Willdan Group, Inc.
Form 10-Q
August 13, 2012
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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 29, 2012

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)

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 x No o

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 x No o

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

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

As of August 6, 2012, there were 7,296,585 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

		June 29, 2012 (unaudited)		December 30, 2011
Assets				
Current assets:				
Cash and cash equivalents	$	5,502,000	$	3,001,000
Accounts receivable, net of allowance for doubtful accounts of $537,000 and $421,000 at June 29, 2012 and December 30, 2011, respectively		21,848,000		16,782,000
Costs and estimated earnings in excess of billings on uncompleted contracts		10,606,000		20,672,000
Other receivables		86,000		175,000
Prepaid expenses and other current assets		1,493,000		1,724,000
Total current assets		39,535,000		42,354,000
Equipment and leasehold improvements, net		1,049,000		1,217,000
Goodwill				15,208,000
Other intangible assets, net		30,000		49,000
Other assets		349,000		383,000
Deferred income taxes, net of current portion		5,336,000		5,100,000
Total assets	$	46,299,000	$	64,311,000
Liabilities and Stockholders Equity				
Current liabilities:				
Excess of outstanding checks over bank balance	$	1,329,000	$	1,777,000
Borrowings under line of credit		3,000,000		256,000
Accounts payable		11,008,000		8,182,000
Accrued liabilities		8,147,000		10,192,000
Billings in excess of costs and estimated earnings on uncompleted contracts		1,815,000		752,000
Current portion of notes payable		146,000		600,000
Current portion of capital lease obligations		132,000		163,000
Current portion of deferred income taxes		4,001,000		7,349,000
Total current liabilities		29,578,000		29,271,000
Notes payable, less current portion		42,000		77,000
Capital lease obligations, less current portion		89,000		136,000
Deferred lease obligations		478,000		534,000
Total liabilities		30,187,000		30,018,000
Commitments and contingencies				
Stockholders equity:				

Preferred stock, $0.01 par value, 10,000,000 shares authorized, no shares issued and outstanding				
Common stock, $0.01 par value, 40,000,000 shares authorized: 7,297,000 and 7,274,000 shares issued and outstanding at June 29, 2012 and December 30, 2011, respectively		73,000		73,000
Additional paid-in capital		34,271,000		34,065,000
Accumulated (deficit) earnings		(18,232,000)		155,000
Total stockholders equity		16,112,000		34,293,000
Total liabilities and stockholders equity	$	46,299,000	$	64,311,000

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 June 29, 2012	Three Months Ended July 1, 2011	Six Months Ended June 29, 2012	Six Months Ended July 1, 2011
Contract revenue	$ 23,481,000	$ 25,812,000	$ 48,949,000	$ 48,554,000
Direct costs of contract revenue:				
Salaries and wages	5,976,000	6,628,000	11,933,000	12,999,000
Subconsultant services	11,038,000	6,567,000	21,968,000	13,793,000
Other direct costs	102,000	2,321,000	409,000	2,287,000
Total direct costs of contract revenue	17,116,000	15,516,000	34,310,000	29,079,000
General and administrative expenses:				
Salaries and wages, payroll taxes and employee benefits	5,839,000	5,303,000	12,267,000	10,864,000
Facilities and facilities related	1,240,000	1,319,000	2,435,000	2,397,000
Stock-based compensation	77,000	54,000	131,000	108,000
Depreciation and amortization	181,000	229,000	355,000	486,000
Lease abandonment, net	26,000		30,000	
Impairment of goodwill	15,208,000		15,208,000	
Other	3,377,000	2,437,000	6,113,000	4,946,000
Total general and administrative expenses	25,948,000	9,342,000	36,539,000	18,801,000
(Loss) income from operations	(19,583,000)	954,000	(21,900,000)	674,000
Other income (expense), net:				
Interest income	1,000	2,000	2,000	4,000
Interest expense	(30,000)	(14,000)	(52,000)	(32,000)
Other, net	(21,000)	(8,000)	(21,000)	(3,000)
Total other expense, net	(50,000)	(20,000)	(71,000)	(31,000)
(Loss) income before income taxes	(19,633,000)	934,000	(21,971,000)	643,000
Income tax (benefit) expense	(2,657,000)	199,000	(3,584,000)	199,000
Net (loss) income	$ (16,976,000)	$ 735,000	$ (18,387,000)	$ 444,000
(Loss) earnings per share:				
Basic and diluted	$ (2.33)	$ 0.10	$ (2.52)	$ 0.06
Weighted-average shares outstanding:				
Basic	7,297,000	7,257,000	7,294,000	7,254,000
Diluted	7,297,000	7,471,000	7,294,000	7,476,000

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 29, 2012	Six Months Ended July 1, 2011
Cash flows from operating activities:		
Net (loss) income	$ (18,387,000)	$ 444,000
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	387,000	519,000
Deferred income taxes	(3,584,000)	
Impairment of goodwill	15,208,000	
Lease abandonment expense, net	30,000	9,000
Loss on sale of equipment	22,000	7,000
Provision for doubtful accounts	432,000	64,000
Stock-based compensation	131,000	108,000
Changes in operating assets and liabilities:		
Accounts receivable	(5,498,000)	3,148,000
Costs and estimated earnings in excess of billings on uncompleted contracts	10,066,000	(4,340,000)
Other receivables	89,000	3,000
Prepaid expenses and other current assets	231,000	294,000
Other assets	34,000	21,000
Accounts payable	2,826,000	(1,394,000)
Accrued liabilities	(2,045,000)	2,505,000
Billings in excess of costs and estimated earnings on uncompleted contracts	1,063,000	272,000
Deferred lease obligations	(86,000)	(76,000)
Net cash provided by operating activities	919,000	1,584,000
Cash flows from investing activities:		
Purchase of equipment and leasehold improvements	(220,000)	(263,000)
Proceeds from sale of equipment	8,000	1,000
Net cash used in investing activities	(212,000)	(262,000)
Cash flows from financing activities:		
Changes in excess of outstanding checks over bank balance	(448,000)	289,000
Payments on notes payable	(489,000)	(43,000)
Proceeds from notes payable		23,000
Borrowings under line of credit	11,663,000	13,667,000
Repayments on line of credit	(8,919,000)	(14,667,000)
Principal payments on capital lease obligations	(88,000)	(101,000)
Proceeds from sales of common stock under employee stock purchase plan	75,000	42,000
Net cash provided by (used in) financing activities	1,794,000	(790,000)
Net increase in cash and cash equivalents	2,501,000	532,000
Cash and cash equivalents at beginning of the period	3,001,000	6,642,000
Cash and cash equivalents at end of the period	$ 5,502,000	$ 7,174,000
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	$ 51,000	$ 37,000
Income taxes	45,000	18,000
Supplemental disclosures of noncash investing and financing activities:		
Equipment acquired under capital lease obligations	$ 10,000	$ 103,000

Purchase price payable	2,733,000

See accompanying notes to condensed consolidated financial statements.

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

June 29, 2012
(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 2011 Annual Report on Form 10-K filed on March 29, 2012.

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.

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 29, 2012 and December 30, 2011, the Company had retained accounts receivable of approximately $1,086,000 and $579,000, 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

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 $5.5 million of cash and cash equivalents as of June 29, 2012. The Company s primary source of liquidity is cash generated from operations. The Company also has funds available under its revolving line of credit with Wells Fargo Bank, National Association (Wells Fargo), that matures on April 1, 2013, but the Company s ability to borrow funds under this line of credit is currently subject to Wells Fargo s discretion. While the Company believes that its cash and cash equivalents on hand and cash generated by operating activities will be sufficient to finance its operating activities for at least the next 12 months, if the Company does experience a cash flow shortage, 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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2. BUSINESS COMBINATION

On June 9, 2008, the Company acquired all of the outstanding stock of Willdan Energy Solutions, formerly known as Intergy Corporation, a California based consulting company that assists companies, institutions and agencies with planning and implementing their energy efficiency, water conservation and renewable energy strategies. The acquisition cost recorded by the Company as of June 29, 2012 was $17.9 million, consisting of $9.9 million in cash paid at closing, a $0.2 million net asset value adjustment, a guaranteed payment of $1.0 million in cash paid in June 2009, an earn-out payment of $1.3 million paid in August 2009, an earn-out payment of $2.1 million paid in September 2010, an earn-out payment of $2.7 million paid in August 2011 and $0.7 million in transaction costs. The earn-out payments were required because Willdan Energy Solutions achieved certain financial targets over the relevant periods. The Company recorded $15.2 million of goodwill in connection with the acquisition, and as of June 29, 2012, this entire goodwill amount had been written off (See Note 3).

3. GOODWILL AND OTHER INTANGIBLE ASSETS

As of December 30, 2011, the Company had $15.2 million of goodwill, all of which related to the Energy Solutions reporting unit, which comprises the Energy Efficiency Services reporting segment. During the three months ended June 29, 2012, the Company determined that all such goodwill was impaired resulting in an impairment charge of $15.2 million, and, as of June 29, 2012, the Company had no remaining goodwill.

During the three months ended June 29, 2012, the Company determined that a quantitative assessment of its goodwill was warranted for the Energy Solutions reporting unit. This assessment indicated that the estimated fair value of the Energy Solutions reporting unit was less than its carrying value. For this testing, the Company weighted the income approach and the market approach at 80% and 20%, respectively. The Company further determined that all of the remaining goodwill for the Energy Solutions reporting unit was impaired and recognized an impairment charge of $15.2 million as of June 29, 2012.

The changes in the carrying value of goodwill for the Energy Solutions reporting unit for the six months ended June 29, 2012 were as follows:

		December 30, 2011		Impairment		June 29, 2012
Reporting Unit:						
Energy Solutions	$	15,208,000	$	(15,208,000)	$	
	$	15,208,000	$	(15,208,000)	$	

The gross amounts and accumulated amortization of the Company s acquired identifiable intangible assets with finite useful lives as of June 29, 2012 and December 30, 2011, included in intangible assets, net in the accompanying consolidated balance sheets, were as follows:

	June 29, 2012	December 30, 2011

		Gross Amount		Accumulated Amortization		Gross Amount		Accumulated Amortization	Amortization Period (yrs)
Backlog	$	920,000	$	920,000	$	920,000	$	920,000	1
Training materials/courses		282,000		252,000		282,000		233,000	5
Non-compete agreements		30,000		30,000		30,000		30,000	3
	$	1,232,000	$	1,202,000	$	1,232,000	$	1,183,000	

The Company s amortization expense for acquired identifiable intangible assets with finite useful lives was $10,000 and $19,000 for the fiscal three and six months ended June 29, 2012, respectively, as compared to $13,000 and $27,000 for the fiscal three and six months ended July 1, 2011. Estimated amortization expense for acquired identifiable intangible assets for the remainder of fiscal 2012 and the succeeding years is as follows:

Fiscal year:		
2012	$	18,000
2013		12,000
	$	30,000

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4. 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 29, 2012	July 1, 2011	June 29, 2012	July 1, 2011
Net (loss) income	$ (16,976,000)	$ 735,000	$ (18,387,000)	$ 444,000
Weighted-average common shares outstanding-basic	7,297,000	7,257,000	7,294,000	7,254,000
Effect of dilutive stock options		214,000		222,000
Weighted-average common shares outstanding-diluted	7,297,000	7,471,000	7,294,000	7,476,000
(Loss) earnings per share:				
Basic	$ (2.33)	$ 0.10	$ (2.52)	$ 0.06
Diluted	$ (2.33)	$ 0.10	$ (2.52)	$ 0.06

For the three months and six months ended June 29, 2012, 689,000 options were excluded from the calculation of dilutive potential common shares, compared to 302,000 options for the same periods last year. These options were not included in the computation of dilutive potential common shares because of the net loss position for the 2012 periods and because the assumed proceeds per share exceeded the average market price per share for the 2011 periods. Accordingly, the inclusion of these options would have been anti-dilutive. For periods in which the Company incurs net losses, dilutive potential common shares are excluded as they would be anti-dilutive.

5. EQUIPMENT AND LEASEHOLD IMPROVEMENTS

Equipment and leasehold improvements consist of the following:

	June 29, 2012	December 30, 2011
Furniture and fixtures	$ 3,365,000	$ 3,393,000
Computer hardware and software	6,309,000	6,279,000
Leasehold improvements	813,000	