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 April 1, 2022

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)	**14-1951112** (IRS Employer Identification No.)
2401 East Katella Avenue, Suite 300 **Anaheim, California** (Address of Principal Executive Offices)	**92806** (Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value $0.01 per share	WLDN	The Nasdaq Stock Market LLC (Nasdaq Global Market)

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

Large accelerated filer ☐	Accelerated filer ☒
Non-accelerated filer ☐	Smaller reporting company ☐ Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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 May 4, 2022, there were 13,205,572 shares of common stock, $0.01 par value per share, of Willdan Group, Inc. issued and outstanding.

WILLDAN GROUP, INC.
FORM 10-Q QUARTERLY REPORT

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

This Quarterly Report on Form 10-Q (this “10-Q”) contains statements that constitute forward-looking statements as that term is defined by the Private Securities Litigation Reform Act of 1995, as amended. These statements concern our business, operations and financial performance and condition as well as our plans, objectives and expectations for our business operations and financial performance and condition, which are subject to risks and uncertainties. All statements other than statements of historical fact included in this 10-Q are forward-looking statements. These statements may include words such as “aim,” “anticipate,” “assume,” “believe,” “can have,” “could,” “due,” “estimate,” “expect,” “goal,” “intend,” “likely,” “may,” “objective,” “plan,” “potential,” “positioned,” “predict,” “should,” “target,” “will,” “would” and other words and terms of similar meaning in connection with any discussion of the timing or nature of future operating or financial performance or other events or trends. For example, all statements we make relating to our plans and objectives for future operations, growth or initiatives and strategies are forward-looking statements.

These forward-looking statements are based on current expectations, estimates, forecasts and projections about our business and the industry in which we operate and our management’s beliefs and assumptions. We derive many of our forward-looking statements from our own operating budgets and forecasts, which are based upon many detailed assumptions. While we believe that our assumptions are reasonable, we caution that predicting the impact of known factors is very difficult, and we cannot anticipate all factors that could affect our actual results.

All of our forward-looking statements are subject to risks and uncertainties that may cause our actual results to differ materially from our expectations. Important factors that could cause actual results to differ materially from our expectations include, but are not limited to:

- the extent to which the coronavirus (“Covid-19”) pandemic and measures taken to contain its spread ultimately impact our business, results of operation and financial condition, including the speed with which our various direct install programs for small businesses are able to resume normal operations following government mandated shutdowns and phased re-openings;
- our ability to adequately complete projects in a timely manner;
- our ability to compete successfully in the highly competitive energy services market, which represented 81% of our consolidated revenue in fiscal year 2021;
- our reliance on work from our top ten clients, which accounted for 49% of our consolidated contract revenue for fiscal year 2021;
- changes in state, local and regional economies and government budgets;
- our ability to win new contracts, to renew existing contracts and to compete effectively for contracts awarded through bidding processes;
- our ability to successfully integrate our acquisitions and execute on our growth strategy;
- our ability to make principal and interest payments on our outstanding debt as they come due and to comply with the financial covenants contained in our debt agreements;
- our ability to obtain financing and to refinance our outstanding debt as it matures;
- our ability to attract and retain managerial, technical, and administrative talent; and
- our ability to manage supply chain constraints and labor shortages.

The above is not a complete list of factors or events that could cause actual results to differ from our expectations, and we cannot predict all of them. All written and oral forward-looking statements attributable to us, or persons acting on our behalf, are expressly qualified in their entirety by the cautionary statements disclosed elsewhere in this Quarterly Report on Form 10-Q, and under Part I, Item 1A. “Risk Factors”, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and in our Annual Report on Form 10-K for the fiscal year ended December 31, 2021, as such disclosures may be amended, supplemented or superseded from time to time by other reports we file with the Securities and Exchange Commission, including subsequent Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and public communications. You should evaluate all forward-looking statements made in this Quarterly Report on Form 10-Q and otherwise in the context of these risks and uncertainties.

Potential investors and other readers are urged to consider these factors carefully in evaluating the forward-looking statements and are cautioned not to place undue reliance on any forward-looking statements we make. These forward-looking statements speak only as of the date of this Quarterly Report on Form 10-Q and are not guarantees of future performance or developments and involve known and unknown risks, uncertainties and other factors that are in many cases beyond our control. Except as required by law, we undertake no obligation to update or revise any forward-looking statements publicly, whether as a result of new information, future developments or otherwise.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

WILLDAN GROUP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except par value)
(Unaudited)

	April 1, 2022	December 31, 2021
Assets		
Current assets:		
Cash and cash equivalents	$ 7,651	$ 11,221
Accounts receivable, net of allowance for doubtful accounts of $897 and $1,115 at April 1, 2022 and December 31, 2021, respectively	49,477	67,211
Contract assets	59,184	59,288
Other receivables	7,772	6,267
Prepaid expenses and other current assets	4,777	4,972
Total current assets	128,861	148,959
Equipment and leasehold improvements, net	18,343	16,757
Goodwill	130,124	130,124
Right-of-use assets	14,315	15,177
Other intangible assets, net	49,866	52,713
Other assets	13,406	13,843
Deferred income taxes, net	17,822	16,849
Total assets	$ 372,737	$ 394,422
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 19,894	$ 36,672
Accrued liabilities	27,154	35,680
Contingent consideration payable	912	10,206
Contract liabilities	11,068	13,499
Notes payable	16,357	15,036
Finance lease obligations	732	539
Lease liability	5,629	5,575
Total current liabilities	81,746	117,207
Contingent consideration payable	—	832
Notes payable	100,324	85,538
Finance lease obligations, less current portion	1,291	778
Lease liability, less current portion	9,760	10,768
Other noncurrent liabilities	78	78
Total liabilities	193,199	215,201
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $0.01 par value, 10,000 shares authorized, no shares issued and outstanding	—	—
Common stock, $0.01 par value, 40,000 shares authorized; 13,206 and 12,804 shares issued and outstanding at April 1, 2022 and December 31, 2021, respectively	132	128
Additional paid-in capital	171,080	167,032
Accumulated other comprehensive loss	—	(38)
Retained earnings	8,326	12,099
Total stockholders' equity	179,538	179,221
Total liabilities and stockholders' equity	$ 372,737	$ 394,422

See accompanying notes to Condensed Consolidated Financial Statements.

WILLDAN GROUP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in thousands, except per share amounts)
(Unaudited)

	Three Months Ended	
	April 1, 2022	April 2, 2021
Contract revenue	$ 91,838	$ 79,086
Direct costs of contract revenue (inclusive of directly related depreciation and amortization):		
Salaries and wages	18,810	15,820
Subcontractor services and other direct costs	41,668	31,134
Total direct costs of contract revenue	60,478	46,954
General and administrative expenses:		
Salaries and wages, payroll taxes and employee benefits	19,357	19,444
Facilities and facility related	2,398	2,643
Stock-based compensation	3,305	4,206
Depreciation and amortization	4,409	4,187
Other	7,499	5,841
Total general and administrative expenses	36,968	36,321
Income (Loss) from operations	(5,608)	(4,189)
Other income (expense):		
Interest expense, net	(751)	(1,064)
Other, net	197	29
Total other expense, net	(554)	(1,035)
Income (Loss) before income taxes	(6,162)	(5,224)
Income tax (benefit) expense	(2,389)	(1,458)
Net income (loss)	(3,773)	(3,766)
Other comprehensive income (loss):		
Unrealized gain (loss) on derivative contracts, net of tax	38	128
Comprehensive income (loss)	$ (3,735)	$ (3,638)
Earnings (Loss) per share:		
Basic	$ (0.30)	$ (0.31)
Diluted	$ (0.30)	$ (0.31)
Weighted-average shares outstanding:		
Basic	12,786	12,147
Diluted	12,786	12,147

See accompanying notes to Condensed Consolidated Financial Statements.

WILLDAN GROUP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(in thousands)
(Unaudited)

	Common Stock		Additional Paid-in	Accumulated other Comprehensive	Retained	
	Shares	Amount	Capital	Income (Loss)	Earnings	Total
Balance at January 1, 2021	12,160	$ 122	$149,014	$ (488)	$20,516	$169,164
Shares of common stock issued in connection with employee stock purchase plan	66	1	1,384	—	—	1,385
Shares of common stock issued in connection with incentive stock plan	27	—	527	—	—	527
Shares used to pay taxes on stock grants	—	—	(12)	—	—	(12)
Issuance of restricted stock award and units	255	2	(3)	—	—	(1)
Stock-based compensation expense	—	—	4,206	—	—	4,206
Net income (loss)	—	—	—	—	(3,766)	(3,766)
Other comprehensive income	—	—	—	128	—	128
Balance at April 2, 2021	12,508	$ 125	$155,116	$ (360)	$16,750	$171,631

	Common Stock		Additional Paid-in	Accumulated Other Comprehensive	Retained	
	Shares	Amount	Capital	Income (Loss)	Earnings	Total
Balance at December 31, 2021	12,804	$ 128	$167,032	$ (38)	$12,099	$179,221
Shares of common stock issued in connection with employee stock purchase plan	52	1	1,560	—	—	1,561
Shares of common stock issued in connection with incentive stock plan	4	—	23	—	—	23
Shares used to pay taxes on stock grants	(27)	—	(837)	—	—	(837)
Issuance of restricted stock award and units	373	3	(3)	—	—	—
Stock-based compensation expense	—	—	3,305	—	—	3,305
Net income (loss)	—	—	—	—	(3,773)	(3,773)
Other comprehensive income	—	—	—	38	—	38
Balance at April 1, 2022	13,206	$ 132	$171,080	$ —	$ 8,326	$179,538

See accompanying notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended	
	April 1, 2022	April 2, 2021
Cash flows from operating activities:		
Net income (loss)	$ (3,773)	$ (3,766)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	4,409	4,187
Deferred income taxes, net	(973)	(1,058)
(Gain) loss on sale/disposal of equipment	(36)	1
Provision for doubtful accounts	64	170
Stock-based compensation	3,305	4,206
Accretion and fair value adjustments of contingent consideration	80	398
Changes in operating assets and liabilities, net of effects from business acquisitions:		
Accounts receivable	17,670	17,819
Contract assets	104	(4,547)
Other receivables	(1,505)	1,015
Prepaid expenses and other current assets	253	974
Other assets	437	3,952
Accounts payable	(16,778)	(15,122)
Accrued liabilities	(8,488)	(3,801)
Contract liabilities	(2,431)	1,280
Right-of-use assets	(92)	(63)
Net cash (used in) provided by operating activities	(7,754)	5,645
Cash flows from investing activities:		
Purchase of equipment and leasehold improvements	(2,103)	(1,327)
Proceeds from sale of equipment	39	8
Net cash used in investing activities	(2,064)	(1,319)
Cash flows from financing activities:		
Payments on contingent consideration	(10,206)	(5,371)
Payments on notes payable	(701)	(508)
Borrowings under term loan facility and line of credit	20,000	—
Repayments under term loan facility and line of credit	(3,250)	(3,250)
Principal payments on finance leases	(342)	(127)
Proceeds from stock option exercise	23	527
Proceeds from sales of common stock under employee stock purchase plan	1,561	1,385
Cash used to pay taxes on stock grants	(837)	(12)
Restricted Stock Award and Units	—	(1)
Net cash provided by (used in) financing activities	6,248	(7,357)
Net increase (decrease) in cash and cash equivalents	(3,570)	(3,031)
Cash and cash equivalents at beginning of period	11,221	28,405
Cash and cash equivalents at end of period	$ 7,651	$ 25,374
Supplemental disclosures of cash flow information:		
Cash paid (received) during the period for:		
Interest	$ 699	$ 954
Income taxes	(385)	(320)
Supplemental disclosures of noncash investing and financing activities:		
Equipment acquired under finance leases	1,048	254

See accompanying notes to Condensed Consolidated Financial Statements.

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

1. ORGANIZATION AND OPERATIONS OF THE COMPANY

Willdan Group, Inc. (“Willdan” or the “Company”) is a provider of professional, technical and consulting services to utilities, private industry, and public agencies at all levels of government. As resources and infrastructures undergo continuous change, the Company helps organizations and their communities evolve and thrive by providing a wide range of technical services for energy solutions and government infrastructure. Through engineering, program management, policy advisory, and software and data management, the Company designs and delivers trusted, comprehensive, innovative, and proven solutions to improve efficiency, resiliency, and sustainability in energy and infrastructure.

The Company’s broad portfolio of services operates within two financial reporting segments: (1) Energy and (2) Engineering and Consulting. The interfaces and synergies between these segments are important elements of the Company’s strategy to design and deliver trusted, comprehensive, innovative, and proven solutions for its customers.

The accounting policies followed by the Company are set forth in Part II, Item 8, Note 1, *Organization and Operations of the Company*, of the Notes to Consolidated Financial Statements included in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2021. In the opinion of management, all adjustments necessary to fairly state the Condensed Consolidated Financial Statements have been made. All such adjustments are of a normal, recurring nature. Certain information and footnote disclosures normally included in the Consolidated Financial Statements prepared in accordance with accounting principles generally accepted in the United States (“U.S. GAAP”) have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). These Condensed Consolidated Financial Statements and related notes thereto should be read in conjunction with the Consolidated Financial Statements and the notes thereto included in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2021. The results of operations for interim periods are not necessarily indicative of results to be expected for the full year.

Fiscal Years

The Company operates and reports its annual financial results based on 52 or 53-week periods ending on the Friday closest to December 31. The Company operates and reports its quarterly financial results based on the 13-week period ending on the Friday closest to June 30, September 30, and December 31 and the 13 or 14-week period ending on the Friday closest to March 31, as applicable. Fiscal year 2022, which ends on December 30, 2022, will be comprised of 52 weeks, with all quarters consisting of 13 weeks each. Fiscal year 2021, which ended on December 31, 2021, was comprised of 52 weeks, with all quarters consisting of 13 weeks each. All references to years in the notes to consolidated financial statements represent fiscal years.

Use of Estimates

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

WILLDAN GROUP, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
(Unaudited)

Historical and Current Impact of Covid-19

The coronavirus (“Covid-19”) pandemic and efforts to limit its spread negatively impacted the Company’s operations during its fiscal year 2020 and continued to impact the Company, albeit to a lesser extent, during fiscal year 2021. In California and New York, the states in which the Company has historically derived a majority of its revenue, mandatory shutdown orders were issued in March 2020 followed by phased re-openings that began in May 2020, followed by periods of curtailments as a result of resurgences of Covid-19 cases, and subsequent re-openings through 2020 and 2021. The Company’s largest program for the Los Angeles Department of Water and Power (“LADWP”) resumed only in the third quarter of fiscal 2021 and was the Company’s last program suspended due to Covid-19. In addition, through fiscal year 2020 and 2021, none of the Company’s contracts were cancelled due to Covid-19.

In the Energy segment, the Company experienced a negative impact on its direct install programs that serve small businesses as a result of restrictions put in place by governmental authorities that required temporary shutdowns of all “non-essential” businesses which resulted in a significant portion of the Company’s direct install work on these programs being suspended for varying periods of time during fiscal year 2020 and continued in California through the Company’s first half of fiscal 2021. During non-Covid-19 impacted years, such as fiscal year 2019, the Company derived approximately 40% of its gross revenue from its direct install programs that serve small businesses and 60% from the Company’s other programs. The Company’s other programs are either businesses that were determined to be “essential” by government authorities or continued to progress during the pandemic.

In the Engineering and Consulting segment, the Company’s revenues were less affected by Covid-19 than the revenues in the Energy segment. The services in this segment were generally deemed “essential” by the government and continued to operate while abiding social distancing measures.

Through the current fiscal year 2022, while none of the Company’s current programs are under suspension due to Covid-19 restrictions, certain market segments such as small business customers of major utilities continue to experience lingering impacts of the reduced economic activity due to the Covid-19 related mandates in 2020 and 2021. As of May 4, 2022, none of the Company’s contracts were cancelled as a result of Covid-19.

Asset and liability valuation and other estimates used in preparation of financial statements

As of April 1, 2022, the Company did not have any impairment with respect to goodwill or long-lived assets, including intangible assets. Because the full extent of the impact of the Covid-19 outbreak and efforts to slow its spread are unknown at this time, they could, under certain circumstances, cause impairment and result in a non-cash impairment charge being recorded in future periods. Changes to the estimated future profitability of the business may require that the Company establish an additional valuation allowance against all or some portion of its net deferred tax assets.

Impact on Clients and Subcontractors and Other Risks

The Company primarily works for utilities, municipalities and other public agencies. Some of these customers could experience significant budget shortfalls for the current year and beyond as a result of the measures taken to mitigate the Covid-19 pandemic and/or revenue shortfalls as a result of reduced economic activity. Although none of the Company’s contracts with governmental or public agencies were materially modified during its fiscal year 2020 or fiscal year 2021, these potential budget deficits could result in delayed funding for existing contracts with the Company, postponements of new contracts or price concessions. Further, most of the Company’s clients are not committed to purchase any minimum amount of services, as the Company agreements with them are based on a “purchase order” or “master service agreement” model. As a result, they may discontinue utilizing some or all of the Company’s services with little or no notice.

In addition, the Company relies on subcontractors and material suppliers to complete a substantial portion of its work, especially in its Energy segment. If the Company’s significant subcontractors and material suppliers suffer

WILLDAN GROUP, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
(Unaudited)

significant economic harm and must limit or cease operations or file for bankruptcy as a result of the current economic slowdown, the Company's subcontractors and material suppliers may not be able to fulfill their contractual obligations satisfactorily and the Company may not have the ability to select its subcontractors and material suppliers of choice for new contracts. If the Company's subcontractors and material suppliers are not able to fulfill their contractual obligations, it could result in a significant increase in costs for the Company to complete the projects or cause significant delays to the realization of revenues under those projects. The ultimate impact of Covid-19 on the Company's financial condition and results of operations will depend on all of the factors noted above, including other factors that the Company may not be able to forecast at this time. See the risk factor "*The Covid-19 pandemic and health and safety measures intended to slow its spread have adversely affected, and may continue to adversely affect, our business, results of operations and financial condition.*" under Part I. Item 1A. "Risk Factors" of the Company's Annual Report on Form 10-K for the year ended December 31, 2021. While Covid-19 has had an adverse effect on the Company's business, financial condition and results of operations, the Company is unable to predict the extent or duration of future impacts at this time.

Health and Safety

In response to the Covid-19 pandemic, the Company has taken and will continue to take precautionary measures intended to help minimize the risk of Covid-19 to its employees, including requiring the majority of its employees to work remotely, suspending non-essential travel and restricting in-person work-related meetings. The Company expects to continue to implement similar measures until it has been determined that the Covid-19 pandemic is adequately contained for purposes of its business, and may take further actions as government authorities require or recommend or as it determines to be in the best interests of its employees, customers, business partners and third-party service providers.

WILLDAN GROUP, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
(Unaudited)

2. RECENT ACCOUNTING PRONOUNCEMENTS

Accounting Pronouncements Recently Adopted

In March 2020, the FASB issued ASU No. 2020-04, “Reference Rate Reform (Topic 848): facilitation of the Effects of Reference Rate Reform on Financial Reporting” (“ASU 2020-04”). ASU 2020-04 provides optional expedients and exceptions for applying U.S. GAAP to contract modifications and hedging relationships that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform. ASU 2020-04 provides, among other things, guidance that modifications of contracts within the scope of Topic 470, Debt, should be accounted for by prospectively adjusting the effective interest rate; modifications of contracts within the scope of Topic 840, Leases, should be accounted for as a continuation of the existing contract; and, changes in the critical terms of hedging relationships, caused by reference rate reform, should not result in the de-designation of the instrument, provided certain criteria are met. In January 2021, the FASB issued ASU No. 2021-01, “Reference Rate Reform (Topic 848) - Scope” (“ASU 2021-01”). ASU 2021-01 clarifies the scope and application of ASU 2020-04 and permits entities, among other things, to elect certain optional expedients and exceptions when accounting for derivative contracts and certain hedging relationships affected by changes in the interest rates used for discounting cash flows. The Company adopted this standard effective March 8, 2022. The Company’s previous exposure to LIBOR rates included its credit facilities and swap agreement. The adoption of this standard did not have a material impact to the Company’s Condensed Consolidated Financial Statements.

WILLDAN GROUP, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
(Unaudited)

3. REVENUES

The Company enters into contracts with its clients that contain various types of pricing provisions, including fixed price, time-and-materials, and unit-based provisions. The Company recognizes revenues in accordance with ASU 2014-09, Revenue from Contracts with Customer, codified as ASC Topic 606 and the related amendments (collectively "ASC 606"). As such, the Company identifies a contract with a customer, identifies the performance obligations in the contract, determines the transaction price, allocates the transaction price to each performance obligation in the contract and recognizes revenues when (or as) the Company satisfies a performance obligation.

The following table reflects the Company's two reportable segments and the types of contracts that each most commonly enters into for revenue generating activities.

Segment	Contract Type	Revenue Recognition Method
	Time-and-materials	Time-and-materials
Energy	Unit-based	Unit-based
	Software license	Unit-based
	Fixed price	Percentage-of-completion
	Time-and-materials	Time-and-materials
Engineering and Consulting	Unit-based	Unit-based
	Fixed price	Percentage-of-completion

Revenue on the vast majority of the Company's contracts is recognized over time because of the continuous transfer of control to the customer. Revenue on fixed price contracts is 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. The Company uses the percentage-of-completion method to better match the level of work performed at a certain point in time in relation to the effort that will be required to complete a project. In addition, the percentage-of-completion method is a common method of revenue recognition in the Company's industry.

Many of the Company's fixed price contracts involve a high degree of subcontracted fixed price effort and are relatively short in duration, thereby lowering the risks of not properly estimating the percent complete. Revenue on time-and-materials and unit-based contracts is recognized as the work is performed in accordance with the specific rates and terms of the contract. The Company recognizes revenues for time-and-materials contracts based upon the actual hours incurred during a reporting period at contractually agreed upon rates per hour and also includes in revenue all reimbursable costs incurred during a reporting period. Certain of the Company's time-and-materials contracts are subject to maximum contract values and, accordingly, when revenue is expected to exceed the maximum contract value, these contracts are generally recognized under the percentage-of-completion method, consistent with fixed price contracts. For unit-based contracts, the Company recognizes the contract price of units of a basic production product as revenue when the production product is delivered during a period. Revenue for amounts that have been billed but not earned is deferred, and such deferred revenue is referred to as contract liabilities in the accompanying condensed consolidated balance sheets. The Company also derives revenue from software licenses and professional services and maintenance fees. In accordance with ASC 606, the Company performs an assessment of each contract to identify the performance obligations, determine the overall transaction price for the contract, allocate the transaction price to the performance obligations, and recognize the revenue when the performance obligations are satisfied. The Company utilizes the residual approach by which it estimates the standalone selling price by reference to the total transaction price less the sum of the observable standalone selling prices of other goods or services promised in the contract. The software license revenue is typically recognized at a point in time when control is transferred to the client, which is defined as the point in time when the client can use and benefit from the license. The software license is delivered before related services are provided and is functional without services, updates, or technical support. Related professional services include training and support services in which the standalone selling price is determined based on an input measure of hours incurred to total estimated hours and is recognized over time, usually which is the life of the contract.

WILLDAN GROUP, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
(Unaudited)

To determine the proper revenue recognition method for contracts, the Company evaluates whether two or more contracts should be combined and accounted for as one single contract and whether the combined contract should be accounted for as one performance obligation. With respect to the Company's contracts, it is rare that multiple contracts should be combined into a single performance obligation. This evaluation requires significant judgment and the decision to combine a group of contracts or separate a single contract into multiple performance obligations could change the amount of revenue and profit recorded in a given period. Contracts are considered to have a single performance obligation if the promise to transfer the individual goods or services is not separately identifiable from other promises in the contracts, which is mainly because the Company provides a significant service of integrating a complex set of tasks and components into a single project or capability.

The Company may enter into contracts that include separate phases or elements. If each phase or element is negotiated separately based on the technical resources required and/or the supply and demand for the services being provided, the Company evaluates if the contracts should be segmented. If certain criteria are met, the contracts would be segmented which could result in revenues being assigned to the different elements or phases with different rates of profitability based on the relative value of each element or phase to the estimated total contract revenue. Segmented contracts may comprise up to approximately 2.0% to 3.0% of the Company's consolidated contract revenue.

Contracts that cover multiple phases or elements of the project or service lifecycle (development, construction and maintenance and support) may be considered to have multiple performance obligations even when they are part of a single contract. For contracts with multiple performance obligations, the Company allocates the transaction price to each performance obligation using the best estimate of the standalone selling price of each distinct good or service in the contract. For the periods presented, the value of the separate performance obligations under contracts with multiple performance obligations (generally measurement and verification tasks under certain energy performance contracts) were not material. In cases where the Company does not provide the distinct good or service on a standalone basis, the primary method used to estimate standalone selling price is the expected cost plus a margin approach, under which the Company forecasts the Company's expected costs of satisfying a performance obligation and then adds an appropriate margin for the distinct good or service.

The Company provides quality of workmanship warranties to customers that are included in the sale and are not priced or sold separately or do not provide customers with a service in addition to assurance of compliance with agreed-upon specifications and industry standards. The Company does not consider these types of warranties to be separate performance obligations.

In some cases, the Company has a master service or blanket agreement with a customer under which each task order releases the Company to perform specific portions of the overall scope in the service contract. Each task order is typically accounted for as a separate contract because the task order establishes the enforceable rights and obligations, and payment terms.

Under ASC 606, variable consideration should be considered when determining the transaction price and estimates should be made for the variable consideration component of the transaction price, as well as assessing whether an estimate of variable consideration is constrained. For certain of the Company's contracts, variable consideration can arise from modifications to the scope of services resulting from unapproved change orders or customer claims. Variable consideration is included in the transaction price to the extent it is probable that a significant reversal of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is resolved. The Company estimates of variable consideration and determination of whether to include estimated amounts in the transaction price are based largely on assessments of legal enforceability, the Company's performance, and all information (historical, current and forecasted) that is reasonably available to the Company.

WILLDAN GROUP, INC. AND SUBSIDIARIES
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Due to the nature of the work required to be performed on many of the Company's performance obligations, the estimation of total revenue and cost at completion is complex, subject to many variables and requires significant judgment. As a significant change in one or more of these estimates could affect the profitability of the Company's contracts, the Company reviews and updates the Company's contract-related estimates regularly through a company-wide disciplined project review process in which management reviews the progress and execution of the Company's performance obligations and the estimate at completion ("EAC"). As part of this process, management reviews information including, but not limited to, any outstanding key contract matters, progress towards completion and the related program schedule and the related changes in estimates of revenues and costs. Management must make assumptions and estimates regarding labor productivity and availability, the complexity of the work to be performed, the cost and availability of materials, the performance of subcontractors, and the availability and timing of funding from the customer, among other variables.

The Company recognizes adjustments in estimated profit on contracts under the cumulative catch-up method. Under this method, the impact of the adjustment on profit recorded to date is recognized in the period the adjustment is identified. Revenue and profit in future periods of contract performance is recognized using the adjusted estimate. If at any time the estimate of contract profitability indicates an anticipated loss on the contract, the Company recognizes the full amount of estimated loss in the period it is identified.

Contracts are often modified to account for changes in contract specifications and requirements. The Company considers contract modifications to exist when the modification either creates new rights or obligations or changes the existing enforceable rights or obligations. Most of the Company's contract modifications are for goods or services that are not distinct from existing contracts due to the significant integration provided in the context of the contract and are accounted for as if they were part of the original contract. The effect of a contract modification that is not distinct from the existing contract on the transaction price and the Company's measure of progress for the performance obligation to which it relates is recognized as an adjustment to revenue (either as an increase in or a reduction of revenue) on a cumulative catch-up basis.

For contract modifications that result in the promise to deliver goods or services that are distinct from the existing contract and the increase in price of the contract is for the same amount as the standalone selling price of the additional goods or services included in the modification, the Company accounts for such contract modifications as a separate contract.

The Company includes claims to vendors, subcontractors and others as a receivable and a reduction in recognized costs when enforceability of the claim is established by the contract and the amounts are reasonably estimable and probable of being recovered. The amounts are recorded up to the extent of the lesser of the amounts management expects to recover or to costs incurred.

Billing practices are governed by the contract terms of each project based upon costs incurred, achievement of milestones or pre-agreed schedules. Billings do not necessarily correlate with revenue recognized using the percentage-of-completion method of revenue recognition.

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

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

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

Accounts receivable are carried at original invoice amount less an estimate made for doubtful accounts based upon a review of all outstanding amounts on a quarterly basis. Management determines allowances for doubtful accounts through specific identification of amounts considered to be uncollectible and potential write-offs, plus a non-specific allowance for other amounts for which some potential loss has been determined to be probable based on current and past experience. The Company's historical credit losses have been minimal with governmental entities and large public utilities, but disputes may arise related to these receivable amounts. Accounts receivable are written off when deemed uncollectible. Recoveries of accounts receivable previously written off are recorded when received.

Retainage, included in contract assets, represents amounts withheld from billings to the Company's clients pursuant to provisions in the contracts and may not be paid to the Company until specific tasks are completed or the project is completed and, in some instances, for even longer periods. As of April 1, 2022 and December 31, 2021, contract assets included retainage of approximately $5.2 million and $4.5 million, respectively.

WILLDAN GROUP, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
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4. SUPPLEMENTAL FINANCIAL STATEMENT DATA

Accounts Receivable

From time to time, in connection with factoring agreements, the Company sells trade accounts receivable without recourse to third party purchasers in exchange for cash. During the three months ended April 1, 2022, the Company did not sell any trade accounts receivable. During the three months ended April 2, 2021, the Company sold trade accounts receivable and received cash proceeds of $7.2 million. The discounts on the trade accounts receivable sold were $0.6 million and were recorded within “Other, net” in other income (expense) in the condensed consolidated financial statements.

Equipment and Leasehold Improvements

	April 1, 2022	December 31, 2021
	(in thousands)	
Furniture and fixtures	$ 4,070	$ 4,070
Computer hardware and software	28,463	26,425
Leasehold improvements	3,011	3,011
Equipment under finance leases	4,266	3,286
Automobiles, trucks, and field equipment	3,134	3,099
Subtotal	42,944	39,891
Accumulated depreciation and amortization	(24,601)	(23,134)
Equipment and leasehold improvements, net	$ 18,343	$ 16,757

Included in accumulated depreciation and amortization is $0.2 million and $0.6 million of amortization expense related to equipment held under finance leases for the three months ended April 1, 2022 and for fiscal year 2021, respectively.

Accrued Liabilities

	April 1, 2022	December 31, 2021
	(in thousands)	
Accrued subcontractor costs	$ 16,060	$ 19,727
Employee withholdings	4,670	2,665
Compensation and payroll taxes	3,460	2,244
Other	1,910	2,750
Accrued bonuses	603	7,767
Accrued workers’ compensation insurance	451	527
Total accrued liabilities	$ 27,154	$ 35,680

WILLDAN GROUP, INC. AND SUBSIDIARIES
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(Unaudited)

Goodwill

	December 31, 2021	Additional Purchase Cost	Additions / Adjustments	April 1, 2022
		(in thousands)		
Reporting Unit:				
Energy	$ 129,375	$ —	$ —	$ 129,375
Engineering and Consulting	749	—	—	749
	$ 130,124	$ —	$ —	$ 130,124

The Company tests for impairment, at a minimum, on an annual basis or earlier when certain events or changes in circumstances indicate that goodwill may more likely than not be impaired. The Company evaluated the current economic impact caused by the Covid-19 pandemic to assess a potential impairment of goodwill and noted that it does not believe it is more likely than not that goodwill was impaired as of April 1, 2022.

Intangible Assets

	April 1, 2022		December 31, 2021		
	Gross Amount	Accumulated Amortization	Gross Amount	Accumulated Amortization	Amortization Period
		(in thousands)			*(in years)*
Finite:					
Backlog	$ 7,944	$ 7,438	$ 7,944	$ 7,222	1.0
Tradename	15,911	9,495	15,911	8,997	2.5 - 6.0
Non-compete agreements	1,420	1,418	1,420	1,413	4.0 - 5.0
Developed technology	15,810	9,681	15,500	8,950	8.0
Customer relationships	58,149	21,336	58,149	19,939	5.0 - 8.0
Total finite intangible assets	99,234	49,368	98,924	46,521	
In-process research and technology [(1)]	—	—	310	—	
Total intangible assets	$ 99,234	$ 49,368	$ 99,234	$ 46,521	

(1) In-process research and technology will not be amortized until put into use.

During the three months ended April 1, 2022, the Company reclassified $0.3 million of in-process research and technology to developed technology and commenced amortization over its estimated useful life.

WILLDAN GROUP, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
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5. DERIVATIVE FINANCIAL INSTRUMENTS

From time to time, the Company uses certain interest rate derivative contracts to hedge interest rate exposures on its variable rate debt. The Company's hedging program is not designated for trading or speculative purposes.

The Company recognizes derivative instruments as either assets or liabilities on the accompanying consolidated balance sheets at fair value. The Company records changes in the fair value (i.e., gains or losses) of the derivatives that have been designated as cash flow hedges in its consolidated balance sheets as accumulated other comprehensive income (loss) and in its condensed consolidated statements of comprehensive (loss) income as a loss or gain on cash flow hedge valuation.

On January 31, 2019, the Company entered into an interest rate swap agreement that the Company designated as cash flow hedge to fix the variable interest rate on a portion of the Company's Term A Loan (as defined below in Note 6. "*Debt Obligations*"). The interest rate swap agreement had total notional amount of $35.0 million and had a fixed annual interest rate of 2.47%. The interest rate swap expired on January 31, 2022.

At its expiration, changes in the fair value of the Company's interest rate swap agreement were immaterial to the Company's condensed consolidated financial statements and were included in accrued liabilities in the condensed consolidated balance sheet.

At its expiration, the effective portion of the Company's interest rate swap agreement designated as a cash flow hedge was immaterial to the Company's condensed consolidated financial statements, and all amounts were reclassified from accumulated other comprehensive income to interest expense.

As of April 1, 2022, the Company had no derivative financial instruments in place.

6. DEBT OBLIGATIONS

Debt obligations, excluding obligations under finance leases (see Note 7, *Leases*, below), consisted of the following:

	April 1, 2022	December 31, 2021
	(in thousands)	
Outstanding borrowings on Term A Loan	$ 72,500	$ 75,000
Outstanding borrowings on Revolving Credit Facility	—	—
Outstanding borrowings on Delayed Draw Term Loan	43,250	24,000
Other debt agreements	1,460	2,161
Total debt	117,210	101,161
Issuance costs and debt discounts	(529)	(587)
Subtotal	116,681	100,574
Less current portion of long-term debt	16,357	15,036
Long-term debt portion	$ 100,324	$ 85,538

Credit Facilities

On June 26, 2019, the Company and certain of its subsidiaries entered into an Amended and Restated Credit Agreement (as amended by the First Amendment, dated as of August 15, 2019, the Second Amendment, dated as of November 6, 2019, the Third Amendment, dated as of May 6, 2020, and the Fourth Amendment, dated April 30, 2021, the “Credit Agreement”) with a syndicate of financial institutions as lenders and BMO Harris Bank, N.A. (“BMO”), as administrative agent. The Credit Agreement provides for (i) a $100.0 million secured term loan (the “Term A Loan”), (ii) up to $50.0 million in delayed draw secured term loans (the “Delayed Draw Term Loan”), and (iii) a $50.0 million secured revolving credit facility (the “Revolving Credit Facility” and, collectively with the Term A Loan and the Delayed Draw Term Loan, the “Credit Facilities”), each maturing on June 26, 2024. The Company’s obligations under the Credit Agreement are guaranteed by its present and future domestic subsidiaries, with limited exceptions.

Prior to the Fourth Amendment to the Amended and Restated Credit Agreement, dated as of April 30, 2021 (the “Fourth Amendment”), the Credit Agreement required the Company to comply with certain financial covenants, including requiring that the Company maintain a (i) total leverage ratio (the “Leverage Ratio”), defined as the ratio of total funded debt to Adjusted EBITDA (as defined in the Credit Agreement), of 6.00 to 1.00 through June 26, 2020, 7.75 to 1.00 through September 25, 2020, 7.50 to 1.00 through January 1, 2021, 6.25 to 1.00 through April 2, 2021, 4.00 to 1.00 through July 2, 2021, and 3.25 to 1.00 through October 1, 2021 and thereafter and (ii) fixed charge coverage ratio (“FCCR Ratio”), defined as the ratio of Adjusted EBITDA less Unfinanced Capital Expenditures (as defined in the Credit Agreement) to Fixed Charges (as defined in the Credit Agreement), of not less than 1.20 to 1.00, in each case tested quarterly, except during the period from May 6, 2020 until July 2, 2021 (the “Initial Covenant Relief Period”), when the maximum Leverage Ratio was increased and the covenant to maintain a minimum FCCR Ratio was replaced with a covenant to maintain a minimum Adjusted EBITDA (as defined in the Third Amendment). In addition, during the Initial Covenant Relief Period, no delayed draw term loans could be borrowed under the Credit Facilities and the Company was prohibited from engaging in share repurchases or making any Permitted Acquisitions (as defined in the Credit Agreement). Additionally, during the Initial Covenant Relief Period, the aggregate amount of all capital expenditures made by the Company could not exceed $7.0 million, and the Company was prohibited from making any earn-out payments if, after giving effect to such earn-out payment, the Company’s liquidity would be less than $5.0 million or the aggregate amount of all earn-out payments made by the Company during the Initial Covenant Relief Period would exceed $7.0 million.

WILLDAN GROUP, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
(Unaudited)

Pursuant to the Fourth Amendment, the Initial Covenant Relief Period was extended from July 2, 2021 to and including the earlier of (i) April 1, 2022 and (ii) the last day of the fiscal quarter in which the Company delivers an irrevocable election to terminate the covenant relief granted by the Fourth Amendment (the "Second Covenant Relief Period," and together with the Initial Covenant Relief Period, the "Amended Covenant Relief Period"). The Fourth Amendment also (A) increased the maximum Leverage Ratio the Company was permitted to maintain to 4.50 to 1.00 through June 30, 2021, 5.25 to 1.00 through September 30, 2021, 4.50 to 1.00 through December 31, 2021, 4.25 to 1.00 through March 31, 2022, and 3.25 to 1.00 through June 30, 2022 and thereafter, (B) established the minimum Adjusted EBITDA thresholds (as defined in the Third Amendment) for the remainder of the Amended Covenant Relief Period, (C) removed the previous prohibition during the Initial Covenant Relief Period on the Company's ability to make delayed draw term loan borrowings, (D) removed the previous prohibition during the Initial Covenant Relief Period on the Company's ability to make Permitted Acquisitions (as defined in the Credit Agreement) and to purchase, redeem or otherwise acquire the Company's common stock, in each case, subject to certain conditions, and (E) increased the maximum amount of earn-out payments the Company was permitted to make during the Amended Covenant Relief Period from $7.0 million to $17.0 million, provided that the Company's liquidity would not be less than $10.0 million after giving effect to such earn-out payment. Additionally, during the remainder of the Amended Covenant Relief Period, the aggregate amount of all capital expenditures made by the Company may not exceed $15.0 million.

In accordance with the Fourth Amendment, borrowings under the Credit Agreement bore interest at all times other than during the Initial Covenant Relief Period, at either a Base Rate or London Inter-Bank Offered Rate ("LIBOR"), each as defined in the Credit Agreement, at the Company's option, and in each case plus an applicable margin, which applicable margin ranged from 0.125% to 1.25% with respect to Base Rate borrowings and 1.125% to 2.25% with respect to LIBOR borrowings, depending on the Leverage Ratio; provided, that LIBOR could not be less than 0.00%. The Company also agreed to pay a commitment fee for the unused portion of the Revolving Credit Facility and the delayed draft term loan facility, which ranged from 0.15% to 0.40% per annum depending on the Leverage Ratio, and fees on the face amount of any letters of credit outstanding under the Revolving Credit Facility, which ranged from 0.84% to 1.688% per annum, in each case, depending on whether such letter of credit is a performance or financial letter of credit and the Leverage Ratio.

The Credit Agreement includes customary events of default and also contains other customary restrictive covenants including (i) restrictions on the incurrence of additional indebtedness and additional liens on property, (ii) restrictions on permitted acquisitions and other investments and (iii) limitations on asset sales, mergers and acquisitions. Further, the Credit Agreement limits the Company's payment of future dividends and distributions and share repurchases by the Company. Subject to certain exceptions, borrowings under the Credit Agreement are also subject to mandatory prepayment from (a) any issuances of debt or equity securities, (b) any sale or disposition of assets, (c) insurance and condemnation proceeds (d) representation and warranty insurance proceeds related to insurance policies issued in connection with acquisitions and (e) excess cash flow.

Fifth Amendment to the Credit Agreement

On March 8, 2022, the Company entered into the Fifth Amendment to the Amended and Restated Credit Agreement (the "Fifth Amendment"). The Fifth Amendment extended the Amended Covenant Relief Period from March 31, 2022 to and including the earlier of (i) December 30, 2022 and (ii) the last day of the fiscal quarter in which the Company delivers an irrevocable election to terminate the covenant relief granted by the Fifth Amendment (the "Third Covenant Relief Period," and together with the Amended Covenant Relief Period, the "Extended Covenant Relief Period").

The Fifth Amendment also (A) amended the minimum Adjusted EBITDA (as defined in the Fifth Amendment) thresholds for the remainder of the Extended Covenant Relief Period, (B) increased the maximum Leverage Ratio (as defined in the Credit Agreement) the Company is permitted to maintain through the fiscal quarter ending on December 31, 2022, (C) funded to the Company, on the date of closing, the remaining $20.0 million in available funds from the

Delayed Draw Term Loan, and (D) amended the pricing structure of borrowings under the Credit Agreement from utilizing as a reference rate the LIBOR to utilizing the Secured Overnight Financing Rate (‘SOFR”). Additionally, during the remainder of the Covenant Relief Period, the aggregate amount of all capital expenditures made by the Company may not exceed $20.0 million.

Pursuant to the Fifth Amendment, during the Extended Covenant Relief Period, borrowings under the Credit Agreement will bear interest at either a Base Rate or SOFR (plus 0.10% or 0.15% depending on the interest period), each as defined in the Credit Agreement, at the Company’s option, and in each case, plus an applicable margin, which applicable margin will range from 0.125% to 1.50% with respect to Base Rate borrowings and 1.125% to 2.50% with respect to SOFR borrowings, depending on the Leverage Ratio; provided, that SOFR cannot be less than 0.00%. The Company will also pay a commitment fee for the unused portion of the revolving credit facility and the delayed draft term loan facility under the Credit Agreement, which will range from 0.15% to 0.45% per annum depending on the Leverage Ratio, and fees on the face amount of any letters of credit outstanding under the revolving credit facility, which will range from 0.84% to 1.875% per annum, in each case, depending on whether such letter of credit is a performance or financial letter of credit and the Leverage Ratio.

After the Extended Covenant Relief Period, borrowings under the Credit Agreement will bear interest at either a Base Rate or SOFR (plus 0.10% or 0.15% depending on the interest period), each as defined in the Credit Agreement, at the Company’s option, and in each case, plus an applicable margin, which applicable margin will range from 0.125% to 1.25% with respect to Base Rate borrowings and 1.125% to 2.25% with respect to SOFR borrowings, depending on the Leverage Ratio; provided, that SOFR cannot be less than 0.00%. The Company will also pay a commitment fee for the unused portion of the revolving credit facility and the delayed draft term loan facility under the Credit Agreement, which will range from 0.15% to 0.40% per annum depending on the Leverage Ratio, and fees on the face amount of any letters of credit outstanding under the revolving credit facility, which will range from 0.84% to 1.688% per annum, in each case, depending on whether such letter of credit is a performance or financial letter of credit and the Leverage Ratio.

As of April 1, 2022, the Company was in compliance with all covenants contained in the Credit Agreement, as amended by the Fifth Amendment.

Other Debt Agreements

The Company’s other debt agreements are related to financed insurance premiums, a financed software agreement, and a utility customer agreement and are immaterial to the Company’s Condensed Consolidated Financial Statements.

WILLDAN GROUP, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
(Unaudited)

7. LEASES

The Company leases certain office facilities under long-term, non-cancellable operating leases that expire at various dates through the year 2027. In addition, the Company is obligated under finance leases for certain furniture and office equipment that expire at various dates through the year 2026.

From time to time, the Company enters into non-cancelable leases for some of our facility and equipment needs. These leases allow the Company to conserve cash by paying a monthly lease rental fee for the use of facilities and equipment rather than purchasing them. The Company's leases have terms ranging from one to eight years, some of which may include options to extend the leases for up to five years, and some of which may include options to terminate the leases within one year. Currently, all of the Company's leases contain fixed payment terms. The Company may decide to cancel or terminate a lease before the end of its term, in which case we are typically liable to the lessor for the remaining lease payments under the term of the lease. Additionally, all of the Company's month-to-month leases are cancelable by the Company or the lessor, at any time, and are not included in the Company's right-of-use asset or lease liability. As of April 1, 2022, the Company had no leases with residual value guarantees. Typically, the Company has purchase options on the equipment underlying its long-term leases. The Company may exercise some of these purchase options when the need for equipment is on-going and the purchase option price is attractive. Nonperformance-related default covenants, cross-default provisions, subjective default provisions and material adverse change clauses contained in material lease agreements, if any, are also evaluated to determine whether those clauses affect lease classification in accordance with "ASC" Topic 842-10-25. Leases are accounted for as operating or financing leases, depending on the terms of the lease.

Financing Leases

The Company leases certain equipment under financing leases. The economic substance of the leases is a financing transaction for acquisition of equipment and leasehold improvements. Accordingly, the right-of-use assets for these leases are included in the balance sheets in equipment and leasehold improvements, net of accumulated depreciation, with a corresponding amount recorded in current portion of financing lease obligations or noncurrent portion of financing lease obligations, as appropriate. The financing lease assets are amortized over the life of the lease or, if shorter, the life of the leased asset, on a straight-line basis and included in depreciation expense. The interest associated with financing lease obligations is included in interest expense.

Right-of-use assets

Operating leases are included in right-of-use assets, and current portion of lease liability and noncurrent portion of lease liability, as appropriate. Right-of-use assets and lease liabilities are recognized based on the present value of the future minimum lease payments over the lease term at commencement date. As most of the Company's leases do not provide an implicit rate to calculate present value, the Company determines this rate by estimating the Company's incremental borrowing rate at the lease commencement date. The right-of-use asset also includes any lease payments made and initial direct costs incurred at lease commencement and excludes lease incentives. The Company's lease terms may include options to extend or terminate the lease when it is reasonably certain that it will exercise that option. Lease expense for minimum lease payments is recognized on a straight-line basis over the lease term.

WILLDAN GROUP, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
(Unaudited)

The following is a summary of the Company's lease expense:

	Three Months Ended	
	April 1, 2022	**April 2, 2021**
	(in thousands)	
Operating lease cost	$ 1,578	$ 1,692
Finance lease cost:		
Amortization of assets	233	123
Interest on lease liabilities	14	6
Total net lease cost	$ 1,825	$ 1,821

The following is a summary of lease information presented on the Company's consolidated balance sheet:

	April 1, 2022	**December 31, 2021**
	(in thousands)	
Operating leases:		
Right-of-use assets	$ 14,315	$ 15,177
Lease liability	$ 5,629	$ 5,575
Lease liability, less current portion	9,760	10,768
Total lease liabilities	$ 15,389	$ 16,343
Finance leases (included in equipment and leasehold improvements, net):		
Equipment and leasehold improvements, net	$ 4,266	$ 3,286
Accumulated depreciation	(2,111)	(1,947)
Total equipment and leasehold improvements, net	$ 2,155	$ 1,339
Finance lease obligations	$ 732	$ 539
Finance lease obligations, less current portion	1,291	778
Total finance lease obligations	$ 2,023	$ 1,317
Weighted average remaining lease term (in years):		
Operating Leases	3.62	3.79
Finance Leases	2.68	2.62
Weighted average discount rate:		
Operating Leases	4.24 %	4.28 %
Finance Leases	2.58 %	2.78 %

Rent expense was $1.6 million and $1.8 million for the three months ended April 1, 2022 and April 2, 2021, respectively.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
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The following is a summary of other information and supplemental cash flow information related to finance and operating leases:

	Three Months Ended	
	April 1, 2022	April 2, 2021
	(in thousands)	
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flow from operating leases	$ 1,670	$ 1,816
Operating cash flow from finance leases	14	6
Financing cash flow from finance leases	342	127
Right-of-use assets obtained in exchange for lease liabilities:		
Operating leases	$ 525	$ 16

The following is a summary of the maturities of lease liabilities as of April 1, 2022:

	Operating	Finance
	(in thousands)	
Fiscal year:		
Remainder of 2022	$ 4,727	$ 556
2023	4,539	833
2024	2,767	575
2025	2,084	91
2026	2,036	40
2027 and thereafter	453	1
Total lease payments	16,606	2,096
Less: Imputed interest	(1,217)	(73)
Total lease obligations	15,389	2,023
Less: Current obligations	5,629	732
Noncurrent lease obligations	$ 9,760	$ 1,291

The imputed interest for finance lease obligations represents the interest component of finance leases that will be recognized as interest expense in future periods. The financing component for operating lease obligations represents the effect of discounting the operating lease payments to their present value.

WILLDAN GROUP, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
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8. COMMITMENTS AND VARIABLE INTEREST ENTITIES

Employee Benefit Plans

The Company has a qualified profit sharing plan pursuant to Code Section 401(a) and qualified cash or deferred arrangement pursuant to Code Section 401(k) covering all employees. Company contributions are made solely at the discretion of the Company's board of directors.

The Company's defined contribution plan (the "Plan") covers employees who have completed three months of service and who have attained 21 years of age. Employees may elect to contribute up to 50% of their compensation limited to the amount allowed by tax laws. The Company elects to make matching contributions equal to 50% of the participants' contributions to the Plan, up to 6% of the individual participant's compensation, and subject to a maximum of $3,000 per employee. Under the Plan, the Company's matching contributions to employee accounts are discretionary.

During the three months ended April 1, 2022 and April 2, 2021, the Company made matching contributions of $1.0 million and $0.9 million, respectively.

Variable Interest Entities

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

Genesys continues to be a professional corporation organized under the laws of the State of New York, wholly-owned by one or more licensed engineers. Pursuant to New York law, the Company does not own capital stock of Genesys. The Company has entered into an agreement with the Shareholder of Genesys pursuant to which the Shareholder will be prohibited from selling, transferring or encumbering the Shareholder's ownership interest in Genesys without the Company's consent. Notwithstanding the Company's rights regarding the transfer of Genesys's stock, the Company does not have control over the professional decision making of Genesys's engineering services. The Company has entered into an administrative services agreement with Genesys pursuant to which WES will provide Genesys with ongoing administrative, operational and other non-professional support services. Genesys pays WES a service fee, which consists of all of the costs incurred by WES to provide the administrative services to Genesys plus ten percent of such costs, as well as any other costs that relate to professional service supplies and personnel costs. As a result of the administrative services agreement, the Company absorbs the expected losses of Genesys through its deferral of Genesys's service fees owed to WES.

The Company manages Genesys and has the power to direct the activities that most significantly impact Genesys's performance, in addition to being obligated to absorb expected losses from Genesys. Accordingly, the Company is the primary beneficiary of Genesys and consolidates Genesys as a VIE. In addition, the Company concluded there is no noncontrolling interest related to the consolidation of Genesys because the Company determined that (i) the shareholder of Genesys does not have more than a nominal amount of equity investment at risk, (ii) WES absorbs the expected losses of Genesys through its deferral of Genesys's service fees owed to WES and the Company has, since entering into the administrative services agreement, had to continuously defer service fees for Genesys, and (iii) the Company believes Genesys will continue to have a shortfall on payment of its service fees for the foreseeable future, leaving no expected residual returns for the shareholder. As of April 1, 2022, the Company had one VIE — Genesys.

WILLDAN GROUP, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
(Unaudited)

9. SEGMENT AND GEOGRAPHICAL INFORMATION

Segment Information

The Company's two segments are Energy and Engineering and Consulting, and the Company's chief operating decision maker, which continues to be its chief executive officer, receives and reviews financial information in this format.

There were no intersegment sales during the three months ended April 1, 2022 and April 2, 2021. The Company's chief operating decision maker evaluates the performance of each segment based upon income or loss from operations before income taxes. Certain segment asset information including expenditures for long-lived assets has not been presented as it is not reported to or reviewed by the chief operating decision maker. In addition, enterprise-wide service line contract revenue is not included as it is impracticable to report this information for each group of similar services.

Financial information with respect to the reportable segments is as follows:

	Energy	Engineering & Consulting	Unallocated Corporate	Intersegment	Consolidated Total
			(in thousands)		
Fiscal Three Months Ended April 1, 2022					
Contract revenue	$ 74,886	$ 16,952	$ -	$ -	$ 91,838
Depreciation and amortization	4,157	252	-	-	4,409
Interest expense, net	4	-	747	-	751
Segment profit (loss) before income tax expense	(4,353)	2,107	(3,916)	-	(6,162)
Income tax expense (benefit)	(1,687)	817	(1,519)	-	(2,389)
Net income (loss)	(2,665)	1,290	(2,398)	-	(3,773)
Segment assets [(1)]	336,957	22,979	35,931	(23,130)	372,737
Fiscal Three Months Ended April 2, 2021					
Contract revenue	$ 62,007	$ 17,079	$ -	$ -	$ 79,086
Depreciation and amortization	3,938	249	-	-	4,187
Interest expense, net	4	-	1,060	-	1,064
Segment profit (loss) before income tax expense	(2,832)	2,110	(4,502)	-	(5,224)
Income tax expense (benefit)	(790)	589	(1,257)	-	(1,458)
Net income (loss)	(2,042)	1,521	(3,245)	-	(3,766)
Segment assets [(1)]	312,341	22,624	73,015	(23,130)	384,850

(1) Segment assets are presented net of intercompany receivables.

WILLDAN GROUP, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
(Unaudited)

The following tables provide information about disaggregated revenue by contract type, client type and geographical region:

	Three months ended April 1, 2022		
	Energy	**Engineering and Consulting**	**Total**
	(in thousands)		
Contract Type			
Time-and-materials	$ 8,818	$ 13,001	$ 21,819
Unit-based	42,957	2,984	45,941
Fixed price	23,110	968	24,078
Total [1]	$ 74,886	$ 16,952	$ 91,838
Client Type			
Commercial	$ 8,089	$ 1,478	$ 9,567
Government	18,359	15,453	33,812
Utilities [2]	48,437	21	48,458
Total [1]	$ 74,886	$ 16,952	$ 91,838
Geography [3]			
Domestic	$ 74,886	$ 16,952	$ 91,838

	Three months ended April 2, 2021		
	Energy	**Engineering and Consulting**	**Total**
	(in thousands)		
Contract Type			
Time-and-materials	$ 6,900	$ 13,421	$ 20,321
Unit-based	39,614	2,445	42,059
Fixed price	15,493	1,213	16,706
Total [1]	$ 62,007	$ 17,079	$ 79,086
Client Type			
Commercial	$ 5,928	$ 1,096	$ 7,024
Government	13,555	15,929	29,484
Utilities [2]	42,525	53	42,578
Total [1]	$ 62,007	$ 17,079	$ 79,086
Geography [3]			
Domestic	$ 62,007	$ 17,079	$ 79,086

(1) Amounts may not add to the totals due to rounding.
(2) Includes the portion of revenue related to small business programs paid by the end user/customer.
(3) Revenue from the Company's foreign operations were not material for the three months ended April 1, 2022 and April 2, 2021.

Geographical Information

Substantially all of the Company's consolidated revenue was derived from its operations in the U.S. The Company operates through a network of offices spread across 23 U.S. states, the District of Columbia, and Canada. Revenues from the Company's Canadian operations were not material for the three months ended April 1, 2022 nor the three months ended April 2, 2021.

WILLDAN GROUP, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
(Unaudited)

Customer Concentration

For the three months ended April 1, 2022 and April 2, 2021, the Company's top 10 customers accounted for 54.2%, and 48.7%, respectively, of the Company's consolidated contract revenue. For the three months ended April 1, 2022, the Company had one customer, LADWP, that accounted for 17.1% of its consolidated contract revenues. For the three months ended April 2, 2021, the Company did not have any individual customers that accounted for more than 10% of its consolidated contract revenues.

On a segment basis, the Company had individual customers that accounted for more than 10% of its segment contract revenues. For the three months ended April 1, 2022, the Company derived 32.1% of its Energy segment revenues from two customers, LADWP and Duke Energy. For the three months ended April 1, 2022, no single customer accounted for 10% or more of its Engineering and Consulting segment revenues. For the three months ended April 2, 2021, the Company derived 10.3% of its Energy segment revenues from one customer, Consolidated Edison of New York, and it derived 17.8% of its Engineering and Consulting segment revenues from one customer, the City of Elk Grove.

The Company's largest clients are based in California and New York. For the three months ended April 1, 2022 and April 2, 2021, services provided to clients in California accounted for 43.6%, and 34.3%, respectively, of the Company's contract revenue and services provided to clients in New York accounted for 19.0% and 22.1%, respectively, of the Company's contract revenue.

WILLDAN GROUP, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
(Unaudited)

10. INCOME TAXES

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences of temporary differences between the financial reporting basis and tax basis of the Company's assets and liabilities, subject to a judgmental assessment of the recoverability of deferred tax assets. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is recorded when it is more likely than not that some of the deferred tax assets may not be realized. Significant judgment is applied when assessing the need for valuation allowances and includes the evaluation of historical income (loss) adjusted for the effects of non-recurring items and the impact of recent business combinations. Areas of estimation include our consideration of future taxable income which is driven by verifiable signed contracts and ongoing prudent and feasible tax planning strategies. Should a change in circumstances lead to a change in judgment about the utilization of deferred tax assets in future years, the Company would adjust the related valuation allowances in the period that the change in circumstances occurs, along with a corresponding increase or charge to income.

During each fiscal year, the Company assesses the available positive and negative evidence to evaluate if it is more likely than not that the deferred tax assets will be realized. At the end of fiscal year 2018, the Company determined that it was more-likely-than-not that the entire California net operating loss will not be utilized prior to expiration. Significant pieces of objective evidence evaluated included the Company's history of utilization of California net operating losses in prior years for each of its subsidiaries, as well as its forecasted amount of net operating loss utilization for certain members of the combined group. As a result, at that time, the Company recorded a valuation allowance in the amount of $86,000 related to California net operating losses. During fiscal year 2021, the Company determined that it was more-likely-than-not that the New Jersey net operating losses will not be utilized prior to expiration and, accordingly, recorded a valuation allowance of $1.1 million. Significant pieces of objective evidence evaluated included the Company's proportional increase of revenue to other states resulting in a dilution of New Jersey sourced income as well as the Company's forecasted amount of net operating loss utilization in New Jersey for certain members of the combined group. At the end of fiscal year 2021, the total valuation allowance was $1.2 million, compared to a balance of $86,000 for fiscal year 2020.

As of April 1, 2022, the Company assessed all available positive and negative evidence available to determine whether, based on the weight of that evidence, there was a change in judgment related to the utilization of deferred tax assets in future years. The Company concluded that as of April 1, 2022, the valuation allowance for the Company's deferred tax assets was appropriate in accordance with ASC 740. Consequently, there was no change to the valuation allowance during the three months ended April 1, 2022.

For acquired business entities, if the Company identifies changes to acquired deferred tax asset valuation allowances or liabilities related to uncertain tax positions during the measurement period and they relate to new information obtained about facts and circumstances that existed as of the acquisition date, those changes are considered a measurement period adjustment, and the Company records the offset to goodwill. The Company records all other changes to deferred tax asset valuation allowances and liabilities related to uncertain tax positions in current period income tax expense.

The Company recognizes the tax benefit from uncertain tax positions if it is more likely than not that the tax positions will be sustained on examination by the tax authorities, based on the technical merits of the position. The tax benefit is measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The Company recognizes interest and penalties related to unrecognized tax benefits in income tax expense. During the three months ended April 1, 2022, the Company did not record a liability for uncertain tax positions.

WILLDAN GROUP, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
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Based on the Company's estimates and determination of an effective tax rate for the year, the Company recorded an income tax benefit of $2.4 million for the three months ended April 1, 2022 as compared to an income tax benefit of $1.5 million for the three months ended April 2, 2021. During the three months ended April 1, 2022, the difference between the effective tax rate and the federal statutory rate was primarily attributable to state taxes, non-deductible stock compensation, nondeductible executive compensation, research and development tax credits, and the commercial building energy efficiency deduction. During the three months ended April 2, 2021, the difference between the effective tax rate and the federal statutory rate was primarily attributable to state taxes, the recognition of tax deductions related to the vesting of performance-based restricted stock units, nondeductible executive compensation, research and development tax credits, and the commercial building energy efficiency deduction.

On June 10, 2021, the Company received notice from the State of New York indicating that the Company's 2017, 2018, and 2019 state tax returns were under examination. As of April 1, 2022, the examination was finalized and there were no changes made by the State of New York to the state tax returns filed.

WILLDAN GROUP, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
(Unaudited)

11. EARNINGS PER SHARE (“EPS”)

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

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

	Three months ended	
	April 1, 2022	April 2, 2021
	(in thousands, except per share amounts)	
Net income (loss)	$ (3,773)	$ (3,766)
Weighted-average common shares outstanding	12,786	12,147
Effect of dilutive stock options and restricted stock awards	—	—
Weighted-average common shares outstanding-diluted	12,786	12,147
Earnings (Loss) per share:		
Basic	$ (0.30)	$ (0.31)
Diluted	$ (0.30)	$ (0.31)

For the three months ended April 1, 2022 and April 2, 2021, the Company reported a net loss, and accordingly, all outstanding equity awards have been excluded from such periods because including them would have been anti-dilutive.

WILLDAN GROUP, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
(Unaudited)

12. CONTINGENCIES

Claims and Lawsuits

The Company is subject to claims and lawsuits from time to time, including those alleging professional errors or omissions that arise in the ordinary course of business against firms that operate in the engineering and consulting professions. The Company carries professional liability insurance, subject to certain deductibles and policy limits, for such claims as they arise and may from time to time establish reserves for litigation that is considered probable of a loss.

In accordance with accounting standards regarding loss contingencies, the Company accrues an undiscounted liability for those contingencies where the incurrence of a loss is probable and the amount can be reasonably estimated, and discloses the amount accrued and an estimate of any reasonably possible loss in excess of the amount accrued, if such disclosure is necessary for the Company's financial statements not to be misleading. The Company does not accrue liabilities when the likelihood that the liability has been incurred is probable but the amount cannot be reasonably estimated, or when the liability is believed to be only reasonably possible or remote.

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

WILLDAN GROUP, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
(Unaudited)

13. SUBSEQUENT EVENTS

In accordance with ASC Topic 855, Subsequent Events, the Company evaluates subsequent events up until the date the condensed consolidated financial statements are issued. As of May 5, 2022, there were no subsequent events required to be reported.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Our Company

We are a provider of professional, technical and consulting services to utilities, private industry, and public agencies at all levels of government. As resources and infrastructures undergo continuous change, we help organizations and their communities evolve and thrive by providing a wide range of technical services for energy solutions and government infrastructure. Through engineering, program management, policy advisory, and software and data management, we design and deliver trusted, comprehensive, innovative, and proven solutions to improve efficiency, resiliency, and sustainability in energy and infrastructure to our customers.

Our broad portfolio of services operates within two reporting segments: (1) Energy and (2) Engineering and Consulting. The interfaces and synergies between these segments are important elements of our strategy to design and deliver trusted, comprehensive, innovative, and proven solutions for our customers.

Our Energy segment provides specialized, innovative, comprehensive energy solutions to businesses, utilities, state agencies, municipalities, and non-profit organizations in the U.S. Our experienced engineers, consultants, and staff help our clients realize cost and energy savings by tailoring efficient and cost-effective solutions to assist in optimizing energy spend. Our energy efficiency services include comprehensive audit and surveys, program design, master planning, demand reduction, grid optimization, benchmarking analyses, design engineering, construction management, performance contracting, installation, alternative financing, measurement and verification services, and advances in software and data analytics.

Our Engineering and Consulting segment provides civil engineering-related construction management, building and safety, city engineering, city planning, civil design, geotechnical, material testing and other engineering consulting services to our clients. Our engineering services include rail, port, water, mining and other civil engineering projects. We also provide economic and financial consulting to public agencies along with national preparedness and interoperability services, communications, and technology solutions. Lastly, we supplement the engineering services that we offer our clients by offering expertise and support for the various financing techniques public agencies utilize to finance their operations and infrastructure. We also support the mandated reporting and other requirements associated with these financings. We provide financial advisory services for municipal securities but do not provide underwriting services.

Historical and Current Impact of Covid-19

The coronavirus ("Covid-19") pandemic and efforts to limit its spread negatively impacted our operations during our fiscal year 2020 and continued to impact us, albeit to a lesser extent, during fiscal year 2021. In California and New York, the states in which we have historically derived a majority of our revenue, mandatory shutdown orders were issued in March 2020 followed by phased re-openings that began in May 2020, followed by periods of curtailments as a result of resurgences of Covid-19 cases, and subsequent re-openings through 2020 and 2021. Our largest program for the Los Angeles Department of Water and Power ("LADWP") resumed only in the third quarter of fiscal 2021 and was the last program suspended due to Covid-19. In addition, through fiscal year 2020 and 2021, none of our contracts were cancelled due to Covid-19.

In the Energy segment, we experienced a negative impact on our direct install programs that serve small businesses as a result of restrictions put in place by governmental authorities that required temporary shutdowns of all "non-essential" businesses which resulted in a significant portion of our direct install work on these programs being suspended for varying periods of time during fiscal year 2020 and continued in California through our first half of fiscal 2021. During non-Covid-19 impacted years, such as fiscal year 2019, we derived approximately 40% of our gross revenue from our direct install programs that serve small businesses and 60% from our other programs. Our other programs are either businesses that were determined to be "essential" by government authorities or continued to progress during the pandemic.

In the Engineering and Consulting segment, our revenues were less affected by Covid-19 than the revenues in the Energy segment. The services in this segment were generally deemed “essential” by the government and continued to operate while abiding social distancing measures.

Through the current fiscal year 2022, while none of our current programs are under suspension due to Covid-19 restrictions, certain market segments such as small business customers of major utilities continue to experience lingering impacts of the reduced economic activity due to the Covid-19 related mandates in 2020 and 2021. As of May 4, 2022, none of our contracts were cancelled as a result of Covid-19.

Asset and liability valuation and other estimates used in preparation of financial statements

As of April 1, 2022, we did not have any impairment with respect to goodwill or long-lived assets, including intangible assets. Because the full extent of the impact of the Covid-19 outbreak and efforts to slow its spread are unknown at this time, they could, under certain circumstances, cause impairment and result in a non-cash impairment charge being recorded in future periods. Changes to the estimated future profitability of the business may require that we establish an additional valuation allowance against all or some portion of our net deferred tax assets.

Impact on Clients and Subcontractors and Other Risks

We primarily work for utilities, municipalities and other public agencies. Some of these customers could experience significant budget shortfalls for the current year and beyond as a result of the measures taken to mitigate the Covid-19 pandemic and/or revenue shortfalls as a result of reduced economic activity. Although none of our contracts with governmental or public agencies were materially modified during our fiscal year 2020 or fiscal year 2021, these potential budget deficits could result in delayed funding for existing contracts, postponements of new contracts or price concessions. Further, most of our clients are not committed to purchase any minimum amount of services, as our agreements with them are based on a “purchase order” or “master service agreement” model. As a result, they may discontinue utilizing some or all of our services with little or no notice.

In addition, we rely on subcontractors and material suppliers to complete a substantial portion of our work, especially in our Energy segment. If our significant subcontractors and material suppliers suffer significant economic harm and must limit or cease operations or file for bankruptcy as a result of the current economic slowdown, our subcontractors and material suppliers may not be able to fulfill their contractual obligations satisfactorily and we may not have the ability to select our subcontractors and material suppliers of choice for new contracts. If our subcontractors and material suppliers are not able to fulfill their contractual obligations, it could result in a significant increase in costs for us to complete the projects or cause significant delays to the realization of revenues under those projects. The ultimate impact of Covid-19 on our financial condition and results of operations will depend on all of the factors noted above, including other factors that we may not be able to forecast at this time. See the risk factor “*The Covid-19 pandemic and health and safety measures intended to slow its spread have adversely affected, and may continue to adversely affect, our business, results of operations and financial condition.*” under Part I. Item 1A. “Risk Factors” of our Annual Report on Form 10-K for the year ended December 31, 2021. While Covid-19 has had an adverse effect on our business, financial condition and results of operations, we are unable to predict the extent or duration of future impacts at this time.

Health and Safety

In response to the Covid-19 pandemic, we have taken and will continue to take precautionary measures intended to help minimize the risk of Covid-19 to our employees, including requiring the majority of our employees to work remotely, suspending non-essential travel and restricting in-person work-related meetings. We expect to continue to implement similar measures until it has been determined that the Covid-19 pandemic is adequately contained for purposes of our business, and may take further actions as government authorities require or recommend or as it determines to be in the best interests of our employees, customers, business partners and third-party service providers.

Recent Developments

On March 8, 2022, we amended our credit facility to provide for increased liquidity and covenant flexibility as a result of forecasted increased working capital requirements related to additional organic growth, including the resumption of the LADWP small business program and increases from construction management projects in our Energy segment. The amendment also revises the pricing structure of borrowings under our credit agreement from utilizing as a reference rate the London Inter-Bank Offered Rate ("LIBOR") to utilizing the Secured Overnight Financing Rate ("SOFR"). For more information, see Item 1, Part 1, Note 6, "*Debt Obligations*" of the notes to condensed consolidated financial statements included in this quarterly report on Form 10-Q.

Results of Operations

First Quarter Overview

The following table sets forth, for the periods indicated, certain information derived from our consolidated statements of comprehensive income[(1)]:

	Three Months Ended					
	April 1, 2022		April 2, 2021		$ Change	% Change
	(in thousands, except percentages)					
Contract revenue	$ 91,838	100.0 %	$ 79,086	100.0 %	$ 12,752	16.1 %
Direct costs of contract revenue:						
Salaries and wages	18,810	20.5	15,820	20.0	2,990	18.9
Subcontractor services and other direct costs	41,668	45.4	31,134	39.4	10,534	33.8
Total direct costs of contract revenue	60,478	65.9	46,954	59.4	13,524	28.8
Gross profit	31,360	34.1	32,132	40.6	(772)	(2.4)
General and administrative expenses:						
Salaries and wages, payroll taxes and employee benefits	19,357	21.1	19,444	24.6	(87)	(0.4)
Facilities and facilities related	2,398	2.6	2,643	3.3	(245)	(9.3)
Stock-based compensation	3,305	3.6	4,206	5.3	(901)	(21.4)
Depreciation and amortization	4,409	4.8	4,187	5.3	222	5.3
Other	7,499	8.2	5,841	7.4	1,658	28.4
Total general and administrative expenses	36,968	40.3	36,321	45.9	647	1.8
Income (loss) from operations	(5,608)	(6.1)	(4,189)	(5.3)	(1,419)	33.9
Other income (expense):						
Interest expense	(751)	(0.8)	(1,064)	(1.3)	313	(29.4)
Other, net	197	0.2	29	0.0	168	579.2
Total other income (expense)	(554)	(0.6)	(1,035)	(1.3)	481	(46.5)
Income (Loss) before income tax expense	(6,162)	(6.7)	(5,224)	(6.6)	(938)	18.0
Income tax expense (benefit)	(2,389)	(2.6)	(1,458)	(1.8)	(931)	63.9
Net income (loss)	$ (3,773)	(4.1)	$ (3,766)	(4.8)	$ (7)	0.2

(1) *Percentages are expressed as a percentage of contract revenue and may not total due to rounding.*

The following tables provides information about disaggregated revenue of our two segments, Energy and Engineering and Consulting, by contract type, client type and geographical region:

	Three months ended April 1, 2022		
	Energy	Engineering and Consulting	Total
		(in thousands)	
Contract Type			
Time-and-materials	$ 8,818	$ 13,001	$ 21,819
Unit-based	42,957	2,984	45,941
Fixed price	23,110	968	24,078
Total [(1)]	$ 74,886	$ 16,952	$ 91,838
Client Type			
Commercial	$ 8,089	$ 1,478	$ 9,567
Government	18,359	15,453	33,812
Utilities [(2)]	48,437	21	48,458
Total [(1)]	$ 74,886	$ 16,952	$ 91,838
Geography [(3)]			
Domestic	$ 74,886	$ 16,952	$ 91,838

	Three months ended April 2, 2021		
	Energy	Engineering and Consulting	Total
		(in thousands)	
Contract Type			
Time-and-materials	$ 6,900	$ 13,421	$ 20,321
Unit-based	39,614	2,445	42,059
Fixed price	15,493	1,213	16,706
Total [(1)]	$ 62,007	$ 17,079	$ 79,086
Client Type			
Commercial	$ 5,928	$ 1,096	$ 7,024
Government	13,555	15,929	29,484
Utilities [(2)]	42,525	53	42,578
Total [(1)]	$ 62,007	$ 17,079	$ 79,086
Geography [(3)]			
Domestic	$ 62,007	$ 17,079	$ 79,086

(1) *Amounts may not add to the totals due to rounding.*
(2) *Includes the portion of revenue related to small business programs paid by the end user/customer.*
(3) *Revenue from our foreign operations were immaterial for the three months ended April 1, 2022 and April 2, 2021.*

Three Months Ended April 1, 2022 Compared to Three Months Ended April 2, 2021

Contract revenue. Consolidated contract revenue increased $12.8 million, or 16.1%, in the three months ended April 1, 2022, compared to the three months ended April 2, 2021, primarily due to the resumption of Covid-19 suspended projects combined with increases from construction management projects in our Energy segment.

Contract revenue in our Energy segment increased $12.9 million, or 20.8%, in the three months ended April 1, 2022, compared to the three months ended April 2, 2021, primarily as a result of increased contract revenues due to the resumption of Covid-19 suspended projects combined with increases from construction management projects. Covid-19 suspended projects resumed as a result of the lifting of business suspensions resulting from the Covid-19 pandemic and efforts to limit its spread that impacted projects during the first half of fiscal 2021. Contract revenue related to Energy segment construction management activities increased as a result of the start-up of new Energy segment projects.

Contract revenue in our Engineering and Consulting segment was relatively flat for the three months ended April 1, 2022, compared to the three months ended April 2, 2021.

Direct costs of contract revenue. Direct costs of consolidated contract revenue increased $13.5 million, or 28.8%, in the three months ended April 1, 2022, compared to the three months ended April 2, 2021, primarily due to increases in our contract revenues in our Energy segment as described above as well as the ramping up of new projects for which we saw higher project startup costs relative to the revenue recognized.

Direct costs of contract revenue in our Energy segment increased $14.1 million, or 37.2%, in the three months ended April 1, 2022, compared to the three months ended April 2, 2021. Direct costs of contract revenue for the Engineering and Consulting segment decreased $0.6 million, or 7.1%, in the three months ended April 1, 2022, compared to the three months ended April 2, 2021.

Subcontractor services and other direct costs increased by $10.5 million, or 33.8%, and salaries and wages increased by $3.0 million, or 18.9%, in the three months ended April 1, 2022, compared to the three months ended April 2, 2021, primarily due to the increases in contract revenues as described above combined with changes in the mix of those contract revenues to those which contain a higher percentage of material costs and installation subcontracting and lower percentage of labor costs, as well as the ramping up of new projects for which we saw higher project startup costs relative to the revenue recognized.

Gross Profit. Gross profit decreased 2.4% to $31.4 million, or 34.1% gross margin, for the three months ended April 1, 2022, compared to gross profit of $32.1 million, or 40.6% gross margin, for the three months ended April 2, 2021. The decrease in our gross margin was primarily driven by changes in the mix of revenues as described above combined with the ramping up of new projects for which we saw higher project startup costs relative to the revenue recognized.

General and administrative expenses. General and administrative (“G&A”) expenses increased by $0.6 million, or 1.8%, in the three months ended April 1, 2022 compared to the three months ended April 2, 2021. The increase in G&A expenses consisted of an increase of $0.7 million in the Energy segment and an increase of $0.4 million in the Engineering and Consulting segment, partially offset by a decrease of $0.5 million in unallocated corporate expense. The increase in G&A expenses was primarily attributed to higher professional service fees and higher computer-related expenses, partially offset by lower stock-based compensation expenses.

Within G&A expenses, the increase of $1.7 million in other general and administrative expenses, combined with the increase of $0.2 million in depreciation and amortization was partially offset by a decrease of $0.9 million in stock-based compensation and a decrease of $0.2 million in facilities and facility related expenses. Salaries and wages, payroll taxes and employee benefits were relatively flat for the three months ended April 1, 2022, compared to the three months ended April 2, 2021. The increase in other general and administrative expenses was primarily due to higher professional service fees and higher computer-related expenses. The increase in depreciation and amortization was primarily related to higher depreciation of internally-developed computer software. The decrease in stock-based compensation expenses was primarily related to previously awarded stock grants reaching the end of their corresponding vesting periods. The decrease in facilities and facilities related expenses was attributed to satisfied facility leases that were not renewed.

Income (loss) from operations. Operating loss was $5.6 million for the three months ended April 1, 2022 as a result of the factors noted above. As a percentage of contract revenue, operating loss increased from 5.3% to 6.1% for the three months ended April 1, 2022, compared to the three months ended April 2, 2021.

Total other expense, net. Total other expense, net, decreased $0.5 million, or 46.5%, for the three months ended April 1, 2022, compared to the three months ended April 2, 2021, as a result of higher interest income and lower interest expense related to principal reductions in term loans.

Income tax expense (benefit). We recorded an income tax benefit of $2.4 million for the three months ended April 1, 2022, compared to a tax benefit of $1.5 million for the three months ended April 2, 2021. The increase in the income tax benefit is primarily attributable to additional energy efficiency building deductions calculated for prior years.

Net income (loss). Net loss was relatively flat for the three months ended April 1, 2022, compared to the three months ended April 2, 2021.

Liquidity and Capital Resources

	Three Months Ended	
	April 1, 2022	**April 2, 2021**
	(in thousands)	
Net cash provided by (used in):		
Operating activities	$ (7,754)	$ 5,645
Investing activities	(2,064)	(1,319)
Financing activities	6,248	(7,357)
Net increase (decrease) in cash and cash equivalents	$ (3,570)	$ (3,031)

Sources of Cash

We believe that our cash and cash equivalents, cash generated by operating activities, and available borrowings under our Revolving Credit Facility and Delayed Draw Term Loan will be sufficient to finance our operating activities for at least the next 12 months. As a result of forecasted increased working capital requirements related to our $781 million in California Investor-Owned Utility Contracts and other organic growth, on March 8, 2022, we amended our credit agreement to, among other things, adjust certain covenants to ensure an adequate margin for compliance obligations through fiscal year 2022. For more information Part I, Item 1, Note 6, "*Debt Obligations*", of the Notes to Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q.

As of April 1, 2022, we had a $100 million Term A Loan with $72.5 million outstanding, a $50.0 million Revolving Credit Facility with no borrowed amounts outstanding and $4.1 million in letters of credit issued, and a $50.0 million Delayed Draw Term Loan with $43.3 million outstanding, each scheduled to mature on June 26, 2024. In addition, as of April 1, 2022, we had $7.7 million of cash and cash equivalents. Our primary source of liquidity for the next 12 months and beyond is cash generated from operations and borrowings under our Revolving Credit Facility.

As of April 1, 2022, borrowings under our Credit Facilities, exclusive of the effects of upfront fees, undrawn fees and issuance cost amortization, bore interest at 2.7%. See Part I, Item 1, Note 6, "*Debt Obligations*", of the Notes to Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q, and Part II, Item 8, Note 5, "*Debt Obligations*", of the Notes to the Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2021, for information regarding our indebtedness, including information about new borrowings and repayments, principal repayment terms, interest rates, covenants, and other key terms of our outstanding indebtedness.

Cash Flows from Operating Activities

Cash flows used in operating activities were $7.8 million for the three months ended April 1, 2022, as compared to cash flows provided by operating activities of $5.6 million for the three months ended April 2, 2021. Cash flow from operating activities primarily consists of net income, adjusted for non-cash charges, such as depreciation and amortization and stock-based compensation, plus or minus changes in operating assets and liabilities. Cash flows used in operating activities for the three months ended April 1, 2022, resulted primarily from the changing mix of revenues, combined with the increased demand for working capital related to the resumption of our utility programs that were suspended in 2021 and start-up costs associated with certain new contract awards. Changes in cash flows provided by operating activities for the three months ended April 2, 2021 were primarily due to reductions in working capital

requirements as a result of the reduction of revenues from the suspension of our small business energy programs in California.

Cash Flows from Investing Activities

Cash flows used in investing activities were $2.1 million for the three months ended April 1, 2022, as compared to cash flows used in investing activities of $1.3 million for the three months ended April 2, 2021. Cash flows used in investing activities for the three months ended April 1, 2022 were primarily due to cash paid for the development of software, and the purchase of equipment. Cash flows used in investing activities for the three months ended April 2, 2021 were primarily due to cash paid for the development of software, the purchase of equipment and leasehold improvements.

Cash Flows from Financing Activities

Cash flows provided by financing activities were $6.2 million for the three months ended April 1, 2022, as compared to cash flows used in financing activities of $7.4 million for the three months ended April 2, 2021. Cash flows provided by financing activities for the three months ended April 1, 2022, were primarily attributable to borrowings of $20.0 million under our Delayed Draw Term Loan, partially offset by payments of $10.2 million for contingent consideration related to prior acquisitions combined with repayments of $3.3 million under our term loan facility and revolving line of credit. Cash flows used in financing activities for the three months ended April 2, 2021, were primarily attributable to payments of $5.4 million for contingent consideration related to prior acquisitions, repayments of $3.2 million under our term loan facility and revolving line of credit, partially offset by $1.4 million in proceeds from sales of common stock under our employee stock purchase plan.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet financing arrangements or liabilities. In addition, our policy is not to enter into futures or forward contracts. Finally, we do not have any majority-owned subsidiaries or any interests in, or relationships with, any special-purpose entities that are not included in the consolidated financial statements. We have, however, an administrative services agreement with Genesys in which we provide Genesys with ongoing administrative, operational and other non-professional support services. We manage Genesys and have the power to direct the activities that most significantly impact Genesys' performance, in addition to being obligated to absorb expected losses from Genesys. Accordingly, we are the primary beneficiary of Genesys and consolidate Genesys as a variable interest entity.

Short and Long-term Uses of Cash

General

Our principal uses of cash are to fund operating expenses and pay down outstanding debt. From time to time, we also use cash to help fund business acquisitions. Our cash and cash equivalents are impacted by the timing of when we pay expenses as reflected in the change in our outstanding accounts payable and accrued expenses.

Contractual Obligations

The following table sets forth our known contractual obligations as of April 1, 2022:

Contractual Obligations	Total	Less than 1 Year	1 - 3 Years	3 - 5 Years	More than 5 Years
			(in thousands)		
Long term debt [1]	$ 116,681	$ 16,357	$ 100,324	$ —	$ —
Interest payments on debt outstanding [2]	6,791	3,228	3,563	—	—
Operating leases	15,389	5,629	6,079	3,270	411
Finance leases	2,023	732	1,185	105	1
Total contractual cash obligations	$ 140,884	$ 25,946	$ 111,151	$ 3,375	$ 411

(1) Long-term debt includes $72.5 million outstanding on our Term A Loan and $43.3 million outstanding on our Delayed Draw Term Loan as of April 1, 2022. We have assumed no future borrowings or repayments (other than at maturity) for purposes of this table. Our term loans are scheduled to mature on June 26, 2024.

(2) Borrowings under our Delayed Draw Term Loan bear interest at a variable rate. Future interest payments on our Credit Facilities are estimated using floating rates in effect as of April 1, 2022.

We are obligated to pay earn-out payments in connection with our 2019 acquisition of Energy and Environmental Economics, Inc. ("E3, Inc."). We are obligated to pay up to $12.0 million in cash if E3, Inc. exceeds certain financial targets during the three years after the E3, Inc. closing date. As of April 1, 2022, we had remaining contingent consideration payable of $0.9 million related to this acquisition. For the three months ended April 1, 2022, our statement of operations includes $0.1 million of accretion (excluding fair value adjustments) related to the contingent consideration.

Outstanding Indebtedness

See Part I, Item 1, Note 6, "*Debt Obligations*", of the Notes to Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q, and Part II, Item 8, Note 5, "*Debt Obligations*", of the Notes to the Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2021, for information regarding our indebtedness, including information about new borrowings and repayments, principal repayment terms, interest rates, covenants, and other key terms of our outstanding indebtedness.

Insurance Premiums

From time to time, we finance insurance premiums by entering into unsecured notes payable with insurance companies.

Interest Rate Swap

From time to time, we enter into interest rate swap agreements to moderate our exposure to fluctuations in interest rates underlying our variable rate debt. For more information, see Part I, Item 3, "*Quantitative and Qualitative Disclosures About Market Risk*", and Note 5, "*Derivatives*", to the Notes of Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q.

Impact of Inflation

Due to the average duration of our projects and our ability to negotiate prices as contracts end and new contracts begin, we believe our operations have not been, and, in the foreseeable future, are not expected to be, materially impacted by moderate inflation.

Components of Revenue and Expense

Contract Revenue

We generally provide our services under contracts, purchase orders or retainer letters. The agreements we enter into with our clients typically incorporate one of three principal types of pricing provisions: time-and-materials, unit-based, and fixed price. Revenue on our time-and-materials and unit-based contracts are recognized as the work is performed in accordance with specific terms of the contract. As of April 1, 2022, approximately 24% of our contracts are time-and-materials contracts and approximately 50% of our contracts are unit-based contracts, compared to approximately 26% for time-and-materials contracts and approximately 53% for unit-based contracts as of April 2, 2021.

Some of these contracts include maximum contract prices, but contract maximums are often adjusted to reflect the level of effort to achieve client objectives and thus the majority of these contracts are not expected to exceed the maximum. Contract revenue on our fixed price contracts is determined on the percentage of completion method based generally on the ratio of direct costs incurred to date to estimated total direct costs at completion. Many of our fixed price contracts involve a high degree of subcontracted fixed price effort and are relatively short in duration, thereby lowering the risks of not properly estimating the percent complete.

Adjustments to contract cost estimates are made in the periods in which the facts requiring such revisions become known. When the revised estimate indicates a loss, such loss is recognized in the current period in its entirety. Claims and change orders that have not been finalized are evaluated to determine whether or not a change has occurred in the enforceable rights and obligations of the original contract. If these non-finalized changes qualify as a contract modification, a determination is made whether to account for the change in contract value as a modification to the existing contract, or a separate contract and revenue under the claims or change orders is recognized accordingly. Costs related to un-priced change orders are expensed when incurred, and recognition of the related revenue is based on the assessment above of whether or not a contract modification has occurred. Estimated profit for un-priced change orders is recognized only if collection is probable.

Our contracts come up for renewal periodically and at the time of renewal may be subject to renegotiation, which could impact the profitability on that contract. In addition, during the term of a contract, public agencies may request additional or revised services which may impact the economics of the transaction. Most of our contracts permit our clients, with prior notice, to terminate the contracts at any time without cause. While we have a large volume of contracts, the renewal, termination or modification of a contract, in particular contracts with Consolidated Edison, the Dormitory Authority-State of New York (“DASNY”), and utility programs associated with Los Angeles Department of Water and Power and Duke Energy Corp., may have a material effect on our consolidated operations.

Some of our contracts include certain performance guarantees, such as a guaranteed energy saving quantity. Such guarantees are generally measured upon completion of a project. In the event that the measured performance level is less than the guaranteed level, any resulting financial penalty, including any additional work that may be required to fulfill the guarantee, is estimated and charged to direct expenses in the current period. We have not experienced any significant costs under such guarantees.

Direct Costs of Contract Revenue

Direct costs of contract revenue consist primarily of that portion of salaries and wages that have been incurred in connection with revenue producing projects. Direct costs of contract revenue also include material costs, subcontractor services, equipment and other expenses that are incurred in connection with revenue producing projects. Direct costs of contract revenue exclude that portion of salaries and wages related to marketing efforts, vacations,

holidays and other time not spent directly generating revenue under existing contracts. Such costs are included in general and administrative expenses. Additionally, payroll taxes, bonuses and employee benefit costs for all of our personnel are included in general and administrative expenses since no allocation of these costs is made to direct costs of contract revenue.

Other companies may classify as direct costs of contract revenue some of the costs that we classify as general and administrative costs. We expense direct costs of contract revenue when incurred.

General and Administrative Expenses

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

Critical Accounting Policies

We have prepared the accompanying unaudited Condensed Consolidated Financial Statements in accordance with generally accepted accounting principles in the U.S. (“GAAP”). To prepare these financial statements in conformity with GAAP, we must make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amount of revenue and expenses in the reporting period. Our actual results may differ from these estimates. We have adopted accounting policies and practices that are generally accepted in the industry in which we operate.

There have been no material changes in our critical accounting policies and estimates from those disclosed in our Annual Report on Form 10-K for our fiscal year ended December 31, 2021. Please refer to Part II, Item 7 of our Annual Report on Form 10-K for the fiscal year ended December 31, 2021 for a discussion of our critical accounting policies and estimates.

Recent Accounting Standards

For a description of recently issued and adopted accounting pronouncements, including adoption dates and expected effects on our results of operations and financial condition, see Part I, Item 1, Note 2, “*Recent Accounting Pronouncements*”, of the Notes to Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q.

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate 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 of April 1, 2022, we had cash and cash equivalents of $7.7 million. This amount represents cash on hand in business checking accounts with BMO Harris Bank, N.A. We do not engage in trading activities and do not participate in foreign currency transactions.

We are subject to interest rate risk in connection with our Term A Loan and borrowings, if any, under our revolving credit facility and delayed draw term loan, each of which bears interest at variable rates. As of April 1, 2022, $72.5 million was outstanding under our Term A Loan, $43.3 million was outstanding under our delayed draw term loan, no borrowed amounts were outstanding and $4.1 million in letters of credit were issued under the revolving credit facility. Each of our Term A Loan, revolving credit facility and delayed draw term loan mature as of June 26, 2024 and are governed by our credit agreement, as amended.

Pursuant to the Fifth Amendment, (as described in Part I, Item 1, Note 6, “Debt Obligations,” of the Notes to Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q) ,during the Extended Covenant Relief Period, borrowings under the Credit Agreement will bear interest at either a Base Rate or SOFR (plus 0.10% or 0.15% depending on the interest period), each as defined in the Credit Agreement, at our option, and in each case, plus an applicable margin, which applicable margin will range from 0.125% to 1.50% with respect to Base Rate borrowings and 1.125% to 2.50% with respect to SOFR borrowings, depending on the Leverage Ratio; provided, that SOFR cannot be less than 0.00%. We will also pay a commitment fee for the unused portion of the revolving credit facility and the delayed draft term loan facility under the Credit Agreement, which will range from 0.15% to 0.45% per annum depending on the Leverage Ratio, and fees on the face amount of any letters of credit outstanding under the revolving credit facility, which will range from 0.84% to 1.875% per annum, in each case, depending on whether such letter of credit is a performance or financial letter of credit and the Leverage Ratio. Based upon the amount of our outstanding indebtedness as of April 1, 2022, a one percentage point increase in the effective interest rate would change our annual interest expense by approximately $1.2 million in 2022.

The Term A Loan amortizes quarterly in installments of $2.5 million beginning with the fiscal quarter ending September 27, 2019, with a final payment of all then remaining principal and interest due on the maturity date of June 26, 2024, subject to certain prepayment obligations based on our excess cash flow. Each borrowing under our delayed draw term loan will amortize quarterly in an amount equal to 2.5% of the aggregate outstanding borrowings under the delayed draw term loan, beginning with the first full fiscal quarter ending after the initial borrowing date, with a final payment of all then remaining principal and interest due on the maturity date of June 26, 2024, subject to certain prepayment obligations based on our excess cash flow.

On January 31, 2019, we entered into an interest swap agreement for $35.0 million notional amount with a fixed rate of 2.47%. The interest swap agreement was designated as a cash flow hedge to fix the variable interest rate on a portion of the outstanding principal amount under our prior term loan facility. The interest swap agreement expired on January 31, 2022.

Risk Related to Potential LIBOR Transition

On March 8, 2022, we entered into the Fifth Amendment (as described in Part I, Item 1, Note 6, “Debt Obligations” of the Notes to Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q) which, among other things, revises the pricing structure of borrowings under our Credit Agreement from utilizing as a reference rate LIBOR to utilizing SOFR.

ITEM 4. Controls and Procedures

We maintain disclosure controls and procedures, as defined in Rule 13a-15(e) and Rule 15-d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as controls and other procedures that are designed to ensure that information required to be disclosed by the issuer in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in the reports that we file or submit under the Securities Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer, Thomas D. Brisbin, and our Chief Financial Officer, Creighton K. Early, as appropriate to allow timely decisions regarding required disclosure.

In connection with the preparation of this Quarterly Report, an evaluation was performed under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures as of April 1, 2022. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective, at a reasonable assurance level, as of April 1, 2022.

No change in our internal control over financial reporting occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings

We are subject to claims and lawsuits from time to time, including those alleging professional errors or omissions that arise in the ordinary course of business against firms that operate in the engineering and consulting professions. We carry professional liability insurance, subject to certain deductibles and policy limits, for such claims as they arise and may from time to time establish reserves for litigation that is considered probable of a loss.

In accordance with accounting standards regarding loss contingencies, we accrue an undiscounted liability for those contingencies where the incurrence of a loss is probable and the amount can be reasonably estimated, and we disclose the amount accrued and an estimate of any reasonably possible loss in excess of the amount accrued, if such disclosure is necessary for our financial statements not to be misleading. We do not accrue liabilities when the likelihood that the liability has been incurred is probable but the amount cannot be reasonably estimated, or when the liability is believed to be only reasonably possible or remote.

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

ITEM 1A. Risk Factors

There are no material changes to the risk factors set forth in Part I, Item 1A, *Risk Factors* in our Annual Report on Form 10-K for the year ended December 31, 2021.

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

During the three months ended April 1, 2022, we repurchased an aggregate of 27,152 shares of our common stock at an average price of $30.84 per share from employees to satisfy tax withholding obligations incurred in connection with the vesting of restricted stock, all of which occurred on March 28, 2022.

ITEM 3. Defaults upon Senior Securities

None.

ITEM 4. Mine Safety Disclosures

Not applicable.

ITEM 5. Other Information

None.

ITEM 6. Exhibits

Exhibit Number	Exhibit Description
3.1	First Amended and Restated Certificate of Incorporation of Willdan Group, Inc. (incorporated by reference to Willdan Group, Inc.'s Registration Statement on Form S-1, filed with the SEC on August 9, 2006, as amended (File No. 333-136444)).
3.2	Amended and Restated Bylaws of Willdan Group, Inc. (incorporated by reference to Exhibit 3.1 to Willdan Group, Inc.'s Current Report on Form 8-K, filed with the SEC on April 16, 2020).
4.1	Specimen Stock Certificate for shares of the Registrant's Common Stock (incorporated by reference to Willdan Group, Inc.'s Registration Statement on Form S-1, filed with the SEC on August 9, 2006, as amended (File No. 333-136444)).
4.2	The Company agrees to furnish to the Securities and Exchange Commission upon request a copy of each instrument with respect to issues of long-term debt of Willdan Group, Inc. and its subsidiaries, the authorized principal amount of which does not exceed 10% of the consolidated assets of Willdan Group, Inc. and its subsidiaries.
10.1	Fifth Amendment to Amended and Restated Credit Agreement, dated as of March 8, 2022, by and among Willdan Group, Inc., the Guarantors signatory thereto, the Lenders signatory thereto and BMO Harris Bank N.A., as administrative agent (incorporated by reference to Exhibit 10.6 to Willdan Group, Inc.'s Annual Report on Form 10-K filed on March 11, 2022).
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) or 15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to § 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002.
101.INS*	Inline XBRL Instance Document (the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document)
101.SCH*	Inline XBRL Taxonomy Extension Schema Document
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104*	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)

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* Filed herewith.

** Furnished herewith.

‡ Portions of the referenced exhibit have been omitted pursuant to Item 601(b) of Regulation S-K because it (i) is not material and (ii) would be competitively harmful if publicly disclosed.

¥ All schedules and exhibits were omitted pursuant to Item 601(a)(5) of Regulation S-K.

† Indicates a management contract or compensating plan or arrangement

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

/s/ CREIGHTON K. EARLY

Creighton K. Early
Chief Financial Officer and Vice President
(Principal Financial Officer, Principal Accounting Officer and duly authorized officer)
May 5, 2022

Exhibit 31.1

SECTION 302 CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Thomas D. Brisbin, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Willdan Group, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 5, 2022

By: /s/ THOMAS D. BRISBIN

Thomas D. Brisbin

Chief Executive Officer

(Principal Executive Officer)

Exhibit 31.2

SECTION 302 CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Creighton K. Early, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Willdan Group, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: May 5, 2022

By: /s/ CREIGHTON K. EARLY
Creighton K. Early
Chief Financial Officer and Vice President
(Principal Financial Officer)

Certification 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

In connection with the Quarterly Report on Form 10-Q of Willdan Group, Inc. (the “Company”) for the quarterly period ended April 1, 2022, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), Thomas D. Brisbin, as Chief Executive Officer of the Company, and Creighton K. Early, as Chief Financial Officer of the Company, each hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his or her knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ THOMAS D. BRISBIN
Thomas D. Brisbin
Chief Executive Officer
(Principal Executive Officer)
May 5, 2022

By: /s/ CREIGHTON K. EARLY
Creighton K. Early
Chief Financial Officer and Vice President
(Principal Financial Officer)
May 5, 2022

This certification accompanies the Report pursuant to § 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of § 18 of the Securities Exchange Act of 1934, as amended. A signed original of this written statement required by § 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.