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Operator: Good day and welcome to the Willdan Group Second Quarter 2017 conference call. Today's conference is being recorded. At this time I would like to turn the conference over to Tony Rossi of Financial Profiles. Please go ahead.

Tony Rossi: Thank you (Kevin). Good afternoon everyone and thank you for joining us to discuss Willdan Group's financial results for the second quarter ended June 30, 2017. With us today from management, our Chairman and Chief Executive Officer ,Thomas Brisbin, Chief Financial Officer, Stacy McLaughlin and Mike Beaver, President of Willdan Group. Management will review prepared remarks and will then open up the call to your questions.

Statements made in the course of today's conference call which are not purely historical are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. But forward-looking statements involve certain risks and uncertainties and it's important to note that the company's future results could differ materially from those in any such forward-looking statements.

Factors that could cause actual results to differ materially and other risk factors are listed from time to time in the company's SEC reports including but not limited to the Form 10K for the year ended December 30, 2016 and subsequent quarterly reports on Form 10Q. The company cautions investors not to place undue reliance on the forward-looking statements made during the course of this conference call. Willdan Group disclaims any obligation and does not undertake to update or revise any forward-looking statements made today.

In addition to GAAP financial results Willdan also provides non-GAAP financial measures that we believe enhance investor's ability to analyze our business trends and performance. Our non-GAAP measures include revenue net of subcontractor services and other direct costs and EBITDA. We believe revenue net of subcontractor services and other direct costs allows for an improved measure of the revenue derived from the work performed by our employees.

EBITDA is a supplemental measure of operating performance which removes the impact of certain nonrecurring income and expense items from our operating results. GAAP reconciliations for both of these non-GAAP measures are included at the end of the earnings release we issued today. With that I will now turn the call over to Chief Financial Officer, Stacy McLaughlin. Stacy?

Stacy McLaughlin: Thanks Tony. I'd like to add my welcome to those joining us on today's call. I'll start with an overview of our income statement, and then our balance sheet and finally our guidance. Total contract revenue for the second quarter of 2017 increased 21.9% to $71.8 million from $58.9 million for the second quarter of 2016. By segment including both organic and acquisitive revenue energy efficiency services increased 26.1% to $53.7 million, engineering services contract revenue increased 11.1% to $14.1 million. Revenue from public finance services increased 14.7% to $3.5 million and homeland security services revenue decreased 15.1% to $527,000 in the quarter.

With the one-year anniversary of our acquisition of Genesys Engineering occurring in March all of the 22% increase in our total contract revenue in the second quarter was organic growth. Net revenue defined as contract revenue minus subcontractor services and other direct costs was $30.2 million -- an increase of 9.1% from $27.6 million in the year ago quarter. Direct cost of contract revenue were $53 million for the second quarter of 2017 -- an increase of 29.1% from $41.1 million in the same period last year. The increase was primarily as a result of the growth in total contract revenues in the energy efficiency services segment and the corresponding increase in subcontractor services and other direct costs.

Our direct cost of contract revenue were 73.8% of our total contract revenue in the second quarter of 2017 -- up from 69.7% in the first quarter of 2017. We expect to see some volatility in this ratio as it is a byproduct of the mix of project work that we have in any one particular quarter. However given the pipeline of work ahead of us we think that our direct costs as a percentage of contract revenue has most likely peeked primarily due to less subcontracting required for future projects.

General and administrative expenses for the second quarter were $14.2 million compared to $13.9 million for the prior year period. As a percentage of total contract revenue our G&A expenses were 19.8% compared with 23.6% in the second quarter of 2016. The improvement in this ratio was primarily driven by increased efficiencies and greater operating leverages as we scale the company. G&A grew just 2-1/2% quarter over quarter while revenue grew 21.9% over the same time indicating that our back office costs are growing at a far slower rate than revenue.

Operating income was $4.6 million for the second quarter of 2017 -- an increase of 15% over $4 million generated in the second quarter of 2016. EBITDA was $5.6 million for the second quarter of 2017 compared with $5.1 million in the second quarter of 2016. EBITDA margin for the second quarter was 7.8% -- down from 8.7% in the same period in the prior year primarily due to higher cost of revenue. As a percentage of the net revenue our EBITDA margin was 18.5% in the second quarter -- unchanged from the same period last year.

We recorded an income tax expense of $1.2 million in the second quarter of 2017 compared to $731,000 in the same period last year. Our effective tax rate in the second quarter was 26.9% -- up from 18.7% in the year ago period. The increase in our effective tax rate is due to the energy efficiency commercial building tax deductions that we utilized in 2016 which have not yet been approved by Congress for this year.

Net income for the second quarter of 2017 was $3.3 million or 36 cents per diluted share compared to net income of $3.2 million or 37 cents per diluted share for the second quarter of 2016. While we had an increase in total contract revenue and net revenue over the period - over the prior year combined with better operating leverage with our G&A expenses the higher effective tax rate offset the positive trends we are seeing in our operations.

Turning to the balance sheet, we had $26.3 million in cash and cash equivalents at June 30, 2017 which is an increase of $3.7 million since the beginning of the fiscal year. The increase was primarily driven by cash generated from operation. Following the seasonally slower collections that drove our DSO higher in the first quarter our DSO declined to 64 days at June 30 down from 70 days at the end of the prior quarter.

As of June 30, 2017 we had approximately $1.5 million in outstanding borrowings under our revolving line of credit and no loans outstanding under the term loan facility. As noted in our press release today we closed the acquisition of Integral Analytics on July 28. We expect that this acquisition will not affect the company's 2017 revenue or earnings per share forecast. However in 2018 we expect that the acquisition will add approximately $10 million in revenue in approximately 12 cents in diluted earnings per share. IA's customers typically pay upfront for a three to five year software license. Accordingly we forecast that Integral Analytics will improve Willdan's EBITDA margin by more than 70 basis points, lower our DSO and improve our cash flow in 2018.

Turning to our outlook for fiscal 2017 we have updated our financial targets. We have increased our full year revenue to range from $250 million to $260 million. Our diluted earnings per share is unchanged at a $1.08 to $1.21. We have increased our expected diluted share count to 9.2 million shares, depreciation expense to $1.6 million and amortization expense to $2.7 million. Over the second half of the year we expect our effective tax rate to be 40%. I'd now like to turn the call over to Tom.

Thomas Brisbin: Thanks Stacy, and good afternoon everyone. We had another good quarter generating revenue and operating earnings that were in line with our expectations. This was a significant increase over the prior year largely driven by the performance of our energy efficiency and engineering services. Through the first half of the year we have executed well. We're delivering on current programs while effectively staffing up to launch the new programs we had one over the past year. We continue to see strong growth in our energy efficiency.

Total revenue increased 26% over the second quarter of last year. Most of our major programs were fairly consistent in terms of their revenue contribution while the increase primarily came from a ramp up in our work with Pacific Corp in the city of Lawrence, Kansas. We also continue to see more work coming in newer markets such as New Jersey, Connecticut and Oregon. This reflects the trend we are seeing of an increasing number of states and municipalities starting to involve more funding to energy efficiency, energy resiliency and distributed energy resources.

As a result of this trend along with the new target markets and skill sets that our recent acquisitions have brought for example Genesys and 360 we are seeing our energy efficiency revenue become more diversified. Thus there are meaningful revenue contributions from utilities, state agencies, colleges, hospitals and municipalities.

Over the past few years we have positioned Willdan to capitalize on a rapidly evolving market for distributed energy resources. And today we look – and today we took another significant step with the acquisition of Integral Analytics, the recognized leader in data analytics. IA for short merges economics with power engineering to provide more precise forecasting and utility operation decision.

As we had done with acquisitions in the past we've gotten to know Integral by working with them as a partner on current programs and we've seen firsthand the value that they provide. Integral Analytics works as a prime contractor for more than 40 investor owned and municipal utilities. They offer a number of different software applications that provide a variety of analytical capabilities including one, harnessing disparate granular data that's to produce confident planning decisions about the distribution system.

Two, evaluating the costs, benefits and risk of demand side management programs including energy efficiency, demand response and smart grid programs and services. And three, managing system load costs to provide operators of micro grids with a mathematically guaranteed lowest cost option for producing power.

The level of insight that they can provide sort of their – through their proprietary data analytics software and their ability to use mathematical optimization to improve efficiencies and reduce capital investment for utilities is simply unparalleled. As an example PG&E and the California Public Utility Commission recently published a white paper discussing their use of Integral Analytics which produced a 3% to 10% reduction in CAPEX spending across various areas of utility.

The California PUC referred to Integral Analytics as the gold standard and said that all other utilities should be using these mathematical tools to optimize their CAPEX spending. With the revenue for the global utility analytics market expected to grow from less than $500 million today to $3.5 billion in 2025 this acquisition puts us in an excellent position to capitalize on another high growth area for the energy industry.

From a strategic standpoint the addition of IA and its mathematical data optimization is going to serve as a powerful differentiator for Willdan in the market. Quite simply we will be able to differentiate and optimize our energy efficiency programs in a way that has not been offered to the utility and distributed energy resources market. This acquisition will also further diversify our revenue by taking us into a different budget area for the utilities such as the planning side of their operations.

Willdan will also be able to build out IA's recurring revenue software model. Dr. Tom Osterhus whose IA's founder and his team will be the architect for additional technology investments and business models for Willdan. From a financial standpoint Integral will have a significant impact on our level of profitability. Integral projects have a much higher margin profile which once blended with our current margins is expect to increase our EBITDA margin by more than 70 basis points in 2018.

They are also expected to contribute about $10 million in revenue and 12 cents diluted EPS. From both a strategic and financial standpoint we view the acquisition of IA as a game changer and one that will significantly enhance our ability to win new programs and deliver superior results for our clients.

Looking ahead to the second half of 2017 we continue to be confident in our ability to deliver a strong year of revenue and earnings growth. We have new energy efficiency programs starting up in Oregon and Washington while or LCR program with San Diego Gas & Electric continues to ramp up. This year we are targeting 1 megawatt of energy savings in the LCR program before ramping up to 4 megawatts in 2018.

Overall we feel good about our ability to sustain our momentum. We're very excited about the opportunities that the Integral Analytics acquisition will provide. We expect to continue profitable growth and create additional value for shareholders in the future. With that I would now like to turn the call back to the operator for Q&A.

Operator: Thank you. If you would like to ask a question please signal by pressing Star 1 on your telephone keypad. If you're using a speakerphone please make sure your mute function is turned off to allow your signal to reach our equipment. Once again please press Star 1 to ask a question. We'll take our first question from Moshe Katri with Wedbush Securities. Please go ahead.

Moshe Katri: Hey guys, nice performance on DSOs and expenses for the quarter. Can we get an update on some of the large potential opportunities on the West Coast California, Illinois and New York? And then maybe also an update on some of the opportunities in what you guys called load pockets last time we met? Thanks.

Thomas Brisbin: Okay, California we're expecting that they will make a decision time frame October, November on how they're going to outsource energy efficiency through the utilities. I said on the phone before they're mandated to go from 20%. The mandate originally was 100% outsourcing. They've settled on a number of 60%. And we expect to see a decision October, November and how they're going to procure it. So California is kind of lagging behind I'd say about six months right now.

Illinois they basically increased Illinois Commerce Commission wants more energy efficiency from Commonwealth Edison in the utilities served by Illinois Commerce Commission. And the proposals we sent in about seven months ago we turned them in again with the bigger values and we're waiting to hear on - they're going to have an orals before they finalize their decisions. So we're at the point that we've turned in the proposals and we'll be waiting for an oral hopefully in August.

New York, New York the Brooklyn Queens Demand side Management program that we participated in which we call load pocket is - seems to be the direction Con Ed New York is going. They came out with two with they're calling non-wire solutions and it's basically load pockets in New York. They've identified two which we've proposed on and we expect five more coming out either the end of August or beginning of September.

So the Brooklyn Queens model at least on the East Coast for load pockets and how to reduce the amount of energy seems to be the direction the East Coast is going. And just as a reminder for Brooklyn Queens which is the model for the nation when they ask for 30, 50 megawatts Willdan deliver 35 of the 37 that they've gotten. So we feel that we're well positioned both on the East Coast and nationally to work in that type of environment.

Moshe Katri: Great, and then just as a follow-up IA clearly has a different business model. Maybe you can share with us how do you go to market with it and, you know, when you look – when you're talking to sales how are they planning to kind of market this offering considering, you know, the legacy part of the business that looks totally different?

Thomas Brisbin: Mike's been working with this acquisition day and night and we – he's going to answer that question.

Mike Beaver: Yes there's two aspects to it to Moshe. First they have a customer set which is 2/3 new to Willdan, 2/3 of the utilities and municipalities they work for we don't work for here at Willdan. So we'll be cross-selling Willdan's historical services to those customers over the next few years. Secondly we have customers that they don't work for like Con Edison, one of our largest customers here which Integral Analytics doesn't serve and many others like that. We'll be cross-selling the services to customers that we have good relationships. So we've got a strategy that we've laid out over the last two weeks. We have detailed targets which we've already started cross-selling even before the acquisition closed. And we'll be very - working very hard on that over the next six months.

Moshe Katri: Brilliant. And then a final question on margins, how should we think about margins beyond 2017 and maybe we could talk about some of the levers here in the model? Thanks.

Mike Beaver: Well first we mentioned that in Tom's script an Integral Analytics should contribute about 70 basis points to our margin if all things other than Integral Analytics are static. That's 18 over 17 so that'll be a good contributor. Secondly you mentioned over the longer term we've mentioned that we believe that we could move this model up towards 9% or higher EBITDA over the next several years. The primary leverage is back office costs as we get larger are more effectively absorbed. They're not increasing as you've seen SG&A increase more slowly than the pace of revenue growth. So we're better able to absorb those costs. And that will also contribute to margin improvement over the next three years.

Moshe Katri: Great. Thanks for the color.

Operator: Thank you. We can take our next question from John Quealy with Canaccord. Please go ahead.

John Quealy: Hey good afternoon folks and congratulations on the deal. A couple questions first on the IA deal if I read the 8K this was in $18 million purchase price cash and shares with a $12 million earn out. Is that right?

Thomas Brisbin: That's what the 8K says.

John Quealy: Mike, in terms of to your point about, you know, maybe an accretive $10 million and the guide in the fiscal '18 time frame from IA or - I imagine those contracts that would be applicable to the earn out if they were to get that or just walk us through in terms of the $10 million. Is that the stuff that's already been specifically identified and the guys currently and men and women I guess at that firm are chasing those contracts down now in part of the earn out?

Mike Beaver: Yes. So as mentioned in the 8K they have a three-year earn out, $10 million represents the weighted average pipeline which we've gone through in due diligence and which they've been cross-selling over the last six months. Their sales cycle lasts anywhere from six months to a year so anything in the '18 pipeline right now for the most part has already been begun and the $10 million is our best estimate on the weighted pipeline in 2018.

John Quealy: Got it okay. And just back to your point about the sales cycle of IA as utilities acquire this analytic capability is this put out to RFP these rate case or rate case enabled? Do you mind just giving us a little bit of context on those of us on the outside how we can try to dig into, you know, win rates and timing on RFPs and things like that?

Thomas Brisbin: Many of their procurements I would say more than half are not competitively procured. They go in and make technical presentations and the customers by that software application. In other instances they need to go out for competitive procurement and they'll write a specification which only few in this world can meet. Integral Analytics has very few technical competitors and with one of their applications has no competitors. So this is – there's only a few players in this market.

John Quealy: Yes. And my last question on that IA so given the sort of license based model this is on-prem software and – or is this all cloud or a mixture? I know you said cloud in the release but I just wanted to get more technical.

Thomas Brisbin: It can be either. And Integral Analytics actually doesn't care. The software can be hosted at the client's house or can be hosted by Integral Analytics in the cloud.

John Quealy: Got you, okay. Back to the core business as it is today maybe for Stacy just in terms of your comments around the subcontractor piece of gross profit in trends and in peaks. What sort of degregation in the peak would you expect, you know, maybe back half of '17 into '18? What sort of magnitude should we be looking for that?

Male: ((Inaudible)) 58, 57 ((inaudible)).

Stacy McLaughlin: It - for the last half of 2017 we would expect it to decline but slowly, not a drastic drop off. But we would expect it to decline from the 58.6 that we had year to date through June.

John Quealy: Got you, okay. Okay, well that's it for me. Thanks guys, again congrats.

Operator: Once again as a reminder if you'd like to ask a question press Star 1 on your phone. We go next to Wyatt Carr with Western International Securities.

Wyatt Carr: Hi guys, and thanks for taking my question. The first one I have is regarding the I – Internal Revenue Code 179D. You said that they are not available in 2017. But is this something that you still think will be enacted and will be available later in the year?

Stacy McLaughlin: It hasn't been approved by Congress yet in 2017 because of the discussion by the administration of the change in corporate tax rate. At this point we cannot take any type of deduction related to that. And we are uncertain of whether or not that will be approved. It has shown in the past that it has been approved each year but we cannot take, you know, any type of tax deduction for that right now because we are uncertain of that.

Wyatt Carr: Okay Stacy. And one other just quick question. On the acquisition of IA is that already reflected in the balance sheet that was released today?

Stacy McLaughlin: No, it is not because the balance sheet today is as of June 30, 2017 and the acquisition closed on July 28. So it will be reflected in the balance sheet that comes out for the third quarter.

Wyatt Carr: Okay great. That's all I have. Thank you very much.

Stacy McLaughlin: You're welcome.

Operator: And ladies and gentlemen there are no further questions at the time. I'll turn it back over to management for any additional or closing remarks.

Thomas Brisbin: Okay, we'd like to thank all of you for participating on our call today and for your continued interest in Willdan and have a great day and thank you.

Operator: Ladies and gentlemen this does conclude today's conference. We thank you for your participation. You may now disconnect.