

Willdan Group, Inc.  
Form 10-Q  
November 09, 2007

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

**FORM 10-Q**

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

For the quarterly period ended September 28, 2007

OR

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

For the transition period from      to

Commission file number 001-33076

**WILLDAN GROUP, INC.**

(Exact Name of Registrant as Specified in Its Charter)

**Delaware**

(State or other Jurisdiction of Incorporation or Organization)

**14-195112**

(IRS Employer Identification No.)

**2401 East Katella Avenue, Suite 300  
Anaheim, California**

(Address of principal executive offices, excluding zip code)

**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).

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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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one): Large Accelerated Filer  Accelerated Filer  Non-Accelerated Filer

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 November 8, 2007, there were 7,150,239 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**

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	December 29, 2006	September 28, 2007 (Unaudited)
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 20,633,000	\$ 6,207,000
Liquid investments		9,000,000
Cash, cash equivalents and liquid investments	20,633,000	15,207,000
Accounts receivable, net of allowance for doubtful accounts of \$492,000 and \$650,000 at December 29, 2006 and September 28, 2007, respectively	14,270,000	14,364,000
Costs and estimated earnings in excess of billings on uncompleted contracts	7,960,000	7,738,000
Other receivables	4,505,000	1,376,000
Prepaid expenses and other current assets	1,858,000	1,025,000
Total current assets	49,226,000	39,710,000
Equipment and leasehold improvements, net	4,372,000	3,690,000
Goodwill	2,911,000	2,911,000
Other assets	599,000	525,000
Total assets	\$ 57,108,000	\$ 46,836,000
<b>Liabilities and Stockholders Equity</b>		
Current liabilities:		
Excess of outstanding checks over bank balance	\$ 257,000	\$ 1,089,000
Borrowings under line of credit		31,000
Accounts payable	1,270,000	1,003,000
Accrued liabilities	14,106,000	5,477,000
Billings in excess of costs and estimated earnings on uncompleted contracts	1,222,000	1,112,000
Accrued final distribution payable to holders of redeemable common stock	3,150,000	
Current portion of notes payable	993,000	23,000
Current portion of notes payable to related parties	75,000	
Current portion of capital lease obligations	170,000	178,000
Current portion of deferred income taxes	1,693,000	1,693,000
Total current liabilities	22,936,000	10,606,000
Notes payable to related parties, less current portion	46,000	
Capital lease obligations, less current portion	348,000	300,000
Deferred lease obligations	547,000	658,000
Deferred income taxes, net of current portion	398,000	398,000
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: 7,148,000 and 7,150,000 shares issued and outstanding at December 29, 2006 and September 28, 2007 respectively	71,000	71,000
Additional paid-in capital	32,552,000	32,732,000
Retained earnings	210,000	2,071,000
Total stockholders equity	32,833,000	34,874,000
Total liabilities and stockholders equity	\$ 57,108,000	\$ 46,836,000

See accompanying notes to condensed consolidated financial statements.



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

(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 29, 2006	September 28, 2007	September 29, 2006	September 28, 2007
Contract revenues	\$ 20,954,000	\$ 19,687,000	\$ 59,047,000	\$ 60,135,000
Direct costs of contract revenues:				
Salaries and wages	6,412,000	6,414,000	18,570,000	19,815,000
Production expenses	381,000	432,000	1,149,000	1,229,000
Subconsultant services	1,206,000	1,187,000	3,166,000	3,438,000
Total direct costs of contract revenues	7,999,000	8,033,000	22,885,000	24,482,000
General and administrative expenses:				
Salaries and wages, payroll taxes and employee benefits	6,616,000	5,916,000	19,661,000	19,260,000
Facilities	1,116,000	1,145,000	2,979,000	3,405,000
Depreciation and amortization	414,000	439,000	1,137,000	1,335,000
Litigation accrual reversal	(1,049,000)		(1,049,000)	
Other	2,946,000	2,497,000	7,663,000	9,415,000
Total general and administrative expenses	10,043,000	9,997,000	30,391,000	33,415,000
Income from operations	2,912,000	1,657,000	5,771,000	2,238,000
Other income (expense)				
Interest expense	(185,000)	(23,000)	(596,000)	527,000
Interest income and other, net	13,000	197,000	2,368,000	525,000
Total other income (expense)	(172,000)	174,000	1,772,000	1,052,000
Income before income tax expense	2,740,000	1,831,000	7,543,000	3,290,000
Income tax expense	41,000	778,000	79,000	1,429,000
Net income	\$ 2,699,000	\$ 1,053,000	\$ 7,464,000	\$ 1,861,000
Net income per share				
Basic and diluted	\$ 0.57	\$ 0.15	\$ 1.58	\$ 0.26
Weighted-average shares outstanding				
Basic	4,713,000	7,150,000	4,712,000	7,148,000
Diluted	4,713,000	7,161,000	4,712,000	7,154,000

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**Pro Forma Data:**

Pro forma provision for income taxes	\$	1,096,000	\$	2,117,000
Pro forma net income	\$	1,644,000	\$	5,426,000
Pro forma income per common share, basic and diluted	\$	0.35	\$	1.15

See accompanying notes to condensed consolidated financial statements.



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

(Unaudited)

	Nine Months Ended	
	September 29, 2006	September 28, 2007
Cash flows from operating activities:		
Net income	\$ 7,464,000	\$ 1,861,000
Adjustments to reconcile net income to net cash provided by (used in) operating activities		
Depreciation and amortization	1,138,000	1,342,000
Loss (gain) on sale of equipment	(13,000)	4,000
Allowance for doubtful accounts	406,000	194,000
Stock-based compensation		145,000
Changes in operating assets and liabilities		
Accounts receivable	(2,301,000)	(288,000)
Costs and estimated earnings in excess of billing on uncompleted contracts	(800,000)	222,000
Other receivables	(1,030,000)	3,129,000
Prepaid expenses and other current assets	424,000	833,000
Other assets	(60,000)	52,000
Accounts payable	906,000	(267,000)
Accrued liabilities	(517,000)	(8,629,000)
Billings in excess of costs and estimated earnings on uncompleted contracts	144,000	(110,000)
Deferred income taxes	48,000	
Deferred lease obligations	141,000	111,000
Net cash provided by (used in) operating activities	5,950,000	(1,401,000)
Cash flows from investing activities		
Purchase of equipment and leasehold improvements	(2,418,000)	(582,000)
Proceeds from sale of equipment	4,000	28,000
Purchase of other assets	(100,000)	
Purchase of liquid investments		(16,100,000)
Proceeds from sale of liquid investments		7,100,000
Net cash used in investing activities	(2,514,000)	(9,554,000)
Cash flows from financing activities		
Changes in excess of outstanding checks over bank balance	(78,000)	832,000
Payments on notes payable	(1,128,000)	(1,091,000)
Proceeds from borrowings under line of credit	11,655,000	378,000
Repayments of line of credit	(11,655,000)	(347,000)
Principal payments on capital leases	(117,000)	(127,000)
Payments on liabilities to stockholders	(3,000)	
Proceeds from stockholders receivables	34,000	
Proceeds from issuance of redeemable common stock	18,000	
Proceeds from employee stock purchase plan		24,000
Distributions to holders of redeemable common stock	(2,334,000)	(3,150,000)
(Payment) refund of offering costs	(1,051,000)	10,000
Net cash used in financing activities	(4,659,000)	(3,471,000)
Net decrease in cash and cash equivalents	(1,223,000)	(14,426,000)
Cash and cash equivalents at beginning of the period	3,066,000	20,633,000
Cash and cash equivalents at end of the period	\$ 1,843,000	\$ 6,207,000
Supplemental disclosures of cash flow information		
Cash paid during the period for		
Interest	\$ 126,000	\$ 63,000

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Income taxes		55,000		875,000
Supplemental disclosures of noncash investing and financing activities				
Equipment acquired under capital leases	\$	349,000	\$	120,000
Note payable issued in connection with acquisition of assets		150,000		

See accompanying notes to condensed consolidated financial statements.

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

**September 28, 2007**

**(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 statement of the consolidated results for the interim periods presented. Results for the interim period are not necessarily indicative of results for the full year. Certain information and footnote disclosures normally included in annual consolidated financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. The condensed consolidated financial statements should be read in conjunction with the Company's 2006 Annual Report on Form 10-K.*

*Nature of Business*

Willdan Group, Inc. (Willdan Group) and subsidiaries (Willdan Group and its subsidiaries, collectively the Company) is a provider of outsourced services to small and mid-sized public agencies primarily in California and other western states. Outsourcing enables these agencies 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 services to public agencies including civil engineering, building and safety services, geotechnical engineering, financial and economic consulting, and disaster preparedness and homeland security. Clients primarily consist of cities, counties, redevelopment agencies, water districts, school districts and universities, state agencies, federal agencies, a variety of other special districts and agencies, and tribal governments.

Willdan Group, Inc., a Delaware corporation, is the successor to The Willdan Group of Companies, a California corporation. Willdan Group, Inc. was formed during fiscal year 2006, as a subsidiary of The Willdan Group of Companies, and on June 30, 2006, The Willdan Group of Companies merged with and into Willdan Group, Inc. Willdan Group, Inc. had no operations prior to this merger. Since the transaction occurred between entities under common control, the transfer was recorded at historical carrying values in a manner similar to the pooling of interests method of accounting. Hereinafter, Willdan Group or the Company refers to both Willdan Group, Inc. and its predecessor, The Willdan Group of Companies.

On November 27, 2006, Willdan Group completed its initial public offering (IPO). The IPO resulted in the sale by Willdan Group of 2,000,000 shares of common stock at an initial offering price per share of \$10.00, generating gross proceeds to Willdan Group of \$20.0 million. A selling shareholder also sold 900,000 shares of common stock in the IPO. The aggregate proceeds to Willdan Group, net of underwriter's discounts and other offering costs, were approximately \$16.4 million. On December 20, 2006, an additional 435,000 shares of common stock were sold by Willdan Group at \$10.00 per share as a result of the underwriter exercising its over-allotment option. This resulted in additional net proceeds of approximately \$4.0 million to Willdan Group. Willdan Group issued stock warrants in connection with the IPO to the underwriter for the right to purchase 290,000 common shares at 120% of the IPO share price, or \$12.00 per share. The warrants become exercisable on November 20, 2007 and expire on November 20, 2011.

Prior to completion of the IPO, Willdan Group was owned by its employees, board members and a service provider. With the consent of its stockholders, Willdan Group had elected to be treated as an S Corporation and its subsidiaries were qualified S subsidiaries for purposes of federal and state income taxes. Effective as of the first day of trading of Willdan Group's common stock, November 21, 2006, the S Corporation status of Willdan Group and the qualified S subsidiary status of its subsidiaries terminated and thereafter the Company has been subject to federal and state income taxes as a C Corporation.



*Principles of Consolidation*

The condensed consolidated financial statements include the accounts of Willdan Group and its wholly owned subsidiaries, Willdan, MuniFinancial, Arroyo Geotechnical, American Homeland Solutions, Willdan Resource Solutions and Public Agency Resources. 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 fee, time-and-materials, and unit-based. Revenues on fixed fee contracts are recognized on the percentage-of-completion method based generally on the ratio of direct costs incurred to date to estimated total direct costs at completion. Revenue on time-and-materials and unit-based contracts are recognized as the work is performed in accordance with specific terms of the contract. 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 unpriced 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 unpriced change orders if realization of the expected price of the change order is assured beyond a reasonable doubt.

Applying the percentage-of-completion method of recognizing revenue requires the Company to estimate the indicated 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 revenues and earnings. Such changes could have a material effect on future consolidated financial statements.

Direct costs of contract revenues 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 revenues also include production expenses, subconsultant services and other expenses that are incurred in connection with revenue producing projects. Direct costs of contract revenues exclude that portion of technical and nontechnical salaries and wages related to marketing efforts, vacations, holidays and other time not spent directly generating revenues 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 revenues. No allocation of facilities costs is made to direct costs of contract revenues nor is depreciation and amortization allocated to direct costs. Other companies may classify as direct costs of contract revenues some of the costs that the Company classifies as general and administrative costs. We expense direct costs of contract revenues 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 monthly 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 minimal with governmental entities. 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 December 29, 2006 and September 28, 2007, the Company had retained accounts receivable of approximately \$54,000 and \$44,000, respectively.

*Use of Estimates*

The preparation of condensed consolidated financial statements in conformity with GAAP 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 condensed consolidated financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**2. NEW ACCOUNTING PRONOUNCEMENTS**

In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48), an interpretation of FASB Statement of Financial Accounting Standards (SFAS) No. 109, which clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS 109, *Accounting for Income Taxes* (SFAS 109). SFAS 109 does not prescribe a recognition threshold or measurement attribute for the financial statement recognition and measurement of a tax position taken in a tax return. Diversity in practice existed in the accounting for income taxes. To address that diversity, FIN 48 clarifies the application of SFAS 109 by defining a criterion that an individual tax position must meet for any part of the benefit of that position to be recognized in an enterprise's financial statements. Additionally, FIN 48 provides guidance on measurement, derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company's adoption of FIN 48 did not have a material effect on its consolidated financial statements.

SFAS No. 157, *Fair Value Measurements* (SFAS 157), defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements. The Company will adopt the provisions of SFAS 157 effective January 1, 2008. The Company does not expect SFAS 157 to have a material impact on its results of operations, financial position, or cash flows.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (SFAS 159) which permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. SFAS 159 will be effective on January 1, 2008. The provisions of SFAS 159 are elective, and the Company has not determined whether and to what extent it may implement its provisions or how if implemented, it might affect its financial statements.

**3. EQUIPMENT AND LEASEHOLD IMPROVEMENTS**

Equipment and leasehold improvements consist of the following:

	December 29, 2006	September 28, 2007
Furniture and fixtures	\$ 4,825,000	\$ 4,915,000
Computer hardware and software	4,184,000	4,458,000
Leasehold improvements	880,000	919,000
Equipment under capital leases	757,000	782,000
Automobiles, trucks, and field equipment	401,000	432,000
	11,047,000	11,506,000
Accumulated depreciation and amortization	6,675,000	7,816,000
	\$ 4,372,000	\$ 3,690,000

**4. ACCRUED LIABILITIES**

Accrued liabilities consist of the following:

	December 29, 2006	September 28, 2007
Accrued bonuses	\$ 2,150,000	\$ 125,000
Paid leave bank	1,861,000	1,857,000
Compensation and payroll taxes	1,556,000	900,000
Accrued legal	41,000	336,000
Accrued workers compensation insurance	50,000	47,000
Litigation accrual	5,951,000	
Accrued interest	1,006,000	45,000
Income taxes payable	429,000	1,065,000
Other	1,062,000	1,102,000
	\$ 14,106,000	\$ 5,477,000

**5. COMMITMENTS***Leases*

The Company is obligated under capital leases for certain furniture and office equipment that expire at various dates through the year 2011.

The Company also leases certain office facilities under noncancelable operating leases that expire at various dates through the year 2014 and is committed under noncancelable operating leases for the lease of computer equipment and automobiles through the year 2009.

*Employee Benefit Plans*

The Company has a qualified profit sharing plan (the Plan) pursuant to Internal Revenue Code Section 401(a) and a 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 an incentive bonus plan for regional managers, division managers and others as determined by the president of Willdan Group. Bonuses are awarded under this plan based on five to twenty-five percent of the eligible employee's annual salary 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.

*Post Employment Health Benefits*

In May 2006, Willdan Group's board of directors approved providing lifetime health insurance coverage for Willdan Group's chief executive officer as of that date, Win Westfall, and his spouse and for the widow of Willdan Group's former chief executive officer, Linda Heil, who is also a Willdan Group board member. Additionally, the board approved health insurance coverage for Mrs. Heil's two dependents until they reach the maximum age for dependent coverage under the Company's health insurance policy.

During fiscal year 2006, the Company recorded general and administrative expense equal to the present value of the expected payments for health insurance coverage for Mrs. Heil and her dependents. The Company also began to amortize, to general and administrative expense, the present value of the expected payments for post employment health coverage for Mr. Westfall and his spouse over the period from approval of the benefit to the estimated date of retirement. During the first fiscal quarter of 2007, this chief executive officer communicated his intent to retire and the Company prospectively adjusted the amortization.

## 6. INCOME TAXES

Prior to November 21, 2006, for federal income tax purposes, Willdan Group reported as an S Corporation and its subsidiaries were qualified S subsidiaries wherein Willdan Group elected and the stockholders of Willdan Group consented to be taxed in a manner similar to partners in a general partnership. Since federal income taxes on S Corporation income are the responsibility of the individual stockholders, no federal tax provision is included in the accompanying consolidated financial statements for periods prior to November 21, 2006. Effective January 1, 2002, Willdan Group elected to be treated as an S Corporation for state tax purposes and has provided for state income taxes at the applicable S Corporation statutory rate from January 1, 2002 through November 21, 2006.

Upon completion of the IPO (as more fully described in Note 1), Willdan Group ceased to qualify as an S Corporation and its subsidiaries were no longer qualified S subsidiaries. Thus, the Company is taxed at regular corporate rates beginning November 21, 2006. For information purposes, the Company's consolidated statement of operations for the fiscal three and nine months ended September 29, 2006 include pro forma adjustments for income taxes at a 40% rate that would have been recorded if Willdan Group were a C Corporation at that time.

## 7. REPORTABLE SEGMENTS

The Company has three reportable segments: Engineering Services, Public Finance Services and Homeland Security Services. The Engineering Services segment performs services for a broad range of public agency clients and offers a full complement of engineering, building and safety, construction management, and municipal planning services to clients throughout the western United States. The Public Finance Services segment 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 provides homeland security and public safety consulting services to cities, counties and related municipal service agencies.

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 2006 Annual Report on Form 10-K. There were no intersegment sales during the fiscal three and nine months ended September 29, 2006 and September 28, 2007. Management evaluates the performance of each segment based upon income or loss before year-end performance bonuses and 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 revenues are not included as it is impracticable to report this information for each group of similar services.



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Financial information with respect to the reportable segments for the fiscal three and nine months ended September 29, 2006 and the fiscal three and nine months ended September 28, 2007 follows:

	Engineering Services	Public Finance Services	Homeland Security Services	Unallocated Corporate	Intersegment	Consolidated Total
<b>Three Months</b>						
<b>Ended September 29, 2006</b>						
Contract revenue	\$ 17,657,000	\$ 3,022,000	\$ 275,000	\$	\$	\$ 20,954,000
Segment profit (loss) before bonuses and income taxes	3,206,000	456,000	(80,000)	(118,000)		3,464,000
Net income (loss)	2,713,000	333,000	(80,000)	(267,000)		2,699,000
<b>Three Months</b>						
<b>Ended September 28, 2007</b>						
Contract revenue	\$ 15,908,000	\$ 3,355,000	\$ 424,000	\$	\$	\$ 19,687,000
Segment profit before bonuses and income taxes	1,209,000	643,000	5,000	(26,000)		1,831,000
Net income (loss)	688,000	379,000	2,000	(16,000)		1,053,000
<b>Nine Months</b>						
<b>Ended September 29, 2006</b>						
Contract revenue	\$ 49,768,000	\$ 8,562,000	\$ 717,000	\$	\$	\$ 59,047,000
Segment profit (loss) before bonuses and income taxes	7,098,000	1,003,000	(194,000)	1,817,000		9,724,000
Net income (loss)	5,493,000	736,000	(195,000)	1,430,000		7,464,000
Segment assets	36,846,000	9,744,000	478,000	11,279,000	(20,554,000)	37,793,000
<b>Nine Months</b>						
<b>Ended September 28, 2007</b>						
Contract revenue	\$ 49,648,000	\$ 9,415,000	\$ 1,072,000	\$	\$	\$ 60,135,000
Segment profit before bonuses and income taxes	2,467,000	1,070,000	(171,000)	(76,000)		3,290,000
Net income (loss)	1,389,000	622,000	(105,000)	(45,000)		1,861,000
Segment assets	27,649,000	10,307,000	744,000	26,440,000	(18,304,000)	46,836,000

### 8. CONTINGENCIES

#### *Claims and Lawsuits*

The Company is subject from time to time to various claims and lawsuits, 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 loss.

The Company was previously involved in a dispute with the City of West Hollywood that was initiated in fiscal year 2002. This matter concerned a construction project in the City of West Hollywood, California, for the improvement of Santa Monica Boulevard. The project required the reconstruction of approximately three miles of roadway. The city and the general contractor claimed that the design the Company prepared was inadequate for the volume and type of traffic on Santa Monica Boulevard. The city also claimed that the Company failed to control the costs of the project due to contractor claims for extra costs.

In the fourth quarter of 2005, following a trial in the Los Angeles County Superior Court in California, the jury rendered a verdict against the Company and awarded damages to the city in the amount of \$6.3 million, including attorney's fees, interest and costs. The Company's insurance company posted bonds and filed an appeal with respect to this matter. During the appeal process, interest accrued on the outstanding judgment at the rate of 10% per annum.

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As of December 30, 2005, the Company's management estimated that approximately \$3.2 million of the damages was covered by the Company's professional liability insurance policy. Accordingly, in fiscal year 2005, the Company expensed \$2.7 million of this judgment, and recorded related interest expense of \$0.4 million. During

fiscal year 2006, the Company obtained a court ruling awarding the Company approximately \$1.0 million on a claim for indemnity, recovering the settlement amount and interest thereon and attorney's fees and costs in connection with an unrelated claim that arose in fiscal year 2002. This ruling has been appealed by the cross-defendant and that appeal is ongoing. Because the claim arose in 2002 and the Company's insurance carrier previously paid the settlement amount, the Company was able to replenish its insurance coverage and deductible by approximately \$1.0 million for that policy year. Therefore, the Company reflected an additional receivable of approximately \$1.0 million from the insurance company in the third fiscal quarter of 2006 and a corresponding reduction in litigation accrual expense.

Effective March 6, 2007, the Company entered into a settlement agreement with the City of West Hollywood. Pursuant to the terms of the settlement agreement, both parties agreed to a full mutual release of all claims related to the lawsuit and appeal, subject to dismissal of the appeal. Neither party admitted any fault or liability related to the claims in the lawsuit.

Under the terms of the settlement agreement, the Company agreed to pay \$6.2 million in cash to the city. The Company's insurance company has already paid \$3.2 million of the settlement amount and the Company expects to receive an additional \$1.0 million from its insurance company upon the resolution of the appeal in an unrelated matter discussed above. The Company also agreed to provide an \$85,000 credit to the city for future services. The future services are to be provided at the Company's then prevailing rates and can be chosen in the city's sole discretion from services provided by the Company to its municipal clients. The city must use the credit before December 31, 2012.

The Company filed a stipulation and request for dismissal of appeal in the action against the city, which was accepted by the California Court of Appeal.

Included in the accompanying consolidated balance sheets as of December 29, 2006 and September 28, 2007, related to these matters are \$4.3 million and \$1.0 million, respectively, of other receivables and \$6.9 million and \$0.1 million, respectively, of accrued liabilities.

During the fiscal three months ended March 30, 2007, previously accrued interest expense of approximately \$0.6 million related to this matter was reversed.

#### *Rescission Offer*

The Company's redeemable common stock issued during fiscal year 2005 may not have been exempt from registration or qualification under federal and state securities laws and the Company may not have obtained the required registrations or qualifications. Accordingly, the Company made rescission offers to the holders of these shares during July 2006 as permitted under California securities law. Each of the holders who purchased shares during fiscal year 2005 irrevocably rejected the Company's rescission offer. Prior to the rescission offer, management believed there was only a remote likelihood that a rescission offer would be accepted by any of the affected stockholders and prior to issuing the fiscal year 2005 consolidated financial statements, all of the holders of these shares had rejected the rescission offer, which further substantiated management's belief that the likelihood of rescission was remote. Further, management believes that the 2005 stock offering satisfied the Section 4(2) exemption of the Securities Act of 1933, as amended, based on the limited nature of the offering, the level of knowledge and relationships of the purchasers and the information provided by the Company to the purchasers.

## 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 29, 2006, included in our Annual Report on Form 10-K (File No. 001-33076). This Quarterly Report contains, in addition to 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.*

### Overview

We are a leading provider of outsourced services to small and mid-sized public agencies in California and other western states. Outsourcing enables these agencies to provide a wide range of specialized services, without having to incur and maintain the overhead necessary to develop staffing in-house. We provide a broad range of services to public agencies, including:

- civil engineering;
- building and safety services;
- geotechnical engineering;
- financial and economic consulting; and
- disaster preparedness and homeland security.

We operate our business through a network of over 20 offices located throughout California and other western states and have a staff of 645 as of September 28, 2007 that includes licensed engineers and other professionals. Our core clients are 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. We seek to establish close working relationships with our public agency clients and, over time, to expand the breadth and depth of the services we provide to them.

While we currently serve communities throughout the country, our business is concentrated in California and neighboring states. We provide services to approximately 60% of the 478 cities and approximately 60% of the 58 counties in California. We also serve special districts, school districts and other public agencies.

Prior to our initial public offering in November 2006, we were taxed as an S Corporation for purposes of federal and state income taxes. As a result of the offering, our S Corporation status terminated and we are now taxed as a C Corporation under federal and state tax laws. We recognized a net deferred income tax liability of \$2.0 million resulting from the termination of our S Corporation status.

Willdan Group, Inc. is a Delaware corporation formed in 2006 for the purpose of effecting the reincorporation of The Willdan Group of Companies, a California corporation, formed in 2001 to serve as our holding company. The reincorporation was completed effective June 30, 2006.

We were founded over 40 years ago, and today consist of a family of wholly owned companies that operate within the following segments for financial reporting purposes:

*Engineering Services.* Our Engineering Services segment provides engineering-related services and geotechnical engineering services. Contract revenue for the Engineering Services segment represented 82.6% and 84.3% of our consolidated contract revenue for the nine months ended September 28, 2007 and the nine months ended September 29, 2006, respectively, and 84.1% for the year ended December 29, 2006.

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*Public Finance Services.* Our Public Finance Services segment offers financial and economic services to public agencies. Contract revenue for the Public Finance Services segment represented 15.6% and 14.5% of our consolidated contract revenue for the nine months ended September 28, 2007 and the nine months ended September 29, 2006, respectively, and 14.7% for the year ended December 29, 2006.

*Homeland Security Services.* Our Homeland Security Services segment offers homeland security and public safety consulting services and began operations in the second half of fiscal year 2005. Contract revenue for our Homeland Security Services segment represented 1.8% and 1.2% of our consolidated contract revenues for the nine months ended September 28, 2007 and the nine months ended September 29, 2006, respectively, and 1.2% for the year ended December 29, 2006.

**Components of Income and Expense**

***Contract Revenues***

We enter into contracts with our clients that contain three principal types of pricing provisions: fixed fee, time-and-materials and unit-based. Contract revenues on our fixed fee contracts are 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 fee contracts are relatively short in duration, thereby lowering the risks of not properly estimating the percent complete. Revenues on our time-and-materials and unit-based contracts are recognized as the work is performed in accordance with specific terms of the contract. A large percentage 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.

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 unpriced 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 unpriced change orders if realization of the expected price of the change order is assured beyond a reasonable doubt.

#### ***Direct Costs of Contract Revenues***

Direct costs of contract revenues 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 revenues also include production expenses, subconsultant services and other expenses that are incurred in connection with revenue producing projects. Direct costs of contract revenues exclude that portion of technical and nontechnical salaries and wages related to marketing efforts, vacations, holidays and other time not spent directly generating revenues 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 revenues. No allocation of facilities costs is made to direct costs of contract revenues nor is depreciation and amortization allocated to direct costs. We expense direct costs of contract revenues when incurred.

As a firm that provides multiple and diverse outsource 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 revenues some of the costs that we classify as general and administrative expenses. As a result, our direct costs of contract revenues may not be comparable to direct costs for other companies, either as a line item expense or as a percentage of contract revenues.

#### ***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 revenues 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 professional services, legal and accounting, computer costs, travel and entertainment and marketing costs. We expense general and administrative costs when incurred.

Until November 2006, we had not operated as a public company. As a public company, we have incurred and will continue to incur significant legal, accounting and other expenses that we did not incur as a private company, and we expect our general and administrative expenses to increase as a result. We expect that our management and other personnel will need to devote a substantial amount of time to comply with the requirements of being a public company. Moreover, rules and regulations for public companies will increase our legal and financial compliance costs and will make some activities more time-consuming and costly.

#### ***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 U.S. generally accepted accounting principles, 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 revenues and expenses in the reporting period. Our actual results may differ from these estimates. Our significant accounting policies are summarized in more detail in Note 2 to the Consolidated Financial Statements included in our 2006 Annual Report on Form 10-K. 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 revenues for our fixed price contracts 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 can occur, resulting in changes to reported revenues and earnings. Such changes could have a material effect on our future consolidated financial statements.

Contract receivables are carried at original invoice amount less an estimate made for doubtful receivables 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. Contract receivables are written off when deemed uncollectible. Recoveries of contract receivables previously written off are recorded when received.

For further information on the types of contracts under which we perform our services, see Components of Income and Expense Contract Revenues above.

***Goodwill Impairment Valuation***

Goodwill primarily represents the excess of the purchase price paid for MuniFinancial in 1999 over the estimated fair value of the net identified tangible and intangible assets acquired. We perform an annual review in the fourth quarter of each fiscal year, or more frequently if indicators of potential impairment exist, to determine if the recorded goodwill is impaired. We compare the fair value of MuniFinancial to its carrying value, including goodwill. To estimate the fair value of MuniFinancial, we use a valuation approach based on a multiple of historical cash flows, management's estimates of future cash flows, and other market data. This estimate of fair value of MuniFinancial is highly subjective and is based in part on assumptions that could differ materially from actual results. If our evaluation indicates that goodwill is impaired, we perform an additional assessment to determine the extent of the impairment loss based on the implied fair value of goodwill compared with the carrying amount of the goodwill. Such an impairment loss has a direct impact on our net income because recording an impairment loss results in an immediate negative adjustment to net income. No such impairment loss has been recognized to date related to MuniFinancial.

***Accounting for Claims Against the Company***

We record liabilities to claimants for probable and estimable claims on our consolidated balance sheet and record a corresponding receivable from our insurance carrier for the portion of the claim that is probable of being covered by insurance. The estimated claim amount net of the amount estimated to be covered by insurance is included in our general and administrative expenses. Determining probability and estimating claim amounts is highly judgmental. Initial accruals and any subsequent changes in our estimates could have a material effect on our consolidated financial statements.



**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 revenues. Amounts may not add to the totals due to rounding.

	Fiscal Three Months Ended		Fiscal Nine Months Ended	
	September 29, 2006	September 28, 2007	September 29, 2006	September 28, 2007
<b>Statement of Operations Data</b>				
Contract revenues	100.0	%	100.0%	100.0%
Direct costs of contract revenues				
Salaries and wages	30.6		32.6	33.0
Production expenses	1.8		2.2	2.0
Subconsultant services	5.8		6.0	5.7
Total direct costs of contract revenues	38.2		40.8	40.7
General and administrative expenses				
Salaries and wages, payroll taxes, employee benefits	31.6		30.1	32.0
Facilities	5.3		5.8	5.7
Depreciation and amortization	2.0		2.2	2.2
Litigation accrual reversal	(5.0)		(1.8)	
Other	14.1		12.7	15.7
Total general and administrative expenses	47.9		50.8	55.6
Income from operations	13.9		8.4	3.7
Other income (expense)				
Interest expense	(0.9)		(0.1)	0.9
Interest income and other, net	0.1		1.0	0.9
Total other income (expense)	(0.8)		0.9	1.7
Income before income tax expense	13.1		9.3	5.5
Income tax expense	0.2		4.0	2.4
Net income	12.9	%	5.3%	3.1%

**Three Months Ended September 28, 2007 Compared to Three Months Ended September 29, 2006**

**Contract revenues.** Our contract revenues were \$19.7 million for the three months ended September 28, 2007, with \$15.9 million attributable to the Engineering Services segment and \$3.4 million attributable to the Public Finance Services segment. Our Homeland Security Services segment generated \$0.4 million during this period. Consolidated contract revenues decreased \$1.3 million, or 6.0%, from \$21.0 million in the three months ended September 29, 2006. We believe our revenue decreased primarily due to the slow-down in the housing industry coupled with delays in funding of infrastructure projects to municipalities. Our Engineering Services segment realized a decrease of \$1.7 million, or 9.9%, in contract revenues which was offset by increases of \$0.3 million, or 11.0%, and \$0.3 million, or 300.0% in contract revenues of the Public Finance Services and Homeland Security Services segments, respectively.

**Direct costs of contract revenues.** Direct costs of contract revenues remained the same at \$8.0 million for the three months ended on September 28, 2007 compared to the three months ended September 29, 2006. Direct costs of contract revenues consisted of \$6.9 million attributable to the Engineering Services segment, \$0.9 million attributable to the Public Finance Services segment and \$0.2 million attributable to the Homeland Security Services segment. Direct costs of contract revenues decreased \$0.3 million, or 4.2%, in the Engineering Services segment and increased \$0.2 million, or 28.6%, in the Public Finance Services segment. The remaining \$0.1 million increase is attributable to the Homeland Security Services segment. Direct costs of contract revenues as a percentage of contract revenue for the three months ended September 28, 2007 increased to 40.8% from 38.2% for the three months ended September 29, 2006 because of our decrease in revenues during the three months ended September 28, 2007 while direct costs of revenues remained stable.

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Within direct costs of contract revenues, salaries and wages increased from 30.6% of contract revenues in the three months ended September 29, 2006 to 32.6% in the three months ended September 28, 2007. Comparing those same periods, subconsultant services increased from 5.8% of contract revenues to 6.0% of contract revenues.

*General and administrative expenses.* General and administrative expenses were \$10.0 million in the three months ended September 28, 2007 and September 29, 2006. The lack of overall change was due primarily to increases of \$0.1 million and \$0.1 million in general and administrative expenses of the Engineering Services and unallocated corporate expenses segments, respectively, offset by a decrease of \$0.2 million attributed to the Public Finance Services segment. General and administrative expenses decreased primarily due to decreases in salaries and wages, payroll taxes, employee benefits and other expenses. The decreases were offset because of a one-time reversal in a litigation accrual during the three months ended September 29, 2006. General and administrative expenses as a percentage of contract revenues increased to 50.8% in the three months ended September 28, 2007 from 47.9% in the prior year period due to the decrease in revenues during the three months ended September 28, 2007.

Overall headcount remained flat at 645 at September 28, 2007, as compared to June 29, 2007 but was a net decrease from 668, or 3.4% at September 29, 2006. This reduction in headcount combined with increased utilization rates of technical staff and a reduction in accrued performance bonuses resulted in a decrease in salaries and wages, payroll taxes and employee benefits from \$6.6 million for the three months ended September 29, 2006 to \$5.9 million for the three months ended September 28, 2007, a decrease of \$0.7 million, or 10.6%. As discussed above under Components of Income and Expense Direct Costs of Contract Revenues, we do not allocate that portion of salaries and wages not related to time spent directly generating revenues to direct costs of contract revenues. The net decrease in other general and administrative expenses of approximately \$0.4 million, or 15.2%, also reflects decreases in marketing expenses, computer expenses, bad debt expenses and other costs associated with contract revenues offset by an increase in compliance costs.

*Income from operations.* As a result of the above factors, operating income was \$1.7 million for the three months ended September 28, 2007 as compared to \$2.9 million of operating income for the three months ended September 29, 2006. Operating income as a percentage of contract revenues decreased to 8.4% in the three months ended September 28, 2007 from 13.9% in the prior year period.

*Other income (expense).* Other income (expense), net increased by \$346,000 to \$174,000 of income in the three months ended September 28, 2007 from \$172,000 of expense in the three months ended September 29, 2006. This was due primarily to reduced interest expense of \$162,000 as a result of lower outstanding principal balances combined with increased interest income of \$184,000 from invested initial public offering proceeds.

*Income tax expense.* Effective as of the first day of trading of our common stock, November 21, 2006, the S Corporation status of our Company and the qualified S subsidiary status of our subsidiaries terminated and thereafter we are subject to federal and state income taxes as a C Corporation. Thus we were taxed at regular corporate rates during the three months ended September 28, 2007, resulting in an increase of \$737,000 in income tax expense for the three months ended September 28, 2007 compared to the three months ended September 29, 2006.

***Nine Months Ended September 28, 2007 Compared to Nine Months Ended September 29, 2006***

*Contract revenues.* Our contract revenues were \$60.1 million for the nine months ended September 28, 2007, with \$49.6 million attributable to the Engineering Services segment and \$9.4 million attributable to the Public Finance Services segment. Our Homeland Security Services segment generated \$1.1 million during this period. Consolidated contract revenues increased \$1.1 million, or 1.8%, from \$59.0 million in the nine months ended September 29, 2006. This increase was due primarily to an increase of \$0.8 million, or 10.0%, and \$0.4 million, or 49.5%, in contract revenues of the Public Finance Services and Homeland Security Services segments, respectively, offset by a decrease of \$0.1 million, or 0.2%, in contract revenues of the Engineering Services segment. Revenues in the Public Finance Services segment increased primarily due to increased district formation services to fund infrastructure projects as well as increased delinquency management services in our district administration services. Revenues in Homeland Security Services has increased due to an increase in our emergency response training courses, particularly in Southern California.

*Direct costs of contract revenues.* Direct costs of contract revenues were \$24.5 million for the nine months ended September 28, 2007, with \$21.4 million attributable to the Engineering Services segment and \$2.5 million attributable to the Public Finance Services segment. The additional \$0.6 million is attributable to direct costs of contract revenues for our Homeland Security Services segment. Direct costs of contract revenues increased \$1.6 million, or 7.0%, from \$22.9 million for the nine months ended September 29, 2006. Of this total increase, direct costs of contract revenues increased \$1.1 million, or 5.4%, in the Engineering Services segment and \$0.3 million, or 13.6%, in the Public Finance Services segment. The remaining \$0.2 million increase was attributable to the Homeland Security Services segment. Direct costs of contract revenues as a percentage of contract revenue for the nine months ended September 28, 2007 increased to 40.7% from 38.8% for the nine months ended September 29, 2006 primarily because our direct costs of contract revenues increased at a higher rate than our revenues.

Within direct costs of contract revenues, salaries and wages increased from 31.4% of contract revenues for the nine months ended September 29, 2006 to 33.0% for the nine months ended September 28, 2007. Comparing those same periods, subconsultant services increased from 5.4% of contract revenues to 5.7% of contract revenues.

*General and administrative expenses.* General and administrative expenses increased by \$3.0 million, or 9.9%, to \$33.4 million for the nine months ended September 28, 2007 from \$30.4 million for the nine months ended September 29, 2006. This was due primarily to increases of \$2.7 million and \$0.1 million in general and administrative expenses of the Engineering Services and Public Finance Services segments, respectively. Of the remaining \$0.2 million increase, \$0.1 million related to our Homeland Security Services segment and an increase of \$0.1 million was attributable to unallocated corporate expenses. General and administrative expenses as a percentage of contract revenues increased to 55.6% in the nine months ended September 28, 2007 from 51.5% in the prior year period.

The increases in general and administrative expenses were due primarily to (i) an increase of approximately \$1.8 million, or 22.9%, in other general and administrative expenses, which include increased costs resulting from being a new public company and legal fees related to the settlement of the West Hollywood litigation and (ii) a one-time reversal of \$1.0 million in litigation accruals during the nine months ended September 29, 2006. We completed our initial public offering in November 2006 and the

increase in other general and administrative expenses reflects an increase of \$1.5 million related to increased costs associated with being a public company, of which \$0.5 million related to compliance costs associated with the Sarbanes-Oxley Act. The balance includes additional audit and legal fees and Board of Director fees. In addition, legal fees increased by approximately \$0.4 million as a result of the West Hollywood litigation settlement discussed in Note 8 to our financial statements included elsewhere in this report. Additionally, approximately \$0.4 million of the increase to other general and administrative expenses resulted from increased insurance premiums, computer expenses and other costs associated with our increase in contract revenues offset by decreases in marketing expenses, bad debt expenses and other expenses of approximately \$0.5 million.

As discussed above under Components of Income and Expense Direct Costs of Contract Revenues, we do not allocate that portion of salaries and wages not related to time spent directly generating revenues to direct costs of contract revenues. Included in our general and administrative expenses are the costs associated with management changes in the nine months ended September 28, 2007. These costs resulted in an increase of approximately \$0.6 million in expenses for the payment of severance and other employee benefits.

*Income from operations.* As a result of the above factors, operating income was \$2.2 million for the nine months ended September 28, 2007 as compared to a \$5.8 million of operating income for the nine months ended September 29, 2006. Operating income as a percentage of contract revenues decreased to 3.7% in the nine months ended September 28, 2007 from 9.8% in the prior year period.

*Other income (expense).* Other income (expense), net decreased by \$0.7 million, or 40.6%, to \$1.1 million of income in the nine months ended September 28, 2007 from \$1.8 million of income in the nine months ended September 29, 2006. This decrease was primarily due to \$2.3 million of life insurance proceeds received as a result of the death of our former chief executive officer in May 2006, partially offset by a decrease in interest expense of approximately \$1.1 million as a result of the reversal of accrued interest payable associated with the West Hollywood litigation settlement combined with interest income of approximately \$0.5 million from invested initial public offering proceeds.

*Income tax expense.* Effective as of the first day of trading of our common stock, November 21, 2006, the S Corporation status of our Company and the qualified S subsidiary status of our subsidiaries terminated and thereafter we are subject to federal and state income taxes as a C Corporation. Thus we were taxed at regular corporate rates during the nine months ended September 28, 2007, resulting in an increase of \$1.4 million in income tax expense for the nine months ended September 28, 2007 compared to the nine months ended September 29, 2006.

## **Liquidity and Capital Resources**

As of September 28, 2007, we had \$15.2 million available to us in the form of cash and cash equivalents and liquid investments. Our primary sources of liquidity have been cash generated by operating activities, borrowing availability under our revolving line of credit and proceeds from the sale of our common stock. We believe that our cash and investments on hand and cash generated by operating activities will be sufficient to meet our capital requirements for the next fiscal quarter. We believe that such cash and investments, supplemented with borrowing capacity under a new business loan agreement, will be sufficient to meet our capital requirements for the next twelve months and foreseeable future.

### ***Cash flows from operating activities***

Cash flows used in operating activities were \$1.4 million for the nine months ended September 28, 2007 compared to \$6.0 million provided by operating activities for the nine months ended September 29, 2006, or a net change of \$7.4 million. The cash flows used in operating activities in the nine months ended September 28, 2007 were comparatively higher than in the nine months ended September 29, 2006 due primarily to the payment of accrued liabilities related to the settlement of the West Hollywood litigation net of the amounts paid for by our insurance company along with payment of increased general and administrative costs. In the 2006 period, net cash provided by operating activities included \$2.3 million of life insurance proceeds received as a result of the death of our former chief executive officer in May 2006.

***Cash flows from investing activities***

Cash flows used in investing activities were \$9.6 million for the nine months ended September 28, 2007 compared to \$2.5 million for the nine months ended September 29, 2006. The increase of cash used in investing activities resulted primarily from the purchase of temporary liquid investments with the proceeds from our initial public offering in November 2006. This increase was offset by a decrease in expenditures for equipment and leasehold improvements. The first fiscal nine months of 2006 included higher than historical levels of equipment and leasehold improvements purchases due to the establishment of new office locations and the relocation of existing office facilities, including our corporate offices.

***Cash flows from financing activities***

Cash flows used in financing activities were \$3.5 million for the nine months ended September 28, 2007 compared to \$4.7 million for the nine months ended September 29, 2006. Cash flows used in financing activities for the first fiscal nine months of 2007 decreased from the first fiscal nine months of 2006 primarily as a result of a reduction in the payment of offering costs related to our initial public offering completed in November 2006 of approximately \$1.0 million combined with an increase in the excess of outstanding checks over bank balances of approximately \$1.0 million offset by the final distribution to holders of redeemable common stock of \$3.2 million as compared to the \$2.3 million distribution in the prior period. This distribution was our final S corporation distribution to our stockholders and we used the proceeds from our initial public offering to pay this amount. We will not make a similar distribution in the future because we can no longer elect to be treated as an S corporation.

***Outstanding indebtedness***

We currently have a revolving line of credit with Orange County Business Bank, or OCBB. We also finance insurance premiums by entering into notes payable with insurance companies.

Under our loan agreement with OCBB, we can borrow up to \$8.0 million under a revolving line of credit. We have the right to convert up to \$2.0 million of the revolving line of credit to two term loans under specified circumstances involving the start up of a new division and/or business unit and the acquisition of other companies. Loans made under the revolving line of credit accrue interest at the rate of 0.25% over the current Wall Street Journal Prime Rate. Upon a default, the interest rate will be increased by a default rate margin of 6.00%. Upon the occurrence of an event of default under the loan agreement, OCBB, has the option to make all indebtedness then owed by us under the loan documents immediately due and payable.

Borrowings under the loan documents with OCBB are secured by substantially all of our and our subsidiaries' tangible and intangible assets. Each of our subsidiaries, except Public Agency Resources, has signed an unconditional guaranty of our obligations under the loan documents. The loan agreement also contains customary representations, affirmative and negative covenants and defaults for a credit facility, including covenants to maintain a minimum tangible net worth, a minimum ratio of current assets to current liabilities and a minimum ratio of debt service coverage. The loan agreement also prohibits the payment of dividends on our common stock, other than dividends payable in our common stock, without the consent of OCBB. As of September 28, 2007, the amount available under the line of credit was approximately \$8.0 million, and we were in compliance with all of our covenants.

In June 2006, our subsidiary, American Homeland Solutions, acquired substantially all of the assets of VTA. The note payable for a portion of the purchase price for VTA was retired in June 2007 and no amounts remain outstanding as of September 28, 2007. The note bore interest at 6.0%.

***Contractual obligations***

We had no material changes in commitments for long-term debt obligations, operating lease obligations or capital lease obligations as of September 28, 2007, 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 29, 2006.

**New Accounting Pronouncements**

In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48), an interpretation of FASB Statement of Financial Accounting Standards (SFAS) No. 109, which clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109, *Accounting for Income Taxes* (SFAS 109). SFAS 109 does not prescribe a recognition threshold or measurement attribute for the financial statement recognition and measurement of a tax position taken in a tax return. Diversity in practice existed in the accounting for income taxes. To address that diversity, FIN 48 clarifies the application of SFAS 109 by defining a criterion that an individual tax position must meet for any part of the benefit of that position to be recognized in an enterprise's financial statements. Additionally, FIN 48 provides guidance on measurement, derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. Our adoption of FIN 48 did not have a material effect on our consolidated financial statements.

SFAS No. 157, *Fair Value Measurements* (SFAS 157), defines fair value, established a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements. We will adopt the provisions of SFAS 157 effective January 1, 2008. We do not expect SFAS 157 to have a material impact on our results of operations, financial position, or cash flows.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (SFAS 159) which permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. SFAS 159 will be effective on January 1, 2008. The provisions of SFAS 159 are elective, and we have not determined whether and to what extent we may implement its provisions or how if implemented, it might affect our 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;

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 existing cash and investments 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. 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 Form 10-K for the year ended December 29, 2006. We do not intend, and undertake no obligation, to update any of our forward-looking statements after the date of this report to reflect actual results or future events or circumstances.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

Market risk is the risk of loss to future earnings, to fair values or to future cash flows that may result from changes in the price of a financial instrument. The value of a financial instrument may change as a result of changes in interest rates, exchange rates, commodity prices, equity prices and other market changes. Market risk is attributed to all market risk sensitive financial instruments, including long-term debt.

As a result of the proceeds from our initial public offering, we had cash and cash equivalents of \$6.2 million and liquid investments of \$9.0 million as of September 28, 2007. Cash was \$0.2 million and cash equivalents consisted of \$0.2 million invested in the Orange County Business Bank Money Market fund, \$5.3 million invested in the Lehman Brothers Money Market Obligations Trust Prime Cash Fund and \$0.5 million invested in commercial paper. Liquid investments consisted of auction rate notes from ten different issuers. 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. Additionally, we do not possess any bank debt which bears interest at variable rates. As of September 28, 2007, we had \$31,000 outstanding under our credit facility.

**Item 4. Controls and Procedures**

**Evaluation of Disclosure Controls and Procedures**

Our management, with the participation of our principal executive officer and principal financial officer, has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this report. Based on such evaluation, our principal executive officer and principal financial officer have concluded that, as of the end of such period, our disclosure controls and procedures were effective.

**Changes in Internal Controls**

Based on our evaluation carried out in accordance with SEC Rule 15d-15(b) under the supervision and with the participation of our management, including our President and Chief Financial Officer, we concluded that there were no changes during the nine months ended September 28, 2007 in our internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.



**PART II. OTHER INFORMATION**

**Item 1. Legal Proceedings**

We are subject from time to time to claims and lawsuits, 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.

We are not currently involved in any material litigation nor, to our knowledge, is any material litigation currently threatened against us, other than routine litigation arising in the ordinary course of business, most of which is expected to be covered by liability insurance.

**Item 1A. Risk Factors**

There have been no material changes in our risk factors from those disclosed in our 2006 Annual Report on Form 10-K.

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

None.

**Item 3. Defaults upon Senior Securities**

None.

**Item 4. Submission of Matters to a Vote of Security Holders**

None.

**Item 5. Other Information**

None.

**Item 6. Exhibits**

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**Exhibit  
Number**

**Exhibit Description**

3.1	Articles of Incorporation of Willdan Group, Inc., including amendments thereto (1)
3.2	Bylaws of Willdan Group, Inc. (1)
4.1	Specimen Stock Certificate for shares of the Registrant's Common Stock (1)
10.1	Employment Agreement between Willdan Group, Inc. and Mallory McCamant dated July 23, 2007 (2)
10.2	Employment Agreement between Willdan Group, Inc. and Kimberly D. Gant dated July 23, 2007 (2)
10.3	Business Loan Agreement (Asset Based), dated August 16, 2007, between Willdan Group, Inc. and Orange County Business Bank (3)
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) and 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) and 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*

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\* 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 Current Report on Form 8-K, filed with the Securities and Exchange Commission on July 26, 2007.

(3) Incorporated by reference to Willdan Group, Inc.'s Current Report on Form 8-K, filed with the Securities and Exchange Commission on August 21, 2007.

**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 and Senior Vice  
President

Date: November 8, 2007