically, our clients have primarily been public agencies in communities with populations ranging from 10,000 to 300,000 people. We believe communities of this size are underserved by large outsourcing companies that tend to focus on securing large federal and state projects, as well as projects for the private sector. Recently, we have begun to provide increased services to public and private utilities that service major metropolitan communities and commercial and industrial firms, particularly in connection with the growth of our energy efficiency and sustainability services. We seek to establish close working relationships with our clients and expand the breadth and depth of the

services we provide to them over time.

While we currently serve communities throughout the country, our business with public agencies is concentrated in California and Arizona. We provide services to approximately 57% of the 482 cities and approximately 56% of the 58 counties in California. We also serve special districts, school districts, a range of public agencies and private industry. Our business with public and private utilities is concentrated in California and New York.

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

Engineering Services. Our Engineering Services segment includes the operations of our subsidiaries, Willdan Engineering and Public Agency Resources (PARs). Willdan Engineering provides civil engineering-related and city planning services to our clients. PARs primarily provides staffing to Willdan Engineering. Contract revenue for the Engineering Services segment represented approximately 40.4% and 33.0% of our consolidated contract revenue for the six months ended June 28, 2013 and June 29, 2012, respectively.

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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. Contract revenue for the Energy Efficiency Services segment represented approximately 42.8% and 52.9% of our consolidated contract revenue for the six months ended June 28, 2013 and June 29, 2012, respectively.

Public Finance Services. Our Public Finance Services segment consists of the business of our subsidiary, Willdan Financial Services, which offers economic and financial consulting services to public agencies. Contract revenue for the Public Finance Services segment represented approximately 11.7% and 10.0% of our consolidated contract revenue for the six months ended June 28, 2013 and June 29, 2012, 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 5.0% and 4.1% of our consolidated contract revenue for the six months ended June 28, 2013 and June 29, 2012, respectively.

Components of Income and Expense

Contract Revenue

We provide our services under contracts, purchase orders or retainer letters. The contracts we enter into with our clients contain three principal types of pricing provisions: time and materials, unit based, and fixed price. Revenue on our time and materials and unit based contracts are recognized as the work is performed in accordance with specific terms of the contract. Approximately 35% of our contracts are based on contractual rates per hour plus costs incurred. Some of these contracts include maximum contract prices, but the majority of these contracts are not expected to exceed the maximum. Contract revenue on our fixed price contracts is determined on the percentage of completion method based generally on the ratio of direct costs incurred to date to estimated total direct costs at completion. Many of our fixed price contracts are relatively short in duration, thereby lowering the risks of not properly estimating the percent complete.

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

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

Direct Costs of Contract Revenue

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

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

General and Administrative Expenses

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

Critical Accounting Policies

This discussion and analysis of financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with generally accepted accounting principles in the U.S., or GAAP. To prepare these financial statements in conformity with GAAP, we must make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amount of revenue and expenses in the reporting period. Our actual results may differ from these estimates. We have provided a summary of our significant accounting policies in Note 2 to our consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 28, 2012. We describe below those accounting policies that require material subjective or complex judgments and that have the most significant impact on our financial condition and results of operations. Our management evaluates these estimates on an ongoing basis, based upon information currently available and on various assumptions management believes are reasonable as of the date of this report.

Contract Accounting

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

Accounts receivable are carried at original invoice amount less an estimate made for doubtful accounts based upon our review of all outstanding amounts on a monthly basis. We determine the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Our credit risk is minimal with governmental entities. Accounts receivable are written off when deemed uncollectible. Recoveries of accounts receivable previously written off are recorded when received.

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For further information on the types of contracts under which we perform our services, see Components of Income and Expense Contract Revenue elsewhere in this report.

Accounting for Claims Against the Company

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

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

Income Taxes

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

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

Results of Operations

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

Statement of Operations Data	Fiscal Three Months Ended		Fiscal Six Months Ended	
	June 28, 2013	June 29, 2012	June 28, 2013	June 29, 2012
Contract revenue	100.0%	100.0%	100.0%	100.0%
Direct costs of contract revenue (exclusive of depreciation and amortization shown separately below):				
Salaries and wages	29.9	25.5	28.6	24.4
Subconsultant services and other direct costs	25.9	47.4	27.5	45.7
Total direct costs of contract revenue	55.8	72.9	56.0	70.1
General and administrative expenses:				
Salaries and wages, payroll taxes, employee benefits	24.1	24.9	25.0	25.1
Facilities and facilities related	5.6	5.3	5.6	5.0
Stock-based compensation	0.2	0.3	0.2	0.3
Depreciation and amortization	0.6	0.8	0.7	0.7
Lease abandonment, net		0.1		0.1
Impairment of goodwill		64.8		31.1
Other	10.1	14.4	9.6	12.5

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Total general and administrative expenses	40.7	110.5	41.1	74.6
Income (loss) from operations	3.5	(83.4)	2.8	(44.7)
Other income (expense):				
Interest income				
Interest expense	(0.2)	(0.1)	(0.2)	(0.1)
Other, net		(0.1)	(0.1)	
Total other income (expense), net	(0.2)	(0.2)	(0.1)	(0.1)
Income (loss) before income tax expense	3.3	(83.6)	2.7	(44.9)
Income tax (benefit) expense	(0.0)	(11.3)	(0.1)	(7.3)
Net income (loss)	3.4%	(72.3)%	2.6%	(37.6)%

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Three Months Ended June 28, 2013 Compared to Three Months Ended June 29, 2012

Contract revenue. Our contract revenue was \$20.5 million for the three months ended June 28, 2013, with \$8.7 million attributable to the Engineering Services segment, \$8.0 million attributable to the Energy Efficiency Services segment, \$2.6 million attributable to the Public Finance Services segment, and \$1.2 million attributable to the Homeland Security Services segment. Consolidated contract revenue decreased \$3.0 million, or 12.8%, to \$20.5 million for the three months ended June 28, 2013 from \$23.5 million for the three months ended June 29, 2012. This decrease was due primarily to a decrease of \$3.6 million, or 31.0%, in contract revenue of the Energy Efficiency Services segment as a result of the decrease in demand for the energy efficiency, sustainability and renewable energy services of our subsidiary Willdan Energy Solutions. Contract revenue for the Engineering Services segment increased \$0.4 million, or 4.9%, to \$8.7 million for the three months ended June 28, 2013 from \$8.3 million for the three months ended June 29, 2012. Contract revenue in the Homeland Security Services segment increased by \$0.1 million, or 13.5%, to \$1.2 million for the three months ended June 28, 2013 from \$1.0 million for the three months ended June 29, 2012. The Public Finance Services segment remained flat for the three months ended June 28, 2013 as compared to the three months ended June 29, 2012.

Contract revenue for the Energy Efficiency Services segment decreased primarily because of decreased periodic demand for energy efficiency services in the states of New York and California. Contract revenue for the Engineering Services segment increased primarily due to greater demand for our city engineering services in northern California and our building and safety, construction management and geotechnical services. Revenue in the Homeland Security Services segment increased due to higher levels of activity in the traditional planning, training and exercise consulting services business.

Direct costs of contract revenue. Direct costs of contract revenue were \$11.4 million for the three months ended June 28, 2013, with \$4.7 million attributable to the Engineering Services segment, \$4.8 million attributable to the Energy Efficiency Services segment, \$1.1 million attributable to the Public Finance Services segment, and \$0.8 million attributable to the Homeland Security Services segment. Overall, direct costs decreased by \$5.7 million, or 33.2%, to \$11.4 million for the three months ended June 28, 2013 from \$17.1 million for the three months ended June 29, 2012. This decrease is primarily attributable to a decrease in direct costs within our Energy Efficiency Services segment of \$5.9 million, 54.6%. Direct costs of contract revenue decreased by \$0.1 million, or 2.1%, in our Engineering Services segment and increased by \$0.1 million, or 10.0%, and \$0.3 million, or 60.0%, in our Public Finance Services and Homeland Security Services segments, respectively.

Direct costs decreased as a result of a decrease in subconsultant services and other direct costs of \$5.8 million partially offset by an increase in salaries and wages of \$0.1 million. Within direct costs of contract revenue, salaries and wages increased to 29.9% of contract revenue for the three months ended June 28, 2013 from 25.5% for the three months ended June 29, 2012 and subconsultant services and other direct costs decreased to 25.9% of contract revenue for the three months ended June 28, 2013 from 47.4% of contract revenue for the three months ended June 29, 2012. Subconsultant services and other direct costs decreased primarily because of decreased demand for the energy efficiency, sustainability and renewable energy services of our subsidiary Willdan Energy Solutions, which generally utilizes a higher percentage of subconsultants than our other subsidiaries.

General and administrative expenses. General and administrative expenses decreased by \$17.6 million, or 67.9%, to \$8.3 million for the three months ended June 28, 2013 from \$26.0 million for the three months ended June 29, 2012. This was due primarily to a decrease of \$16.8 million in general and administrative expenses of the Energy Efficiency Services segment, along with decreases of \$0.3 million and \$0.4 million in general and administrative expenses of the Homeland Security Services and Engineering Services segments, respectively. Our unallocated corporate expenses remained flat. General and administrative expenses as a percentage of contract revenue decreased to 40.7% for the three months ended June 28, 2013 as compared to 110.5% for the three months ended June 29, 2012.

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Of the \$17.6 million decrease in general and administrative expenses, approximately \$15.2 million relates to a decrease in goodwill impairment charges we recognized relating to our Energy Efficiency Services segment in the prior year period. See Components of Interest and Expense Goodwill. Salaries and wages, payroll taxes and employee benefits also decreased by \$0.9 million. The decrease in employee related costs primarily resulted from cost control measures and a decrease in non-chargeability of labor. Facilities and facility related expenses decreased by \$0.1 million. Depreciation and amortization expenses also decreased by \$0.1 million. The remaining \$1.3 million decrease primarily relates to other general and administrative expenses and is attributable to decreases in other expense, professional service fees and marketing expenses.

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Income (loss) from operations. As a result of the above factors, our operating income was \$0.7 million for the three months ended June 28, 2013 as compared to an operating loss of \$19.6 million for the three months ended June 29, 2012. Income from operations as a percentage of contract revenue was 3.5% for the three months ended June 28, 2013, as compared to loss from operations as a percentage of contract revenue of 83.4% in the prior year period.

Other expense, net. Other expense, net was \$38,000 for the three months ended June 28, 2013, as compared to \$50,000 for the three months ended June 29, 2012.

Income tax (benefit) expense. Income tax benefit was \$8,000 for the three months ended June 28, 2013, as compared to \$2.7 million for the three months ended June 29, 2012.

Net income (loss). As a result of the above factors, our net income was \$0.7 million for the three months ended June 28, 2013 compared to a net loss of \$17.0 million for the three months ended June 29, 2012. Our net loss for the three months ended June 29, 2012 was impacted significantly by the \$15.2 million impairment charge we recognized during such period.

Six Months Ended June 28, 2013 Compared to Six Months Ended June 29, 2012

Contract revenue. Our contract revenue was \$41.9 million for the six months ended June 28, 2013, with \$16.9 million attributable to the Engineering Services segment, \$18.0 million attributable to the Energy Efficiency Services segment, \$4.9 million attributable to the Public Finance Services segment, and \$2.1 million attributable to the Homeland Security Services segment. Consolidated contract revenue for the six months ended June 28, 2013 decreased \$7.0 million, or 14.4%, to \$41.9 million from \$48.9 million for the six months ended June 29, 2012, reflecting a decrease of \$8.0 million, or 30.8%, in contract revenue for the Energy Efficiency Services segment. Contract revenue increased by \$0.8 million, or 4.8% and \$0.1 million, or 4.6%, for our Engineering Services and Homeland Security Services segments, respectively. Contract revenue for our Public Finance Services segment remained flat for the six months ended June 28, 2013 as compared to the six months ended June 29, 2012.

Contract revenue for the Energy Efficiency Services segment decreased primarily because of decreased periodic demand for energy efficiency services in the states of New York and California. Contract revenue for the Engineering Services segment increased primarily due to greater demand for our city engineering services in northern California and our building and safety, construction management and geotechnical services. Revenue in the Homeland Security Services segment increased due to higher levels of activity in the traditional planning, training and exercise consulting services business.

Direct costs of contract revenue. Direct costs of contract revenue were \$23.5 million for the six months ended June 28, 2013, with \$9.0 million attributable to the Engineering Services segment, \$11.1 million attributable to the Energy Efficiency Services segment, \$2.0 million attributable to the Public Finance Services segment, and \$1.4 million attributable to the Homeland Security Services segment. Overall, direct costs decreased by \$10.8 million, or 31.6%, to \$23.5 million for the six months ended June 28, 2013, from \$34.3 million for the six months ended June 29, 2012. This decrease is attributable to decreases in direct costs within our Energy Efficiency Services segment and our Engineering Services segment of \$11.3 million, or 50.5%, and \$0.1 million, or 1.1%, respectively, partially offset by increases in direct costs of contract revenue of \$0.2 million, or 11.7%, and \$0.4 million, or 37.9%, in our Public Finance Services and Homeland Security Services segments,

respectively.

Direct costs decreased as a result of a decrease in subconsultant services (used primarily by our Energy Efficiency Services segment) and other direct costs of \$10.9 million, partially offset by an increase in salaries and wages of \$39,000. Salaries and wages increased to 28.6% of contract revenue for the six months ended June 28, 2013 from 24.4% for the six months ended June 29, 2012 and subconsultant services decreased to 27.5% of contract revenue for the six months ended June 28, 2013 from 45.7% of contract revenue for the six months ended June 29, 2012. Subconsultant services decreased primarily because of decreased use of subconsultant services to perform certain energy efficiency, sustainability and renewable energy services of our subsidiary Willdan Energy Solutions, which generally utilizes a higher percentage of subconsultants than our other subsidiaries.

General and administrative expenses. General and administrative expenses decreased by \$19.3 million, or 52.8%, to \$17.2 million for the six months ended June 28, 2013 from \$36.5 million for the six months ended June 29, 2012. This reflected decreases of \$17.8 million, \$0.7 million, \$0.1 million and \$0.7 million in general and administrative expenses of the Energy Efficiency Services, the Engineering Services, the Public Finance Services and the Homeland Security Services segments, respectively. Our unallocated corporate expenses remained flat. General and administrative expenses as a percentage of contract revenue was 41.1% for the six months ended June 28, 2013 as compared to 74.6% for the six months ended June 29, 2012.

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Of the \$19.3 million decrease in general and administrative expenses, approximately \$15.2 million resulted from a goodwill impairment charge we recognized relating to our Energy Efficiency Services segment in the second quarter of 2012. See Components of Interest and Expense Goodwill. Salaries and wages, payroll taxes and employee benefits also decreased by \$1.8 million primarily as a result of cost control measures and a decrease in non-chargeability of labor. As discussed above under Components of Income and Expense Direct Costs of Contract Revenue, we do not allocate that portion of salaries and wages not related to time spent directly generating revenue to direct costs of contract revenue and project delays in our Energy Efficiency Services segment resulted in more unallocated time. The remaining \$2.3 million decrease primarily relates to other general and administrative expenses and is attributable to decreases in other expenses, professional service fees, accounting, legal and recruiting, marketing and computer and auto expenses.

Income from operations. As a result of the above factors, our operating income was \$1.2 million for the six months ended June 28, 2013, as compared to an operating loss of \$21.9 million for the six months ended June 29, 2012. Income from operations as a percentage of contract revenue was 2.8% for the six months ended June 28, 2013, as compared to loss from operations as a percentage of contract revenue of 44.7% in the prior year period.

Other expense. Other expense, net was \$47,000 for the six months ended June 28, 2013, as compared to \$71,000 for the six months ended June 29, 2012. The decrease is primarily the result of lower interest expense due to decreased borrowings under our line of credit.

Income tax expense (benefit). We recorded an income tax expense of \$41,000 for the six months ended June 28, 2013, as compared to an income tax benefit of \$3.6 million for the six months ended June 29, 2012.

Net income (loss). As a result of the above factors, our net income was \$1.1 million for the six months ended June 28, 2013 compared to a net loss of \$18.4 million for the six months ended June 29, 2012. Our net loss for the six months ended June 29, 2012 was impacted significantly by the \$15.2 million impairment charge we recognized during such period.

Liquidity and Capital Resources

We had \$8.5 million of cash and cash equivalents as of June 28, 2013. Our primary sources of liquidity are cash generated from operations and our revolving line of credit with Wells Fargo, which matures on April 1, 2014. While we believe that our cash and cash equivalents on hand, cash generated by operating activities and funds available under our line of credit will be sufficient to finance our operating activities for at least the next 12 months, if we do experience a cash flow shortage or violate the current terms of our credit agreement, we may have difficulty obtaining additional funds on favorable terms, if at all, to meet our obligations as they come due in the normal course of business.

Cash flows from operating activities

Cash flows provided by operating activities were \$2.4 million for the six months ended June 28, 2013 compared to cash flows provided by operating activities of \$0.9 million for the six months ended June 29, 2012. The cash flows provided by operating activities in the six months ended June 28, 2013 were comparatively higher than the prior year period despite lower contract revenue due primarily to lower direct costs and

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general and administrative expenses, and a decrease in accounts receivable, partially offset by decreases in accounts payable and costs and estimated earnings in excess of billings on uncompleted contracts and an increase in billings in excess of costs and estimated earnings on uncompleted contracts.

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Cash flows from investing activities

Cash flows used in investing activities were \$0.1 million for the six months ended June 28, 2013 as compared to \$0.2 million for the six months ended June 29, 2012. The cash flows used in investing activities decreased by \$0.1 million for the six months ended June 28, 2013 as compared to the six months ended June 29, 2012. Cash used in investing activities primarily reflects purchases of equipment and leasehold improvements.

Cash flows from financing activities

Cash flows used in financing activities were \$3.9 million for the six months ended June 28, 2013 as compared to \$1.8 million provided by financing activities for the six months ended June 29, 2012. The cash flows used in financing activities for the six months ended June 28, 2013 were primarily attributable to a decrease in net borrowings under our line of credit, increased payments on notes payable and changes in the excess of outstanding checks over bank balance. Cash provided by financing activities for the six months ended June 29, 2012 was primarily attributable to an increase in net borrowings under our revolving line of credit, partially offset by increased payments on our notes payable and changes in the excess of outstanding checks over bank balance.

Outstanding indebtedness

Revolving Credit Facility: We currently have a revolving credit facility with Wells Fargo, dated January 1, 2012, which we amended, effective as of April 1, 2013. The amended credit agreement provides for a \$5.0 million revolving line of credit, including a \$250,000 standby letter of credit sub-facility, and matures on April 1, 2014. There were no outstanding borrowings under this agreement as of June 28, 2013. Loans made under the revolving line of credit accrue interest at a floating rate of LIBOR plus 2.25%. We also must pay a 0.25% fee on unused commitments and customary fees on any letters of credit drawn under the facility.

Borrowings under the revolving line of credit are guaranteed by all of our subsidiaries except Public Agency Resources (the Guarantors) and secured by all of our and the Guarantors' accounts receivable and other rights to payment, general intangibles, inventory and equipment. The credit agreement also grants Wells Fargo a security interest in all funds deposited in our demand deposit account with Wells Fargo.

The credit agreement contains customary representations and affirmative covenants, including a financial covenant that requires us to maintain a tangible net worth of at least \$15.5 million on June 30, 2013, \$16.5 million on September 30, 2013, and \$17.5 million on December 31, 2013 and thereafter. As of June 28, 2013, our tangible net worth as defined under the credit agreement was \$18.6 million.(1)

(1) We are required to maintain a tangible net worth of at least \$15.5 million on June 30, 2013, \$16.5 million on September 30, 2013, and \$17.5 million on December 31, 2013 and thereafter under our credit agreement. Tangible net worth is a supplemental measure used in our credit agreement. If we do not maintain the applicable minimum tangible net worth specified under our credit agreement, Wells Fargo could choose to accelerate any loans then outstanding under the facility or refuse to make additional loans to us under the facility. Management therefore believes that presentation of tangible net worth as defined in the credit agreement is useful to investors because it helps them understand how our tangible net worth compares to the financial covenant contained in our credit agreement and whether we are close to violating such covenant.

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Management also reviews tangible net worth to ensure it will continue to have access to its financing sources. Tangible net worth is defined in the credit agreement as the aggregate of total stockholders' equity less any intangible assets and less any loans or advances to, or investments in, any related entities or individuals. This definition of tangible net worth may differ from those of many companies reporting similarly named measures. This measure should be considered in addition to, and not as a substitute for or superior to, other measures of financial performance prepared in accordance with U.S. generally accepted accounting principles, or GAAP, such as stockholders' equity. Tangible net worth is not a recognized term under GAAP and does not purport to be an alternative to stockholders' equity as an indicator of net worth or any other GAAP measure.

The following is a reconciliation of stockholders' equity to tangible net worth:

	June 28, 2013
Stockholders' equity	\$ 18,563,000
Other intangibles, net	
Tangible net worth	\$ 18,563,000

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The credit agreement also includes customary negative covenants, including (i) restrictions on the incurrence of additional indebtedness by us or the Guarantors other than purchase money indebtedness not to exceed \$2.0 million and indebtedness existing on the date of the credit agreement, (ii) restrictions on the payment of dividends on our stock and redemptions, repurchases or other acquisitions of our stock, except that we can repurchase stock with an aggregate fair market value up to \$5.0 million in any calendar year, and (iii) limitations on asset sales, mergers and acquisitions. In addition, the credit agreement includes customary events of default.

Contractual obligations

We had no material changes in commitments for long-term debt obligations, operating lease obligations or capital lease obligations as of June 28, 2013, 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 28, 2012.

Off-Balance Sheet Arrangements

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

Recent Accounting Pronouncements

As of June 28, 2013, the impact of recent accounting pronouncements on the Company is not expected to be material to the consolidated financial statements.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

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

- Expectations about future customers;

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

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 28, 2012 and our Quarterly Report on Form 10-Q for the quarter ended March 29, 2013. We do not intend, and undertake no obligation, to update any of our forward-looking statements after the date of this report to reflect actual results or future events or circumstances.

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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 \$8.5 million as of June 28, 2013. This amount includes \$5.0 million invested in the Wells Fargo Collateral Investment Account, \$1.0 million invested in the Wells Fargo Money Market Mutual Fund and \$0.8 million invested in the Wells Fargo Stage Coach Sweep Investment Account. The balance of \$1.7 million represents cash on hand in business checking accounts. Although these investments are subject to variable interest rates, we do not believe we are subject to significant market risk for these short-term investments.

We do not engage in trading activities and do not participate in foreign currency transactions or utilize derivative financial instruments. As of June 28, 2013, we had no outstanding borrowings under our revolving credit facility.

Item 4. Controls and Procedures

We maintain disclosure controls and procedures defined in Rule 13a-15(e) under the Exchange Act, as controls and other procedures that are designed to ensure that information required to be disclosed by the issuer in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in the reports that we file or submit under the Securities Exchange Act is accumulated and communicated to our management, including our President and Chief Executive Officer, Thomas Brisbin, and our Chief Financial Officer, Kimberly Gant, 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 June 28, 2013. 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 June 28, 2013. 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

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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.

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

Item 1A. Risk Factors

There have been no material changes in our risk factors from those disclosed in our Annual Report on Form 10-K for the year ended December 28, 2012 and our Quarterly Report on Form 10-Q for the quarter ended March 29, 2013.

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

None.

Item 3. Defaults upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

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Item 5. Other Information

None.

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Item 6. Exhibits

Exhibit Number	Exhibit Description
3.1	First Amended and Restated Certificate of Incorporation of Willdan Group, Inc., including amendments thereto(1)
3.2	Amended and Restated Bylaws of Willdan Group, Inc.(2)
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 June 28, 2013 and December 28, 2012; (ii) the Condensed Consolidated Statements of Operations for the three and six months ended June 28, 2013 and June 29, 2012; (iii) the Condensed Consolidated Statement of Cash Flows for the six months ended June 28, 2013 and June 29, 2012 and (iv) the Notes to the Condensed Consolidated Financial Statements.

* Filed herewith.

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

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

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SIGNATURE

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

WILLDAN GROUP, INC.

By: */s/ Kimberly D. Gant*
Kimberly D. Gant
Chief Financial Officer, Senior Vice President and
Treasurer
Date: August 8, 2013