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 July 3, 2020

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 August 5, 2020, there were 12,065,909 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 efficiency services market, which represented 84% of our consolidated revenue in fiscal year 2019;
- our reliance on work from our top ten clients, which accounted for 51% of our consolidated contract revenue for fiscal year 2019;
- 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; and
- our ability to obtain financing and to refinance our outstanding debt as it matures.

The factors noted above and risks included in our other SEC filings may be increased or intensified as a result of the Covid-19 pandemic, including the resurgence of the Covid-19 virus in the United States and any future resurgences. The extent to which the Covid-19 pandemic ultimately impacts our business, results of operations and financial condition will depend on future developments, which are highly uncertain and cannot be predicted. See the risk factor in Part II, Item 1A. “*Risk Factors*” in our Quarterly Report on Form 10-Q for the quarter ended April 3, 2020, "*The Covid-19 pandemic and health and safety measures intended to reduce its spread have adversely affected, and may continue to adversely affect, our business, results of operations and financial condition."* for more information. 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, under Part I, Item 1A. "Risk Factors", "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere in our Annual Report on Form 10-K for the fiscal year ended December 27, 2019 and under Part II, Item 1A. "Risk Factors", "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere in our Quarterly Report on Form 10-Q for the fiscal quarter ended April 3, 2020, 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)

	July 3, 2020	December 27, 2019
Assets		
Current assets:		
Cash and cash equivalents	$ 17,160	$ 5,452
Accounts receivable, net of allowance for doubtful accounts of $2,079 and $1,147 at July 3, 2020 and December 27, 2019, respectively	43,001	57,504
Contract assets	62,062	101,418
Other receivables	4,354	4,845
Prepaid expenses and other current assets	4,884	6,254
Total current assets	131,461	175,473
Equipment and leasehold improvements, net	12,791	12,051
Goodwill	130,236	127,647
Right-of-use assets	22,679	22,297
Other intangible assets, net	70,121	76,837
Other assets	13,452	16,296
Deferred income taxes, net	12,628	9,312
Total assets	$ 393,368	$ 439,913
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 35,070	$ 34,000
Accrued liabilities	35,948	67,615
Contingent consideration payable	6,366	5,155
Contract liabilities	7,157	5,563
Notes payable	13,866	13,720
Finance lease obligations	332	375
Lease liability	5,994	5,550
Total current liabilities	104,733	131,978
Contingent consideration payable	3,877	4,891
Notes payable	104,592	116,631
Finance lease obligations, less current portion	256	191
Lease liability, less current portion	17,935	18,411
Other noncurrent liabilities	579	533
Total liabilities	231,972	272,635
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; 12,012 and 11,497 shares issued and outstanding at July 3, 2020 and December 27, 2019, respectively	120	115
Additional paid-in capital	140,165	132,547
Accumulated other comprehensive loss	(762)	(396)
Retained earnings	21,873	35,012
Total stockholders' equity	161,396	167,278
Total liabilities and stockholders' equity	$ 393,368	$ 439,913

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		Six Months Ended	
	July 3, 2020	June 28, 2019	July 3, 2020	June 28, 2019
Contract revenue	$ 83,549	$ 104,396	$ 189,575	$ 196,189
Direct costs of contract revenue (inclusive of directly related depreciation and amortization):				
Salaries and wages	13,650	15,624	32,565	30,534
Subcontractor services and other direct costs	40,355	57,623	96,775	108,571
Total direct costs of contract revenue	54,005	73,247	129,340	139,105
General and administrative expenses:				
Salaries and wages, payroll taxes and employee benefits	15,331	15,437	35,743	30,406
Facilities and facility related	2,642	2,047	5,336	3,819
Stock-based compensation	4,230	2,224	8,825	4,041
Depreciation and amortization	5,466	2,866	9,985	5,520
Other	5,716	5,802	12,456	10,759
Total general and administrative expenses	33,385	28,376	72,345	54,545
Income (Loss) from operations	(3,841)	2,773	(12,110)	2,539
Other income (expense):				
Interest expense, net	(1,257)	(1,221)	(2,770)	(2,342)
Other, net	23	18	46	29
Total other expense, net	(1,234)	(1,203)	(2,724)	(2,313)
Income (Loss) before income taxes	(5,075)	1,570	(14,834)	226
Income tax benefit	(90)	(70)	(1,695)	(997)
Net income (loss)	(4,985)	1,640	(13,139)	1,223
Other comprehensive income (loss):				
Unrealized gain (loss) on derivative contracts, net of tax	83	(219)	(366)	(438)
Comprehensive income (loss)	$ (4,902)	$ 1,421	$ (13,505)	$ 785
Earnings (Loss) per share:				
Basic	$ (0.43)	$ 0.15	$ (1.13)	$ 0.11
Diluted	$ (0.43)	$ 0.14	$ (1.13)	$ 0.10
Weighted-average shares outstanding:				
Basic	11,682	11,100	11,593	11,037
Diluted	11,682	11,679	11,593	11,670

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	Loss	Earnings	Total
Balance at December 28, 2018	10,968	$ 110	$ 114,008	$ —	$ 30,171	$ 144,289
Shares of common stock issued in connection with employee stock purchase plan	28	—	749	—	—	749
Shares of common stock issued in connection with incentive stock plan	21	—	291	—	—	291
Shares used to pay taxes on stock grants	(66)	(1)	(2,515)	—	—	(2,516)
Issuance of restricted stock award and units	175	2	(2)	—	—	—
Stock-based compensation expense	—	—	1,817	—	—	1,817
Net loss	—	—	—	—	(417)	(417)
Net unrealized loss on derivative contracts	—	—	—	(219)	—	(219)
Balance at March 29, 2019	11,126	$ 111	$ 114,348	$ (219)	$ 29,754	$ 143,994
Shares of common stock issued in connection with incentive stock plan	77	1	231	—	—	232
Unregistered sales of equity securities and use of proceeds	(9)	—	(346)	—	—	(346)
Stock-based compensation expense	—	—	2,224	—	—	2,224
Net income	—	—	—	—	1,640	1,640
Net unrealized loss on derivative contracts	—	—	—	(219)	—	(219)
Balance at June 28, 2019	11,194	$ 112	$ 116,457	$ (438)	$ 31,394	$ 147,525

	Common Stock		Additional Paid-in	Accumulated Other Comprehensive	Retained	
	Shares	Amount	Capital	Loss	Earnings	Total
Balance at December 27, 2019	11,497	$ 115	$ 132,547	$ (396)	$ 35,012	$ 167,278
Shares of common stock issued in connection with employee stock purchase plan	40	0	1,073	—	—	1,073
Shares of common stock issued in connection with incentive stock plan	19	0	260	—	—	260
Shares used to pay taxes on stock grants	(92)	(1)	(2,866)	—	—	(2,867)
Issuance of restricted stock award and units	176	2	(1)	—	—	1
Stock-based compensation expense	—	—	4,595	—	—	4,595
Net loss	—	—	—	—	(8,154)	(8,154)
Net unrealized loss on derivative contracts	—	—	—	(449)	—	(449)
Balance at April 3, 2020	11,640	$ 116	$ 135,608	$ (845)	$ 26,858	$ 161,737
Shares of common stock issued in connection with incentive stock plan	63	1	330	—	—	331
Issuance of restricted stock award and units	309	3	(3)	—	—	—
Stock-based compensation expense	—	—	4,230	—	—	4,230
Net loss	—	—	—	—	(4,985)	(4,985)
Net unrealized gain on derivative contracts	—	—	—	83	—	83
Balance at July 3, 2020	12,012	$ 120	$ 140,165	$ (762)	$ 21,873	$ 161,396

See accompanying notes to Condensed Consolidated Financial Statements.

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

	Six Months Ended	
	July 3, 2020	June 28, 2019
Cash flows from operating activities:		
Net income (loss)	$ (13,139)	$ 1,223
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	9,985	5,712
Deferred income taxes, net	(3,726)	(167)
(Gain) loss on sale/disposal of equipment	(16)	(8)
Provision for doubtful accounts	968	202
Stock-based compensation	8,825	4,041
Accretion and fair value adjustments of contingent consideration	1,630	(627)
Changes in operating assets and liabilities, net of effects from business acquisitions:		
Accounts receivable	13,535	15,998
Contract assets	35,862	(8,148)
Other receivables	897	(1,719)
Prepaid expenses and other current assets	1,140	877
Other assets	2,496	(615)
Accounts payable	1,070	(6,615)
Accrued liabilities	(31,987)	2,036
Contract liabilities	1,594	65
Right-of-use assets	97	240
Net cash provided by operating activities	29,231	12,495
Cash flows from investing activities:		
Purchase of equipment and leasehold improvements	(2,946)	(3,619)
Proceeds from sale of equipment	17	44
Cash paid for acquisitions, net of cash acquired	—	(21,800)
Net cash used in investing activities	(2,929)	(25,375)
Cash flows from financing activities:		
Payments on contingent consideration	(1,433)	(1,381)
Payments on notes payable	(163)	(929)
Payments on debt issuance costs	—	(577)
Borrowings under term loan facility and line of credit	24,000	100,000
Repayments under term loan facility and line of credit	(35,500)	(70,000)
Principal payments on finance leases	(296)	(300)
Proceeds from stock option exercise	591	523
Proceeds from sales of common stock under employee stock purchase plan	1,073	749
Shares used to pay taxes on stock grants	(2,867)	(2,862)
Restricted Stock Award and Units	1	—
Net cash (used in) provided by financing activities	(14,594)	25,223
Net increase (decrease) in cash and cash equivalents	11,708	12,343
Cash and cash equivalents at beginning of period	5,452	15,259
Cash and cash equivalents at end of period	$ 17,160	$ 27,602
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	$ 2,797	$ 2,156
Income taxes	262	2,040
Supplemental disclosures of noncash investing and financing activities:		
Equipment acquired under finance leases	318	413

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 27, 2019. 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 27, 2019. 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 March 31, June 30 and September 30 and the 13 or 14-week period ending on the Friday closest to March 31, as applicable. Fiscal year 2020, which ends on January 1, 2021, will be comprised of 53 weeks, with the first quarter consisting of 14 weeks and the remaining quarters consisting of 13 weeks each. Fiscal year 2019, which ended on December 27, 2019 was comprised of 52 weeks, with all quarters presented consisting of 13 weeks. 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 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.

Management’s Plans in Response to Covid-19

On January 30, 2020, the spread of a novel strain of coronavirus (“Covid-19”) was declared a Public Health Emergency of International Concern by the World Health Organization (“WHO”). On March 11, 2020, WHO characterized the Covid-19 outbreak as a pandemic. The Covid-19 pandemic has resulted in governmental authorities around the world implementing numerous measures to try to contain the virus, such as travel bans and restrictions, quarantines, shelter-in-place or total lock-down orders and business limitations and shutdowns (subject to exceptions for certain essential operations and businesses). Although some of these measures have since been lifted or scaled back, a recent resurgence of Covid-19 in the United States has resulted in the reimposition of certain restrictions and may lead to other restrictions being reimplemented in response to efforts to reduce the spread of Covid-19. The Covid-19 outbreak and restrictions intended to slow the spread of Covid-19 have caused economic and social disruption on an unprecedented scale. It is unclear how long these restrictions will remain in place and they may remain in place in some form for an extended period of time. Given the uncertainties associated with the duration of the pandemic, the Company cannot reasonably estimate the ultimate impacts of Covid-19 and efforts to limit its spread on its business, financial condition, results of operations or cash flows for the foreseeable future or whether the Company's assumptions used to estimate its future liquidity requirements will be correct.

Health and Safety

In response to the Covid-19 pandemic, the Company has taken and will continue to take temporary 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 these measures until it has 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.

Financial Position and Results of Operations

The Covid-19 pandemic and efforts to limit its spread negatively impacted the Company's business during the three and six months ended July 3, 2020. 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. In California, phased re-openings began in May 2020 and were subsequently curtailed in July 2020 as result of the resurgence of Covid-19 cases. In New York, phased re-openings began in June 2020. As a result, the most significant pandemic related impacts to the Company's business are now occurring in California to its direct install business. The Company's business in New York has been improving over the last month and all New York utility programs have restarted.

In the Energy segment, the Company has experienced and expects to continue to experience a negative impact on its direct install programs that serve small businesses as a result of restrictions put in place by governmental authorities that have required temporary shutdowns of all "non-essential" businesses. In fiscal 2019, the Company derived approximately 40% of its gross revenue from its direct install programs that serve small businesses, and a significant portion of its direct install work on these programs is just entering recovery as phased re-openings continue. The Company's other programs, which generated approximately 60% of its gross revenue in fiscal 2019, are either businesses that have been determined to be "essential" by government authorities or have continued to progress during the pandemic. In addition, some of the Company's programs in the Energy segment, particularly those related to improvements in public schools, have been accelerated to take advantage of empty facilities.

In the Engineering and Consulting segment, the Company's revenues have been minimally affected by Covid-19. The services in this segment have generally been deemed "essential" by the government and have continued to operate while abiding social distancing measures.

As of August 7, 2020, though some of the Company's work has been suspended, none of its contracts have been cancelled and proposal activities for new programs have continued to advance. The Company currently estimates that pandemic related slowdowns and work suspensions are reducing its revenue by approximately 20% from pre-pandemic levels, an improvement from the estimated 40% reduction observed in April.

In response to the Covid-19 pandemic and efforts to prevent its spread, the Company began taking a number of steps during the first quarter of fiscal 2020 aimed at preserving liquidity and positioning itself to resume its growth trajectory after work restrictions are lifted. These steps include:

- Executing a reduction in workforce, primarily through an unpaid furlough, impacting approximately 300 members of staff. The largest reductions were a result of government-mandated work restrictions impacting the Company's direct install programs in California and New York. During the Company's second fiscal quarter, furloughed employees began to return to work as government authorities began lifting restrictions through phased re-openings;

- A temporary freeze on all non-critical spending for travel, capital expenditures, and other discretionary expenses;

- A temporary cash wage reduction for salaried employees, ranging from 0% for lower salary bands up to 75% for senior management. During the second half of the Company's second fiscal quarter, as the initial impact of Covid-19 was ascertained and operations were adjusted accordingly, salaries were reinstituted with the exception of corporate staff, whose salaries were reinstituted at the end of July 2020;

- Suspension of cash fees for the Company's Board of Directors, until such time as the Board of Directors determines;

- Implementing a temporary hiring freeze; and

- Amending the Company's credit facility for increased flexibility.

The Company believes that its financial position is sufficiently flexible to enable it to maneuver in the current economic environment. Throughout the first and second quarter of fiscal year 2020, the Company enhanced liquidity by minimizing working capital and significantly improving cash collections. In addition, in May 2020, the Company amended its credit facility to modify, among other things, certain covenants to increase its financial flexibility. Combined with availability under its credit facility, the Company believes its enhanced liquidity position provides a cushion against liquidity disruptions. The Company anticipates borrowing additional amounts under its existing credit facility during the second half of fiscal year 2020 to support an expectation of recovery from Covid-19 operating levels and the accompanying need for working capital as a result of the easing of Covid-19 restrictions.

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

As of July 3, 2020, 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

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

The Company primarily works for utilities, municipalities and other public agencies. The Company expects many governmental and other public agencies will have significant budget shortfalls for 2020 and potentially beyond as a result of the economic slowdown from the measures taken to mitigate the Covid-19 pandemic. Although none of the Company's contracts with governmental or other public agencies were materially modified in the second fiscal quarter, 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" 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 our work, especially in its Energy segment. If the Company's 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, 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. 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 II, Item 1A. "Risk Factors", "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Quarterly Report on Form 10-Q for the fiscal quarter ended April 3, 2020. While Covid-19 has had, and the Company expects it to continue to have, an adverse effect on its business, financial condition and results of operations, it is unable to predict the extent of these impacts at this time.

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

2. RECENT ACCOUNTING PRONOUNCEMENTS

Accounting Pronouncements Recently Adopted

In June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-13, "Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments ("ASU 2016-13"). ASU 2016-13 requires entities to report "expected" credit losses on financial instruments and other commitments to extend credit rather than the current "incurred loss" model. These expected credit losses for financial assets held at the reporting date are to be based on historical experience, current conditions, and reasonable and supportable forecasts. ASU 2016-13 will also require enhanced disclosures relating to significant estimates and judgments used in estimating credit losses, as well as the credit quality. The Company adopted this standard effective December 28, 2019. The adoption of this standard did not have a material impact on the Company's Condensed Consolidated Financial Statements.

Accounting Pronouncements Recently Issued

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. The Company's exposure to LIBOR rates includes its credit facilities and swap agreement. The amendments are effective as of March 12, 2020 through December 31, 2022. Adoption is permitted at any time. The Company is currently evaluating the impact this update will have on its Condensed Consolidated Financial Statements.

In December 2019, the FASB issued ASU No. 2019-12, "Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes" ("ASU 2019-12"). ASU 2019-12 amends the accounting for income taxes by, among other things, removing: (i) The exception to the incremental approach for intraperiod tax allocation when there is a loss from continuing operations and income or a gain from other items (for example, discontinued operations or other comprehensive income); (ii) The exception to the requirement to recognize a deferred tax liability for equity method investments when a foreign subsidiary becomes an equity method investment; (iii) The exception to the ability not to recognize a deferred tax liability for a foreign subsidiary when a foreign equity method investment becomes a subsidiary; and (iv) The exception to the general methodology for calculating income taxes in an interim period when a year-to-date loss exceeds the anticipated loss for the year. The amendments are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020, which for the Company is the first quarter of fiscal 2021. The Company is currently evaluating the impact this update will have on its 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 recognition for software licenses issued by the Energy segment is generally recognized at a point in time, utilizing the unit-based revenue recognition method, upon acceptance of the software by the customer and in recognition of the fulfillment of the performance obligation. Certain additional performance obligations beyond the base software license may be separated from the gross license fee and recognized on a straight-line basis over time. 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.

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.

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.

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.

WILLDAN GROUP, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
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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 July 3, 2020 and December 27, 2019, contract assets included retainage of $5.0 million and $5.4 million, respectively.

In addition to the above, the Company 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)

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 six months ended July 3, 2020 and June 28, 2019, the Company did not sell any trade accounts receivable.

Equipment and Leasehold Improvements

	July 3, 2020	December 27, 2019
	(in thousands)	
Furniture and fixtures	$ 4,086	$ 4,614
Computer hardware and software	15,983	14,789
Leasehold improvements	2,971	2,410
Equipment under finance leases	2,247	1,957
Automobiles, trucks, and field equipment	3,255	3,564
Subtotal	28,542	27,334
Accumulated depreciation and amortization	(15,751)	(15,283)
Equipment and leasehold improvements, net	$ 12,791	$ 12,051

Included in accumulated depreciation and amortization is $0.3 million and $0.5 million of amortization expense related to equipment held under finance leases in the six months ended July 3, 2020 and fiscal year 2019, respectively.

Accrued Liabilities

	July 3, 2020	December 27, 2019
	(in thousands)	
Accrued subcontractor costs	$ 21,502	$ 45,366
Compensation and payroll taxes	5,070	3,286
Accrued bonuses	3,663	7,756
Other	2,506	4,630
Employee withholdings	1,876	3,463
Paid leave bank	1,331	3,114
Total accrued liabilities	$ 35,948	$ 67,615

Goodwill

	December 27, 2019	Additional Purchase Cost	Additions / Adjustments	July 3, 2020
		(in thousands)		
Reporting Unit:				
Energy	$ 126,898	$ —	$ 2,589	$ 129,487
Engineering and Consulting	749	—	—	749
	$ 127,647	$ —	$ 2,589	$ 130,236

WILLDAN GROUP, INC. AND SUBSIDIARIES
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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 July 3, 2020.

Intangible Assets

	July 3, 2020		December 27, 2019		
	Gross Amount	Accumulated Amortization	Gross Amount	Accumulated Amortization	Amortization Period
		(in thousands)			*(in years)*
Finite:					
Backlog	$ 7,844	$ 5,542	$ 7,134	$ 3,763	1.0
Tradename	13,711	5,904	13,351	4,882	2.5 - 6.0
Non-compete agreements	2,320	1,519	2,320	1,384	4.0 - 5.0
Developed technology	14,620	4,539	14,620	3,227	8.0
Customer relationships	60,409	11,279	60,733	8,065	5.0 - 8.0
Total intangible assets	$ 98,904	$ 28,783	$ 98,158	$ 21,321	

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

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 total notional amount of $35.0 million, has a fixed annual interest rate of 2.47% and expires on January 31, 2022. As of July 3, 2020, the effective portion of the Company's interest rate swap agreement designated as a cash flow hedge before tax effects was $1.0 million, of which no amounts were reclassified from accumulated other comprehensive income to interest expense in the six months ended July 3, 2020. The Company expects to reclassify $0.7 million from accumulated other comprehensive loss to interest expense within the next twelve months.

The fair values of the Company's outstanding derivatives designated as hedging instruments were as follows:

		Fair Value of Derivative Instruments as of	
	Balance Sheet Location	July 3, 2020	December 27, 2019
		(in thousands)	
Interest rate swap agreement	Accrued liabilities	$ (658)	$ (241)
Interest rate swap agreement	Other noncurrent (liabilities) assets	$ (351)	$ (306)

The impact of the effective portions of derivative instruments in cash flow hedging relationships and fair value relationships on other comprehensive income were not material for the three months ended July 3, 2020 and were $0.4 million for the six months ended July 3, 2020, as compared to $0.2 million and $0.4 million for the three and six month ended June 28, 2019, respectively.

The accumulated balances and reporting period activities for the three and six months ended July 3, 2020 related to reclassifications out of accumulated other comprehensive loss are summarized as follows:

	Gain (Loss) on Derivative Instruments	Accumulated Other Comprehensive Loss
	(in thousands)	
Balances at December 27, 2019	$ (396)	$ (396)
Other comprehensive loss before reclassifications	(568)	(568)
Amounts reclassified from accumulated other comprehensive income	—	—
Income tax benefit related to derivative instruments	119	119
Net current-period other comprehensive loss	(845)	(845)
Balances at April 3, 2020	$ (845)	$ (845)
Other comprehensive loss before reclassifications	$ 105	$ 105
Amounts reclassified from accumulated other comprehensive income:	—	—
Income tax benefit (expense) related to derivative instruments	(22)	(22)
Net current-period other comprehensive loss	83	83
Balances at July 3, 2020	$ (762)	$ (762)

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
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6. DEBT OBLIGATIONS

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

	July 3, 2020	December 27, 2019
	(in thousands)	
Outstanding borrowings on Term A Loan	$ 90,000	$ 95,000
Outstanding borrowings on Revolving Credit Facility	—	5,000
Outstanding borrowings on Delayed Draw Term Loan	28,500	30,000
Other debt agreements	898	1,060
Total debt	119,398	131,060
Issuance costs and debt discounts	(940)	(709)
Subtotal	118,458	130,351
Less current portion of long-term debt	13,866	13,720
Long-term debt portion	$ 104,592	$ 116,631

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, and the Second Amendment, dated as of November 6, 2019, 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 Third Amendment (as defined below), 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 at least 3.50 to 1.00 through December 31, 2020, and 3.25 to 1.00 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.

The Credit Agreement 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. The Credit Agreement includes customary events of default.

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Third Amendment to the Credit Agreement

On May 6, 2020, the Company entered into the Third Amendment to the Amended and Restated Credit Agreement (the “Third Amendment”) which, among other things, amends or suspends certain covenants contained in the Credit Agreement from March 5, 2020 until the earlier of (i) July 2, 2021 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 Third Amendment (the “Covenant Relief Period”).

The Third Amendment increases the maximum Leverage Ratio the Company is permitted to maintain during the Covenant Relief Period and replaces the covenant to maintain a minimum FCCR Ratio during the Covenant Relief Period with a requirement to maintain a minimum Adjusted EBITDA (as defined in the Third Amendment). During the Covenant Relief Period, no further delayed draw term loans may be borrowed under the Credit Facilities and the Company is prohibited from engaging in share repurchases or making any Permitted Acquisitions (as defined in the Credit Agreement). Additionally, during the Covenant Relief Period, the aggregate amount of all capital expenditures made by the Company may not exceed $7.0 million, and the Company is 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 Covenant Relief Period would exceed $7.0 million.

As part of the Third Amendment, borrowings under the Credit Agreement bear interest (A) from March 5, 2020 until the date of the Third Amendment, at a rate equal to one-month LIBOR plus 2.0%, (B) from the date of the Third Amendment until the date the administrative agent receives the Company’s financial statements for the quarter ended July 3, 2020, at a rate equal to one-month LIBOR, plus an applicable margin of 2.50% and (C) at all other times during the Covenant Relief Period, at a rate equal to either, at the Company’s option, (i) the highest of the prime rate, the Federal Funds Rate plus 0.5% or one-month LIBOR plus 1.00% or (ii) one-month LIBOR, in each case plus an applicable margin ranging from 0.125% to 1.50% with respect to Base Rate borrowings and 1.125% to 2.50% with respect to LIBOR borrowings, depending on the Leverage Ratio; provided, that one-month LIBOR shall not be less than 0.75% during the Covenant Relief Period. During the Covenant Relief Period, the Company will pay a commitment fee for the unused portion of the Revolving Credit Facility and the delayed draw term loan facility, which ranges 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 range from 0.84% to 2.50% 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 Covenant Relief Period, borrowings under the Credit Agreement will bear interest at a rate equal to either, at the Company’s option, (i) the Base Rate or (ii) one-month LIBOR, in each case plus an applicable margin ranging from 0.125% to 1.00% with respect to Base Rate borrowings and 1.125% to 2.00% with respect to LIBOR borrowings, depending on the Leverage Ratio; provided, that one-month LIBOR shall not be less than 0.00%. After the Covenant Relief Period, the Company will pay a commitment fee for the unused portion of the Revolving Credit Facility and the delayed draft term loan facility, which will range from 0.15% to 0.35% 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 2.00% 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 July 3, 2020, the Company was in compliance with all covenants contained in the credit agreement.

Other Debt Agreements

Software Agreements

The Company finances, from time to time, software costs by entering into unsecured notes payable with software providers. During the fiscal year ended December 28, 2018, the Company elected to finance its IBM software costs of $0.2 million with a note payable bearing interest at an annual rate of 4.656%, payable in monthly principal and interest installments of $6,000 through November 2021. As of July 3, 2020, and December 27, 2019, the unpaid balance related to the IBM software agreement totaled $99,000 and $133,000, respectively.

Utility Customer Agreement

In connection with the acquisition of substantially all of the assets of Onsite Energy, the Company assumed a contract dispute settlement agreement between Onsite Energy and one of its utility customers dated December 20, 2018 (the "Utility Customer Agreement") where Onsite Energy agreed to pay $1.7 million, bearing interest at an imputed annual rate of 4.332%, payable in quarterly principal and interest installments through June 2021. As of July 3, 2020 and December 27, 2019, the unpaid balance of the Utility Customer Agreement totaled $0.8 million and $0.9 million, respectively.

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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 2022.

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 remaining 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 our month-to-month leases are cancelable by the Company or the lessor, at any time, and are not included in our right-of-use asset or lease liability. As of July 3, 2020, 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. Our lease terms may include options to extend or terminate the lease when it is reasonably certain that we will exercise that option. Lease expense for minimum lease payments is recognized on a straight-line basis over the lease term.

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The following is a summary of the lease expense:

	Three Months Ended		Six Months Ended	
	July 3, 2020	June 28, 2019	July 3, 2020	June 28, 2019
	(in thousands)		*(in thousands)*	
Operating lease cost	$ 1,766	$ 1,181	$ 3,508	$ 2,270
Finance lease cost:				
Amortization of assets	155	124	310	231
Interest on lease liabilities	8	9	17	18
Total net lease cost	$ 1,929	$ 1,314	$ 3,835	$ 2,519

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

	July 3, 2020	December 27, 2019
	(in thousands)	
Operating leases:		
Right-of-use assets	$ 22,679	$ 22,297
Lease liability	$ 5,994	$ 5,550
Lease liability, less current portion	17,935	18,411
Total lease liabilities	$ 23,929	$ 23,961
Finance leases (included in equipment and leasehold improvements, net):		
Equipment and leasehold improvements, net	$ 2,247	$ 1,957
Accumulated depreciation	(1,572)	(1,291)
Total equipment and leasehold improvements, net	$ 675	$ 666
Finance lease obligations	$ 332	$ 375
Finance lease obligations, less current portion	256	191
Total finance lease obligations	$ 588	$ 566
Weighted average remaining lease term (in years):		
Operating Leases	4.73	4.59
Finance Leases	1.92	1.47
Weighted average discount rate:		
Operating Leases	4.50 %	5.14 %
Finance Leases	4.21 %	4.80 %

Rent expense and related charges for common area maintenance for all facility operating leases were $1.8 million and $3.5 million for the three and six months ended July 3, 2020, respectively, as compared to $1.2 million and $2.3 million for the three and six months ended June 28, 2019, respectively.

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The following is a summary of other information and supplemental cash flow information related to finance and operating leases:

	Six Months Ended	
	July 3, 2020	June 28, 2019
	(in thousands)	
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flow from operating leases	$ 3,377	$ 2,345
Operating cash flow from finance leases	17	64
Financing cash flow from finance leases	296	300
Right-of-use assets obtained in exchange for lease liabilities:		
Operating leases	$ 2,552	$ 1,223

The following is a summary of the maturities of lease liabilities as of July 3, 2020:

	Operating	Finance
	(in thousands)	
Fiscal year:		
Remainder of 2020	$ 6,906	$ 348
2021	5,942	171
2022	4,963	69
2023	3,028	14
2024	2,185	9
2025 and thereafter	3,505	—
Total lease payments	$ 26,529	$ 611
Less: Imputed interest	(2,600)	(23)
Total lease obligations	23,929	588
Less: Current obligations	5,994	332
Noncurrent lease obligations	$ 17,935	$ 256

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.

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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. Employees may elect to contribute up to 50% of their compensation limited to the amount allowed by tax laws. Company contributions are made solely at the discretion of the Company's board of directors.

The Company also had a defined contribution plan (the "Plan") covering employees who have completed three months of service and who have attained 21 years of age. The Company elected to make matching contributions equal to 50% of the participants' contributions to the Plan up to 6% of the individual participant's compensation. Under the defined contribution plan, the Company may make discretionary matching contributions to employee accounts.

During the six months ended July 3, 2020 and June 28, 2019, the Company made matching contributions of $0.9 million and $1.2 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 July 3, 2020, the Company had one VIE — Genesys.

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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 and six months ended July 3, 2020 and June 28, 2019. 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 July 3, 2020					
Contract revenue	$ 66,708	$ 16,841	$ -	$ -	$ 83,549
Depreciation and amortization	5,192	274	-	-	5,466
Interest expense, net	8	-	1,249	-	1,257
Segment profit (loss) before income tax expense	(3,286)	3,191	(4,980)	-	(5,075)
Income tax expense (benefit)	(53)	264	(301)	-	(90)
Net income (loss)	(3,232)	2,927	(4,680)	-	(4,985)
Segment assets [(1)]	333,142	24,285	59,071	(23,130)	393,368
Fiscal Three Months Ended June 28, 2019					
Contract revenue	$ 85,283	$ 19,113	$ -	$ -	$ 104,396
Depreciation and amortization	2,558	308	-	-	2,866
Interest expense, net	-	-	1,221	-	1,221
Segment profit (loss) before income tax expense	2,133	2,412	(2,975)	-	1,570
Income tax expense (benefit)	590	667	(1,327)	-	(70)
Net income (loss)	1,544	1,746	(1,650)	-	1,640
Segment assets [(1)]	183,080	23,690	157,752	(23,130)	341,392
Fiscal Six Months Ended July 3, 2020					
Contract revenue	154,506	35,069	-	-	189,575
Depreciation and amortization	9,427	558	-	-	9,985
Interest expense, net	19	-	2,751	-	2,770
Segment profit (loss) before income tax expense	(9,693)	5,196	(10,337)	-	(14,834)
Income tax expense (benefit)	(1,108)	594	(1,181)	-	(1,695)
Net income (loss)	(8,585)	4,602	(9,156)	-	(13,139)
Segment assets [(1)]	333,142	24,285	59,071	(23,130)	393,368
Fiscal Six Months Ended June 28, 2019					
Contract revenue	159,975	36,214	-	-	196,189
Depreciation and amortization	4,928	592	-	-	5,520
Interest expense, net	-	-	2,342	-	2,342
Segment profit (loss) before income tax expense	647	4,017	(4,438)	-	226
Income tax expense (benefit)	179	1,110	(2,286)	-	(997)
Net income (loss)	468	2,907	(2,152)	-	1,223
Segment assets [(1)]	183,080	23,690	157,752	(23,130)	341,392

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

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

	Three months ended July 3, 2020		
	Energy	Engineering and Consulting	Total
		(in thousands)	
Contract Type			
Time-and-materials	$ 12,125	$ 13,689	$ 25,814
Unit-based	28,900	1,993	30,893
Fixed price	25,683	1,159	26,842
Total [1]	$ 66,708	$ 16,841	$ 83,549
Client Type			
Commercial	$ 8,889	$ 1,304	$ 10,193
Government	21,701	14,939	36,640
Utilities [2]	36,118	598	36,716
Total [1]	$ 66,708	$ 16,841	$ 83,549
Geography [3]			
Domestic	$ 66,708	$ 16,841	$ 83,549

	Six months ended July 3, 2020		
	Energy	Engineering and Consulting	Total
		(in thousands)	
Contract Type			
Time-and-materials	$ 26,136	$ 27,781	$ 53,917
Unit-based	79,789	5,098	84,887
Fixed price	48,581	2,190	50,771
Total [1]	$ 154,506	$ 35,069	$ 189,575
Client Type			
Commercial	$ 17,618	$ 2,678	$ 20,296
Government	43,428	31,734	75,162
Utilities [2]	93,460	657	94,117
Total [1]	$ 154,506	$ 35,069	$ 189,575
Geography [3]			
Domestic	$ 154,506	$ 35,069	$ 189,575

(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 immaterial for the three and six months ended July 3, 2020.

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	Three months ended June 28, 2019		
	Energy	**Engineering and Consulting**	**Total**
		(in thousands)	
Contract Type			
Time-and-materials	$ 3,093	$ 14,596	$ 17,689
Unit-based	63,757	3,592	67,349
Fixed price	18,433	925	19,358
Total (1)	$ 85,283	$ 19,113	$ 104,396
Client Type			
Commercial	$ 6,840	$ 1,328	$ 8,168
Government	14,583	17,659	32,242
Utilities (2)	63,860	126	63,986
Total (1)	$ 85,283	$ 19,113	104,396
Geography (3)			
Domestic	$ 85,283	$ 19,113	104,396

	Six months ended June 28, 2019		
	Energy	**Engineering and Consulting**	**Total**
		(in thousands)	
Contract Type			
Time-and-materials	$ 7,348	$ 27,654	$ 35,002
Unit-based	120,629	7,163	127,792
Fixed price	31,998	1,397	33,395
Total (1)	$ 159,975	$ 36,214	$ 196,189
Client Type			
Commercial	$ 16,035	$ 2,626	$ 18,661
Government	23,445	33,330	56,775
Utilities (2)	120,495	258	120,753
Total (1)	$ 159,975	$ 36,214	196,189
Geography (3)			
Domestic	$ 159,975	$ 36,214	196,189

(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 immaterial for the three and six months ended June 28, 2019.

Geographical Information

Substantially all of the Company's consolidated revenue was derived from its operations in the U.S. The Company operates through a nationwide network of offices spread across 24 states and the District of Columbia. Revenues from the Company's Canadian operations were not material for the three and six months ended July 3, 2020. For the three months and six months ended June 28, 2019, the Company did not have foreign revenues.

Customer Concentration

For the three and six months ended July 3, 2020, the Company's top 10 customers accounted for 45.3% and 46.6%, respectively, of the Company's consolidated contract revenue. For the three and six months ended June 28, 2019, the Company's top 10 customers accounted for 48.1% and 46.0%, respectively, of the Company's consolidated contract revenue.

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For the three and six months ended July 3, 2020 and June 28, 2019, the Company had individual customers that accounted for more than 10% of its consolidated contract revenues. For the three months ended July 3, 2020, the Company derived 12.7% of its consolidated contract revenue from one customer, Los Angeles Department of Water and Power ("LADWP"). For the six months ended July 3, 2020, the Company derived 26.3% of its consolidated contract revenue from two customers, LADWP and DASNY. For the three and six months ended June 28, 2019, the Company derived 17.7% and 17.2%, respectively, of its consolidated contract revenue from one customer, LADWP.

On a segment basis, the Company also had individual customers that accounted for more than 10% of its segment contract revenues. For the three and six months ended July 3, 2020, the Company derived 28.3% and 32.3%, respectively, of its Energy segment revenues from two customers, LADWP and DASNY, and it derived 20.6% and 20.1%, respectively, of its Engineering and Consulting segment revenues from one customer, the City of Elk Grove. For the three and six months ended June 28, 2019, the Company derived 32.0% of its Energy segment revenues from two customers, LADWP and Consolidated Edison of New York, and no single customer accounted for 10% or more of its Engineering and Consulting segment revenues.

The Company's largest clients are based in California and New York. For the three and six months ended July 3, 2020, services provided to clients in California accounted for 44.9%, and 44.6%, respectively, of the Company's consolidated contract revenue, and services provided to clients in New York accounted for 14.8%, and 17.9%, respectively, of the Company's consolidated contract revenue. For the three and six months ended June 28, 2019, services provided to clients in California accounted for 39.1% and services provided to clients in New York accounted for 24.5%, and 25.1%, respectively, of the Company's consolidated contract revenue.

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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. Areas of estimation include the Company’s consideration of future taxable income 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 estimate if sufficient future taxable income will be generated to utilize existing deferred tax assets. Beginning in fiscal year 2017, 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, the Company recorded a valuation allowance in the amount of $86,000 at the end of fiscal year 2018 related to California net operating losses. There was no change to the valuation allowance during the six months ended July 3, 2020 or the six months ended June 28, 2019.

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. As of July 3, 2020, the Company recorded a liability of $0.1 million for uncertain tax positions related to miscellaneous tax deductions taken in open tax years. Included in this amount are $0.1 million of tax benefits that, if recognized, would affect the effective tax rate. Interest and penalties of $0.03 million have been recorded related to unrecognized tax benefits as of July 3, 2020.

Based on the Company’s estimates and determination of an effective tax rate for the year, the Company recorded an income tax benefit of $0.1 million and $1.7 million for the three and six months ended July 3, 2020, respectively, as compared to an income tax benefit of $0.1 million and $1.0 million for the three and six months ended June 28, 2019, respectively. During the three and six months ended July 3, 2020, 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. For the three and six months ended June 28, 2019, 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 and research and development tax credits.

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During the six months ended July 3, 2020, the Internal Revenue Service finalized its audit of the Company’s tax return for the fiscal year ended December 30, 2016. There were no changes made by the Internal Revenue Service to the tax return filed.

On March 27, 2020, President Trump signed into law the Coronavirus Aid, Relief, and Economic Security (CARES) Act (H.R. 748) which includes a number of provisions relating to refundable payroll tax credits, deferment of employer side social security payments, net operating loss carryback periods, alternative minimum tax credit refunds, modifications to the net interest deduction limitations and technical corrections to tax depreciation methods for qualified improvement property. Under ASC 740, the effects of new legislation are recognized upon enactment. Accordingly, the effects of the CARES Act have been incorporated into the income tax provision computation for the six months ended July 3, 2020. The Company anticipates deferring the employer side social security payments for payroll paid for the remainder of 2020. These provisions did not have a material impact on the income tax provision.

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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		Six months ended	
	July 3, 2020	June 28, 2019	July 3, 2020	June 28, 2019
	(in thousands, except per share amounts)			
Net income (loss)	$ (4,985)	$ 1,640	$ (13,139)	$ 1,223
Weighted-average common shares outstanding	11,682	11,100	11,593	11,037
Effect of dilutive stock options and restricted stock awards	—	579	—	633
Weighted-average common shares outstanding-diluted	11,682	11,679	11,593	11,670
Earnings (Loss) per share:				
Basic	$ (0.43)	$ 0.15	$ (1.13)	$ 0.11
Diluted	$ (0.43)	$ 0.14	$ (1.13)	$ 0.10

For the three and six months ended July 3, 2020, 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. For the three and six months ended June 28, 2019, 156,000 and 225,000 options were excluded from the calculation of dilutive potential common shares because including them would have been anti-dilutive.

12. BUSINESS COMBINATIONS

Acquisition of E3, Inc.

On October 28, 2019, the Company, through its wholly-owned subsidiary, WES acquired all of the capital stock of Energy and Environmental Economics, Inc. (“E3, Inc.”), pursuant to the terms of a stock purchase agreement (the “Stock Purchase Agreement”) by and among the Company, WES, E3, Inc., each of the stockholders of E3, Inc. (the “E3, Inc. Stockholders”) and Ren Orans, as seller representative of the E3, Inc. Stockholders. E3, Inc. is an energy consulting firm that helps utilities, regulators, policy makers, developers, and investors make strategic decisions as they implement new public policies, respond to technological advances, and address customers’ shifting expectations in clean energy. The Company believes that E3 will provide Willdan and our clients visibility into future market trends and position it to advise clients on upcoming policy, electrification, and decarbonization. E3, Inc.’s financial information is included within the Energy segment beginning in the fourth quarter of fiscal year 2019. The Company expects to finalize the purchase price allocation with respect to this transaction during the fourth quarter of fiscal 2020.

The Company agreed to pay up to $44.0 million for the purchase of all of the capital stock of E3, Inc., which purchase price consists of (i) $27.0 million in cash paid on the E3, Inc. Closing Date (subject to holdbacks and adjustments), (ii) $5.0 million in shares of the Company’s common stock, based on the volume-weighted average price per share of the Company’s common stock for the ten trading days immediately following, but not including, the E3, Inc. Closing Date and (iii) 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 more fully described below (such potential payments of up to $12.0 million, being referred to as “Earn-Out Payments” and $12.0 million in respect thereof, being referred to as the “Maximum Payout”).

The amount of the Earn-Out Payments to be paid will be determined based on E3, Inc.’s earnings before interest, taxes, depreciation and amortization (“EBITDA”). The E3, Inc. Stockholders will receive Earn-Out Payments in each of the three years after the E3, Inc. Closing Date (the “Earn-Out Period”) based on the amount by which E3, Inc.’s EBITDA exceeds certain targets. The amounts due to the E3, Inc. Stockholders as Earn-Out Payments will in no event, individually or in the aggregate, exceed the Maximum Payout. Earn-Out Payments will be made in annual installments for each of the three years of the Earn-Out Period. In addition, the Earn-Out Payments will be subject to certain subordination provisions in favor of the lenders under the Company’s Credit Agreement.

The Purchase Agreement also contains customary representations and warranties regarding WES, the Company, E3, Inc. and the E3, Inc. Stockholders, indemnification provisions and other provisions customary for transactions of this nature.

The Company borrowed $30.0 million under its Delayed Draw Term Loan on October 28, 2019 to fund the $27.0 million cash payment paid on the E3, Inc. Closing Date.

The acquisition was accounted for as a business combination in accordance with ASC 805. Under ASC 805, the Company recorded the acquired assets and assumed liabilities at their estimated fair value with the excess allocated to goodwill. Goodwill represents the value the Company expects to achieve through the operational synergies, the expansion into new markets and the acquired company’s assembled work force. The Company estimates that the entire $21.9 million of goodwill resulting from the acquisition will be tax deductible.

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Preliminary consideration for the acquisition includes the following:

	E3, Inc. (in thousands)
Cash paid	$ 25,217
Other working capital adjustment	1,973
Issuance of common stock	5,000
Contingent Consideration	7,000
Total consideration	$ 39,190

The following table summarizes the preliminary amounts for the acquired assets recorded at their estimated fair value as of the acquisition date:

	E3, Inc. (in thousands)
Current assets	$ 5,316
Non-current assets [1]	341
Cash	2,264
Equipment and leasehold improvements, net	409
Right-of-use assets	7,641
Current lease liability	(750)
Non-current lease liability	(7,300)
Liabilities	(4,325)
Backlog	2,500
Customer relationships	8,300
Tradename	2,000
Non-compete	900
Goodwill	21,894
Net assets acquired	$ 39,190

(1) Excluded from non-current assets are equipment and leasehold improvements, net, right-of-use assets, customer relationships, tradename, backlog and goodwill.

During the six months ended July 3, 2020, the Company made adjustments, primarily related to other working capital, to the consideration paid for E3 which resulted in an adjustment to the preliminary purchase price allocation of E3. The adjustments resulted in an aggregate increase of $1.5 million in the net carrying value of right-of-use assets and current lease liability, and an aggregate decrease of $1.5 million in the net carrying value of non-current lease liability, liabilities, and goodwill. The decrease in the fair value of intangible assets resulted in no change in the amortization expense for the fiscal three months and six months ended July 3, 2020.

The acquisition related costs associated with E3, Inc. included in other general and administrative expenses in the consolidated statements of comprehensive income were not material for either the three or six months ended July 3, 2020.

During the three and six months ended July 3, 2020, the acquisition of E3, Inc. contributed $6.8 million and $11.8 million in revenue, and contributed $1.6 million and $2.4 million in income from operations, respectively.

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(Unaudited)

Acquisition of Onsite Energy Corporation

On July 2, 2019, the Company acquired substantially all of the assets and liabilities of Onsite Energy Corporation ("Onsite Energy"), an energy efficiency services and project implementation firm that specializes in energy upgrades and commissioning for industrial facilities. The Company believes the acquisition will expand its presence in the California-based industrial energy management services. Pursuant to the terms of the Asset Purchase Agreement, dated July 2, 2019, by and between WES and Onsite Energy, WES will pay a maximum aggregate purchase price of $26.4 million, subject to certain holdback and working capital adjustments, to be paid in cash. Onsite Energy's financial information is included within the Energy segment. The Company finalized the purchase price allocation with respect to this transaction in the second quarter of 2020.

The acquisition was accounted for as a business combination in accordance with ASC 805. Under ASC 805, the Company recorded the acquired assets and assumed liabilities at their estimated fair value with the excess allocated to goodwill. Goodwill represents the value the Company expects to achieve through the operational synergies, the expansion into new markets and the acquired company's assembled work force. The Company estimates that the entire $8.6 million of goodwill resulting from the acquisition will be tax deductible.

Consideration for the acquisition includes the following:

	Onsite Energy *(in thousands)*
Cash paid	$ 24,905
Other working capital adjustment	-
Total consideration	$ 24,905

The following table summarizes the amounts for the acquired assets recorded at their estimated fair value as of the acquisition date:

	Onsite Energy *(in thousands)*
Current assets	$ 19,058
Non-current assets (1)	10
Equipment and leasehold improvements, net	39
Right-of-use assets	828
Current lease liability	(168)
Non-current lease liability	(660)
Liabilities	(12,222)
Backlog	1,510
Customer relationships	7,050
Tradename	860
Goodwill	8,600
Net assets acquired	$ 24,905

(1) Excluded from non-current assets are equipment and leasehold improvements, net, right-of-use assets, customer relationships, tradename, backlog and goodwill.

During the six months ended July 3, 2020, the Company made adjustments, primarily related to other working capital, to the consideration paid for Onsite Energy which resulted in an adjustment to the purchase price allocation of Onsite Energy. The adjustments resulted in an aggregate increase of $3.5 million in the net carrying value of backlog, tradename and goodwill and an aggregate decrease of $3.5 million in the net carrying value of current assets and goodwill. The increase in the fair value of intangible assets resulted in $0.7 million change of the amortization expense for the fiscal three and six months ended July 3, 2020.

The acquisition related costs associated with Onsite Energy included in other general and administrative expenses in the consolidated statements of comprehensive income were not material for either the three or six months ended July 3, 2020.

During the three and six months ended July 3, 2020, the acquisition of Onsite Energy contributed $2.4 million $4.6 million in revenue, respectively, and had no material contributions in income from operations.

Acquisition of The Weidt Group

On March 8, 2019, the Company acquired substantially all of the assets of the energy practice division of The Weidt Group Inc. ("The Weidt Group"). The Company believes the acquisition will expand its presence in the upper Midwest and better position the Company to help utilities make their grids more resilient. Pursuant to the terms of the Asset Purchase Agreement, dated March 8, 2019, by and among the Company, WES and The Weidt Group, WES paid a cash purchase price of $22.1 million, inclusive of working capital adjustments. The Weidt Group's financial information is included within the Energy segment. The Company finalized the purchase price allocation with respect to this transaction in the first quarter of 2020.

The acquisition was accounted for as a business combination in accordance with ASC 805. Under ASC 805, the Company recorded the acquired assets and assumed liabilities at their estimated fair value with the excess allocated to goodwill. Goodwill represents the value the Company expects to achieve through the operational synergies, the expansion into new markets and the acquired company's assembled work force. The Company estimates that the entire $11.5 million of goodwill resulting from the acquisition will be tax deductible.

Consideration for the acquisition includes the following:

	The Weidt Group *(in thousands)*
Cash paid	$ 22,136
Other working capital adjustment	-
Total consideration	$ 22,136

WILLDAN GROUP, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
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The following table summarizes the amounts for the acquired assets recorded at their estimated fair value as of the acquisition date:

	The Weidt Group
	(in thousands)
Current assets	$ 2,317
Non-current assets [1]	25
Equipment and leasehold improvements, net	198
Right-of-use assets	1,730
Current lease liability	(245)
Non-current lease liability	(1,533)
Liabilities	(612)
Backlog	750
Customer relationships	4,240
Tradename	550
Developed technology	3,170
Goodwill	11,546
Net assets acquired	$ 22,136

(1) Excluded from non-current assets are equipment and leasehold improvements, net, right-of-use assets, customer relationships, tradename, developed technology, backlog and goodwill.

The acquisition related costs associated with The Weidt Group included in other general and administrative expenses in the consolidated statements of comprehensive income were not material for either the three or six months ended July 3, 2020.

During the three and six months ended July 3, 2020, the acquisition of The Weidt Group contributed $3.7 million and $7.4 million in revenue, and contributed $0.6 million and $0.8 million in income from operations, respectively.

WILLDAN GROUP, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
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The following unaudited pro forma financial information for the three and six months ended July 3, 2020 and June 28, 2019 assumes that the acquisitions of substantially all of the assets and liabilities of E3, Inc., Onsite Energy and The Weidt Group occurred on the first day of the year prior to the year of acquisition:

	Three Months Ended		Six Months Ended	
	July 3, 2020	June 28, 2019	July 3, 2020	June 28, 2019
	(in thousands, except per share data)			
Pro forma revenue	$ 83,549	$ 117,010	$ 189,575	$ 219,409
Pro forma income (loss) from operations	$ (3,841)	$ 3,818	$ (12,110)	$ 5,096
Pro forma net income (loss) (1)	$ (4,985)	$ 2,732	$ (13,139)	$ 2,784
Earnings (Loss) per share:				
Basic	$ (0.43)	$ 0.24	$ (1.13)	$ 0.25
Diluted	$ (0.43)	$ 0.23	$ (1.13)	$ 0.23
Weighted average shares outstanding:				
Basic	11,682	11,315	11,593	11,252
Diluted	11,682	11,894	11,593	11,885

(1) Adjustments to pro forma net income include income from operations, amortization and interest expenses.

This pro forma supplemental information does not purport to be indicative of what the Company's operating results would have been had the acquisition of all the capital stock of E3, Inc. and that the acquisitions of substantially all of the assets and liabilities of Onsite Energy and The Weidt Group each occurred on the first day of the year prior to the year of acquisition and may not be indicative of future operating results.

During the three and six months ended July 3, 2020, the acquisition of E3, Inc., Onsite Energy and The Weidt Group contributed $12.9 million and $23.8 million in revenue, and contributed $2.2 million and $3.3 million in income from operations, respectively.

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

13. 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)
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14. 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 August 6, 2020, 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 clients.

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, 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.

Impact of Covid-19 on Our Business

On January 30, 2020, the spread of a novel strain of coronavirus ("Covid-19") was declared a Public Health Emergency of International Concern by the World Health Organization ("WHO"). On March 11, 2020, WHO characterized the Covid-19 outbreak as a pandemic. The Covid-19 pandemic has resulted in governmental authorities around the world implementing numerous measures to try to contain the virus, such as travel bans and restrictions, quarantines, shelter-in-place or total lock-down orders and business limitations and shutdowns (subject to exceptions for certain essential operations and businesses). Although some of these measures have since been lifted or scaled back, a recent resurgence of Covid-19 in the United States has resulted in the reimposition of certain restrictions and may lead to other restrictions being reimplemented in response to efforts to reduce the spread of Covid-19. The Covid-19 outbreak and restrictions intended to slow the spread of Covid-19 have caused economic and social disruption on an unprecedented scale. It is unclear how long these restrictions will remain in place and they may remain in place in some form for an extended period of time. Given the uncertainties associated with the duration of the pandemic, we cannot reasonably estimate the ultimate impacts of Covid-19 and efforts to limit its spread on our business, financial condition, results of operations or cash flows for the foreseeable future or whether our assumptions used to estimate our future liquidity requirements will be correct.

Health and Safety

In response to the Covid-19 pandemic, we have taken and will continue to take temporary 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 these measures until we determine that the Covid-19 pandemic is adequately contained for purposes of our business, and we may take further actions as government authorities require or recommend or as we determine to be in the best interests of our employees, customers, business partners and third-party service providers.

Financial Position and Results of Operations

The Covid-19 pandemic and efforts to limit its spread negatively impacted our business during the three and six months ended July 3, 2020. 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. In California, phased re-openings began in May 2020 and were subsequently curtailed in July 2020 as result of the resurgence of Covid-19 cases. In New York, phased re-openings began in June 2020. As a result, the most significant pandemic related impacts to our business are now occurring in California to our direct install business. Our business in New York has been improving over the last month and all New York utility programs have restarted.

In the Energy segment, we have experienced and expect to continue to experience a negative impact on our direct install programs that serve small businesses as a result of restrictions put in place by governmental authorities that have required temporary shutdowns of all “non-essential” businesses. In fiscal 2019, we derived approximately 40% of our gross revenue from our direct install programs that serve small businesses, and a significant portion of our direct install work on these programs is just entering recovery as phased re-openings continue. Our other programs, which generated approximately 60% of our revenue in fiscal 2019, are either businesses that have been determined to be “essential” by government authorities or have continued to progress during the pandemic. In addition, some of our programs in the Energy segment, particularly those related to improvements in public schools, have been accelerated to take advantage of empty facilities.

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

As of August 7, 2020, though some of our work has been suspended, none of our contracts have been cancelled and proposal activities for new programs have continued to advance. We currently estimate that pandemic related slowdowns and work suspensions are reducing our revenue by approximately 20% from pre-pandemic levels, an improvement from the estimated 40% reduction that we saw in April.

In response to the Covid-19 pandemic and efforts to prevent its spread, we began taking a number of steps during the first quarter of fiscal 2020 aimed at preserving liquidity and positioning ourselves to resume our growth trajectory after work restrictions are lifted. These steps include:

- Executing a reduction in workforce, primarily through an unpaid furlough, impacting approximately 300 members of our staff. The largest reductions were a result of government-mandated work restrictions impacting our direct install programs in California and New York. During our second fiscal quarter, furloughed employees began to return to work as government authorities began lifting restrictions through phased re-openings;

- A temporary freeze on all non-critical spending for travel, capital expenditures, and other discretionary expenses;

- A temporary cash wage reduction for salaried employees, ranging from 0% for lower salary bands up to 75% for senior management. During the second half of our second fiscal quarter, as the initial impact of Covid-19 was ascertained and operations were adjusted accordingly, salaries were reinstituted with the exception of corporate staff, whose salaries were reinstituted at the end of July 2020;

- Suspension of cash fees for our Board of Directors, until such time as the Board of Directors determines;

- Implementing a temporary hiring freeze; and

- Amending our credit facility for increased flexibility.

We believe our financial position is sufficiently flexible to enable us to maneuver in the current economic environment. Throughout the first and second quarter of fiscal year 2020, we enhanced liquidity by minimizing working capital and significantly improving cash collections. In addition, in May 2020, we amended our credit facility to modify, among other things, certain covenants to increase our financial flexibility. Combined with availability under our credit facilities, we believe our enhanced liquidity position provides a cushion against liquidity disruptions. We anticipate borrowing additional amounts under our existing credit facility during the second half of fiscal year 2020 to support an expectation of recovery from Covid-19 operating levels and the accompanying need for working capital as a result of the easing of Covid-19 restrictions.

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

As of July 3, 2020, we did not have any impairment with respect to our 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. We expect many governmental and other public agencies will have significant budget shortfalls for 2020 and potentially beyond as a result of the economic slowdown from the measures taken to mitigate the Covid-19 pandemic. Although none of our contracts with governmental or other public agencies were materially modified in the second fiscal quarter, these potential budget deficits could result in delayed funding for existing contracts with us, postponements of new contracts or price concessions. Further, most of our clients are not committed to purchase any minimum amount of our services, as our agreements with them are based on a "purchase order" 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. 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 II, Item 1A, "*Risk Factors*" of our Quarterly Report on Form 10-Q for the fiscal quarter ended April 3, 2020. While Covid-19 has had, and we expect it to continue to have, an adverse effect on our business, financial condition and results of operations, we are unable to predict the extent of these impacts at this time.

Results of Operations

Second Quarter and First Half Overview

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

	Three Months Ended					
	July 3, 2020		June 28, 2019		$ Change	% Change
	(in thousands, except percentages)					
Contract revenue	$ 83,549	100.0 %	$ 104,396	100.0 %	$ (20,847)	(20.0)%
Direct costs of contract revenue:						
Salaries and wages	13,650	16.3	15,624	15.0	(1,974)	(12.6)
Subcontractor services and other direct costs	40,355	48.3	57,623	55.2	(17,268)	(30.0)
Total direct costs of contract revenue	54,005	64.6	73,247	70.2	(19,242)	(26.3)
Gross profit	29,544	35.4	31,149	29.8	(1,605)	(5.2)
General and administrative expenses:						
Salaries and wages, payroll taxes and employee benefits	15,331	18.3	15,437	14.8	(106)	(0.7)
Facilities and facilities related	2,642	3.2	2,047	2.0	595	29.1
Stock-based compensation	4,230	5.1	2,224	2.1	2,006	90.2
Depreciation and amortization	5,466	6.5	2,866	2.7	2,600	90.7
Other	5,716	6.8	5,802	5.6	(86)	(1.5)
Total general and administrative expenses	33,385	40.0	28,376	27.2	5,009	17.7
Income (loss) from operations	(3,841)	(4.6)	2,773	2.7	(6,614)	(238.51)
Other income (expense):						
Interest expense	(1,257)	(1.5)	(1,221)	(1.2)	(36)	2.9
Other, net	23	0.0	18	0.0	5	27.8
Total other income (expense)	(1,234)	(1.5)	(1,203)	(1.2)	(31)	2.6
Income (Loss) before income tax expense	(5,075)	(6.1)	1,570	1.5	(6,645)	(423.2)
Income tax expense (benefit)	(90)	(0.1)	(70)	(0.1)	(20)	28.6
Net income (loss)	$ (4,985)	(6.0)	$ 1,640	1.6	$ (6,625)	(403.96)

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

	Six Months Ended					
	July 3, 2020		June 28, 2019		$ Change	% Change
	(in thousands, except percentages)					
Contract revenue	$ 189,575	100.0 %	$ 196,189	100.0 %	$ (6,614)	(3.4)
Direct costs of contract revenue:						
Salaries and wages	32,565	17.2	30,534	15.6	2,031	6.7
Subcontractor services and other direct costs	96,775	51.0	108,571	55.3	(11,796)	(10.9)
Total direct costs of contract revenue	129,340	68.2	139,105	70.9	(9,765)	(7.0)
Gross profit	60,235	31.8	57,084	29.1	3,151	5.5
General and administrative expenses:						
Salaries and wages, payroll taxes and employee benefits	35,743	18.9	30,406	15.5	5,337	17.6
Facilities and facilities related	5,336	2.8	3,819	1.9	1,517	39.7
Stock-based compensation	8,825	4.7	4,041	2.1	4,784	118.4
Depreciation and amortization	9,985	5.3	5,520	2.8	4,465	80.9
Other	12,456	6.6	10,759	5.5	1,697	15.8
Total general and administrative expenses	72,345	38.2	54,545	27.8	17,800	32.6
Income (loss) from operations	(12,110)	(6.4)	2,539	1.3	(14,649)	(577.0)
Other income (expense):						
Interest expense	(2,770)	(1.5)	(2,342)	(1.2)	(428)	18.3
Other, net	46	0.0	29	0.0	17	58.6
Total other income (expense)	(2,724)	(1.4)	(2,313)	(1.2)	(411)	17.8
Income (Loss) before income tax expense	(14,834)	(7.8)	226	0.1	(15,060)	N/M
Income tax expense (benefit)	(1,695)	(0.9)	(997)	(0.5)	(698)	70.0
Net income (loss)	$ (13,139)	(6.9)	$ 1,223	0.6	$ (14,362)	N/M

(1) Percentages are expressed as a percentage of contract revenue and may not total due to rounding.
N/M = Not meaningful

The following tables provides information about disaggregated revenue of the Company's two segments Energy and Engineering and Consulting by contract type, client type and geographical region[1]:

	Three months ended July 3, 2020					
	Energy		Engineering and Consulting		Total	
	(in thousands)					
Contract Type						
Time-and-materials	$ 12,125	18.2%	$ 13,689	81.3%	$ 25,814	30.9%
Unit-based	28,900	43.3%	1,993	11.8%	30,893	37.0%
Fixed price	25,683	38.5%	1,159	6.9%	26,842	32.1%
Total [1]	$ 66,708	100.0%	$ 16,841	100.0%	$ 83,549	100.0%
Client Type						
Commercial	$ 8,889	13.3%	$ 1,304	7.7%	$ 10,193	12.2%
Government	21,701	32.5%	14,939	88.7%	36,640	43.9%
Utilities [2]	36,118	54.1%	598	3.6%	36,716	43.9%
Total [1]	$ 66,708	100.0%	$ 16,841	100.0%	83,549	100.0%
Geography [3]						
Domestic	$ 66,708	100.0%	$ 16,841	100.0%	83,549	100.0%

	Six months ended July 3, 2020					
	Energy		Engineering and Consulting		Total	
	(in thousands)					
Contract Type						
Time-and-materials	$ 26,136	16.9%	$ 27,781	79.2%	$ 53,917	28.4%
Unit-based	79,789	51.6%	5,098	14.5%	84,887	44.8%
Fixed price	48,581	31.4%	2,190	6.2%	50,771	26.8%
Total [1]	$ 154,506	100.0%	$ 35,069	100.0%	$ 189,575	100.0%
Client Type						
Commercial	$ 17,618	11.4%	$ 2,678	7.6%	$ 20,296	10.7%
Government	43,428	28.1%	31,734	90.5%	75,162	39.6%
Utilities [2]	93,460	60.5%	657	1.9%	94,117	49.6%
Total [1]	$ 154,506	100.0%	$ 35,069	100.0%	189,575	100.0%
Geography [3]						
Domestic	$ 154,506	100.0%	$ 35,069	100.0%	189,575	100.0%

(1) Percentages are expressed as a percentage of contract revenue and may not total 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 and six months ended July 3, 2020.

	Three months ended June 28, 2019								
	Energy			Engineering and Consulting			Total		
	(in thousands)								
Contract Type									
Time-and-materials	$	3,093	3.6%	$	14,596	76.4%	$	17,689	16.9%
Unit-based		63,757	74.8%		3,592	18.8%		67,349	64.5%
Fixed price		18,433	21.6%		925	4.8%		19,358	18.5%
Total [1]	$	85,283	100.0%	$	19,113	100.0%	$	104,396	100.0%
Client Type									
Commercial	$	6,840	8.0%	$	1,328	6.9%	$	8,168	7.8%
Government		14,583	17.1%		17,659	92.4%		32,242	30.9%
Utilities [2]		63,860	74.9%		126	0.7%		63,986	61.3%
Total [1]	$	85,283	100.0%	$	19,113	100.0%		104,396	100.0%
Geography [3]									
Domestic	$	85,283	100.0%	$	19,113	100.0%		104,396	100.0%

	Six months ended June 28, 2019								
	Energy			Engineering and Consulting			Total		
	(in thousands, except percentage)								
Contract Type									
Time-and-materials	$	7,348	4.6%	$	27,654	76.4%	$	35,002	17.8%
Unit-based		120,629	75.4%		7,163	19.8%		127,792	65.1%
Fixed price		31,998	20.0%		1,397	3.9%		33,395	17.0%
Total [1]	$	159,975	100.0%	$	36,214	100.0%	$	196,189	100.0%
Client Type									
Commercial	$	16,035	10.0%	$	2,626	7.3%	$	18,661	9.5%
Government		23,445	14.7%		33,330	92.0%		56,775	28.9%
Utilities		120,495	75.3%		258	0.7%		120,753	61.5%
Total [1]	$	159,975	100.0%	$	36,214	100.0%	$	196,189	100.0%
Geography									
Domestic	$	159,975	100.0%	$	36,214	100.0%	$	196,189	100.0%

(1) Percentages are expressed as a percentage of contract revenue and may not total 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 and six months ended June 28, 2019.

Three Months Ended July 3, 2020 Compared to Three Months Ended June 28, 2019

Contract revenue. Consolidated contract revenue decreased $20.8 million, or 20.0%, in the three months ended July 3, 2020 compared to the three months ended June 28, 2019, primarily due to decreased contract revenues from our direct install programs for small businesses in our Energy segment combined with decreased revenues from our Engineering and Consulting segment, partially offset by an increase in contract revenue generated from government projects in our Energy segment and incremental contract revenue from the acquisitions of Onsite Energy Corporation ("Onsite Energy") and Energy and Environmental Economics, Inc. ("E3, Inc."). Contract revenues for our direct install programs for small businesses decreased as a result of the business shutdowns resulting from the Covid-19 pandemic and efforts to limit its spread that started in March 2020.

Contract revenue in our Energy segment decreased $18.6 million, or 21.8%, in the three months ended July 3, 2020 compared to the three months ended June 28, 2019. Contract revenue for the Energy segment primarily decreased as a result of decreased contract revenues from our direct install programs for small businesses, partially offset by an increase in revenue generated from government projects, combined with the incremental revenues from Onsite Energy and E3, Inc. as they are included in our Energy segment. Contract revenues for our direct install programs for small businesses decreased as a result of the effects of Covid-19.

Contract revenue in our Engineering and Consulting segment decreased $2.2 million, or 11.9%, in the three months ended July 3, 2020 compared to the three months ended June 28, 2019. Contract revenue for the Engineering and Consulting segment decreased primarily due to a reduction in scope of work from one of our customers. As described above, our revenues in this segment have been minimally affected by Covid-19 as the services in this segment have generally been deemed “essential” by the government and continue to operate while abiding social distancing measures.

Direct costs of contract revenue. Direct costs of consolidated contract revenue decreased $19.2 million, or 26.3%, in the three months ended July 3, 2020 compared to the three months ended June 28, 2019, primarily as a result of decreased contract revenues from our direct install programs for small businesses in our Energy segment, partially offset by an increase in contract revenue generated from government projects in our Energy segment, combined with additional direct costs of contract revenue related to our acquisitions of Onsite Energy and E3., Inc.

Direct cost of contract revenue in our Energy segment decreased $16.9 million, or 27.3%, to $45.1 million for the three months ended July 3, 2020 compared to the three months ended June 28, 2019, primarily as a result of the decrease in our contract revenues related to direct install programs for small businesses as described above, partially offset by increases in contract revenues related to government projects combined with the acquisitions of Onsite Energy and E3, Inc. in the Energy segment mentioned above which collectively contributed $3.6 million in direct costs of contract revenue during the three months ended July 3, 2020. Direct costs of contract revenue for the Engineering and Consulting segment decreased $2.3 million, or 20.6%, to $8.9 million for the three months ended July 3, 2020 compared to the three months ended June 28, 2019, primarily due to the reduction in contract revenues.

Subcontractor services and other direct costs decreased by $17.3 million and salaries and wages decreased by $2.0 million for the three months ended July 3, 2020 compared to the three months ended June 28, 2019. Within direct costs of contract revenue, salaries and wages increased to 16.3% of contract revenue for the three months ended July 3, 2020 from 15.0% for the three months ended June 28, 2019. Subcontractor services and other direct costs decreased to 48.3% of contract revenue for the three months ended July 3, 2020 from 55.2% of contract revenue for the three months ended June 28, 2019. Salaries and wages within direct costs of contract revenue increased as a percentage of contract revenue primarily as a result of our acquisition of Onsite Energy and E3, Inc., which contain a higher percentage of labor costs and lower percentage of material costs and installation subcontracting. Subcontractor services and other direct costs decreased as a percentage of contract revenue primarily as a result of the decrease in contract revenues from our direct install programs for small businesses, as described above.

General and administrative expenses. General and administrative (“G&A”) expenses increased by $5.0 million, or 17.7%, in the three months ended July 3, 2020 compared to the three months ended June 28, 2019. The increase in G&A expenses consisted of an increase of $2.8 million in the Energy segment and an increase of $2.9 million in the unallocated corporate expenses, partially offset by a decrease of $0.7 million in the Engineering and Consulting segment. The increase in G&A expenses in the Energy segment was primarily attributed to intangible amortization due to our acquisitions of Onsite Energy and E3, Inc., and increased stock-based compensation expense.

Of the $5.0 million increase in G&A expenses, $2.0 million resulted from an increase in stock-based compensation, $2.6 million resulted from an increase in depreciation and amortization, $0.6 million resulted from an increase in facilities and facility related expenses, partially offset by a decrease of $0.1 million in other general and administrative expenses combined with a decrease of $0.1 million in salaries and wages, payroll taxes and employee benefits. The increase in stock-based compensation expenses was primarily related to new stock grants to current employees and executives. The increase in facilities and facility related expenses was primarily due to the addition of offices in connection with the acquisitions of Onsite Energy and E3, Inc. The increase in depreciation and amortization was primarily due to an increase in amortization of intangible assets derived from the acquisitions of Onsite Energy, and E3, Inc. The decrease in other general and administrative expenses was primarily due to lower traveling expenses as a result of the measures put in place for Covid-19, combined with lower acquisition costs and lower professional services. The decrease in salaries and wages, payroll taxes and employee benefits was primarily attributable to our actions related to placing a temporary cash wage reduction for salaried employees, as well as instituting a reduction in workforce, primarily through unpaid furloughs, aimed at preserving liquidity as a result of the Covid-19 pandemic, partially offset by the addition of employees from the acquisitions of Onsite Energy and E3, Inc. During the second half of the three months ended July 3, 2020, furloughed employees began to return to work as government authorities began lifting restrictions through phased re-openings, although some states have halted re-openings as described above. In addition, during this time, as the initial impact of Covid-19 was ascertained and operations were adjusted accordingly, salaries were reinstituted with the exception of corporate staff, whose salaries were reinstituted at the end of July 2020.

Income (loss) from operations. Our operating loss was $3.8 million for the three months ended July 3, 2020 as a result of the factors noted above. As a percentage of contract revenue, operating loss was 4.6% for the three months ended July 3, 2020 compared to an operating income of 2.7% for the three months ended June 28, 2019. The decrease in operating margin was primarily attributable to decreases in contract revenue as a result of Covid-19 combined with increases in stock-based compensation and intangible asset amortization from acquisitions, partially offset by increases in governmental contract revenue.

Total other expense, net. Total other expense, net was flat for the three months ended July 3, 2020 compared to the three months ended June 28, 2019.

Income tax expense (benefit). Income tax benefit was flat for the three months ended July 3, 2020 compared to the three months ended June 28, 2019. Changes within the tax benefit amount were primarily attributable to fluctuations within various tax deductions and tax credits.

Net income (loss). As a result of the above factors, our net loss was $5.0 million for the three months ended July 3, 2020, as compared to a net income of $1.6 million for the three months ended June 28, 2019.

Six Months Ended July 3, 2020 Compared to Six Months Ended June 28, 2019

Contract revenue. Consolidated contract revenue decreased $6.6 million, or 3.4%, in the six months ended July 3, 2020 compared to the six months ended June 28, 2019, primarily due to decreased contract revenues from our direct install programs for small businesses in our Energy segment, partially offset by an increase in contract revenue generated from government projects in our Energy segment and incremental contract revenue from the acquisitions of Onsite Energy and E3, Inc. Contract revenues for our direct install programs for small businesses decreased as a result of the business shutdowns resulting from the Covid-19 pandemic and efforts to limit its spread that started in March 2020, and continued through substantially all of the second quarter.

Contract revenue in our Energy segment decreased $5.5 million, or 3.4%, in the six months ended July 3, 2020 compared to the six months ended June 28, 2019. Contract revenue for the Energy segment primarily decreased as a result of decreased contract revenues from our direct install programs for small businesses, partially offset by an increase in revenue generated from the acquisitions of Onsite Energy and E3, Inc. Contract revenues for our direct install programs for small businesses decreased as a result of the effects of Covid-19.

Contract revenue in our Engineering and Consulting segment decreased $1.1 million, or 3.2%, in the six months ended July 3, 2020 compared to the six months ended June 28, 2019. Contract revenue for the Engineering and Consulting segment decreased primarily due to decreased subcontractor revenues combined with a reduction of scope of work related to one of our customers. As described above, our revenues in this segment have been minimally affected by Covid-19 as the services in this segment have generally been deemed “essential” by the government and continue to operate while abiding social distancing measures.

Direct costs of contract revenue. Direct costs of consolidated contract revenue decreased $9.8 million, or 7.0%, in the six months ended July 3, 2020 compared to the six months ended June 28, 2019, primarily as a result of decreased contract revenues from our direct install programs for small businesses in our Energy segment, partially offset by an increase in contract revenue generated from government projects in our Energy segment, combined with additional direct costs of contract revenue related to our acquisitions of Onsite Energy and E3., Inc.

Direct cost of contract revenue in our Energy segment decreased $8.2 million, or 7.0%, to $110.1 million for the six months ended July 3, 2020 compared to the six months ended June 28, 2019, primarily as a result of the decrease in our contract revenues related to direct install programs for small businesses as described above, partially offset by increases in contract revenues related to government projects combined with the acquisitions of Onsite Energy and E3, Inc. in the Energy segment mentioned above which collectively contributed $6.5 million in direct costs of contract revenue during the six months ended July 3, 2020. Direct costs of contract revenue for the Engineering and Consulting segment decreased $1.5 million, or 7.4%, to $19.3 million for the six months ended July 3, 2020 compared to the six months ended June 28, 2019, primarily due to the reduction of revenues.

Subcontractor services and other direct costs decreased by $11.8 million and salaries and wages increased by $2.0 million for the six months ended July 3, 2020 compared to the six months ended June 28, 2019. Within direct costs of contract revenue, salaries and wages increased to 17.2% of contract revenue for the six months ended July 3, 2020 from 15.6% for the six months ended June 28, 2019. Subcontractor services and other direct costs decreased to 51.0% of contract revenue for the six months ended July 3, 2020 from 55.3% of contract revenue for the six months ended June 28, 2019. Salaries and wages within direct costs of contract revenue increased as a percentage of contract revenue primarily as a result of our acquisition of Onsite Energy and E3, Inc., which contain a higher percentage of labor costs and lower percentage of material costs and installation subcontracting. Subcontractor services and other direct costs decreased as a percentage of contract revenue primarily as a result of the decrease in contract revenues from our direct install programs for small businesses, as described above.

General and administrative expenses. General and administrative ("G&A") expenses increased by $17.8 million, or 32.6%, in the six months ended July 3, 2020 compared to the six months ended June 28, 2019. The increase in G&A expenses consisted of an increase of $11.3 million in the Energy segment and an increase of $7.3 million in the unallocated corporate expenses, partially offset by a decrease of $0.8 million in the Engineering and Consulting segment. The increase in G&A expenses in the Energy segment was primarily attributed to incremental expenses of $7.5 million from our additions of Onsite Energy and E3, Inc. combined with increases in our corporate general and administrative expenses, partially offset by our cost-saving measures instituted, as described earlier, in response to Covid-19.

Of the $17.8 million increase in G&A expenses, $5.3 million resulted from an increase in salaries and wages, payroll taxes and employee benefits, $5.8 million resulted from an increase in stock-based compensation, $4.5 million resulted from an increase in depreciation and amortization, $1.5 million resulted from an increase in facilities and facility related expenses, and $0.7 million from an increase in other general and administrative expenses. The increase in salaries and wages, payroll taxes and employee benefits was primarily attributable to the addition of employees from the acquisitions of Onsite Energy and E3, Inc., partially offset by our actions related to placing a temporary cash wage reduction for salaried employees, as well as instituting a reduction in workforce, primarily through unpaid furloughs, aimed at preserving liquidity as a result of the Covid-19 pandemic. During the second half of the three months ended July 3, 2020, furloughed employees began to return to work as government authorities began loosening restrictions through phased re-openings. In addition, during this time, as the initial impact of Covid-19 was ascertained and operations were adjusted accordingly, salaries were reinstituted with the exception of corporate staff, whose salaries were reinstituted at the end of July 2020. The increase in facilities and facility related expenses was primarily due to the addition of offices in connection with the acquisitions of Onsite Energy and E3, Inc. The increase in stock-based compensation expenses was primarily related to new stock grants to current employees and executives. The increase in depreciation and amortization was primarily due to an increase in amortization of intangible assets derived from the acquisitions of Onsite Energy, and E3, Inc. The increase in other general and administrative expenses was primarily due to an increase in contingent consideration, partially offset by lower traveling expenses as a result of the measures put in place for Covid-19, combined with lower acquisition costs and lower professional services.

Income (loss) from operations. Our operating loss was $12.1 million for the six months ended July 3, 2020 as a result of the factors noted above. As a percentage of contract revenue, operating loss was 6.4% for the six months ended July 3, 2020 compared to an operating income of 1.3% for the six months ended June 28, 2019. The decrease in operating margin was primarily attributable to decreases in contract revenue as a result of Covid-19 combined with increases in stock-based compensation and intangible asset amortization from acquisitions, partially offset by increases in governmental contract revenue.

Total other expense, net. Total other expense, net, was $2.8 million for the six months ended July 3, 2020 compared to $2.3 million for the six months ended June 28, 2019. This increase in total other expense, net is primarily the result of higher interest expense as a result of borrowings under our credit facilities related to our acquisitions of Onsite Energy, and E3, Inc.

Income tax expense (benefit). We recorded an income tax benefit of $1.7 million for the six months ended July 3, 2020 compared to a tax benefit of $1.0 million for the six months ended June 28, 2019. The increase in the income tax benefit is primarily attributable to our loss before income tax, partially offset by a decrease in various tax deductions and tax credits.

Net income (loss). As a result of the above factors, our net loss was $13.1 million for the six months ended July 3, 2020, as compared to a net income of $1.2 million for the six months ended June 28, 2019.

Liquidity and Capital Resources

The following table summarizes our statements of cash flows for the periods indicated:

	Six Months Ended	
	July 3, 2020	**June 28, 2019**
	(in thousands)	
Net cash provided by (used in):		
Operating activities	$ 29,231	$ 12,495
Investing activities	(2,929)	(25,375)
Financing activities	(14,594)	25,223
Net increase (decrease) in cash and cash equivalents	$ 11,708	$ 12,343

We believe that cash generated by operating activities and available borrowings under the Revolving Credit Facility will be sufficient to finance our operating activities for at least the next 12 months. As of July 3, 2020, we had $17.2 million of cash and cash equivalents. Our primary source of liquidity is cash generated from operations and borrowings under our Revolving Credit Facility. In addition, as of July 3, 2020, we had a $100 million Term A Loan with $90.0 million outstanding, and a $50.0 million Revolving Credit Facility with no borrowed amounts outstanding and $2.7 million in letters of credit issued, each scheduled to mature on June 26, 2024. We also have a $50.0 million Delayed Draw Term Loan with $28.5 million outstanding scheduled to mature on June 26, 2024. However, 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, we are not able to access additional borrowings under the Delayed Draw Term Loan during our Covenant Relief Period.

As of July 3, 2020, borrowings under our Credit Facilities bore interest at 3.3% based on the Company’s consolidated total leverage ratio. 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 filed with the SEC on March 6, 2020 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 provided by operating activities were $29.2 million for the six months ended July 3, 2020, as compared to cash flows provided by operating activities of $12.5 million for the six months ended June 28, 2019. Cash flow from operating activities primarily consists of net income or net loss, adjusted for non-cash charges, such as depreciation and amortization and stock-based compensation, plus or minus changes in operating assets and liabilities. Changes in cash flows provided by operating activities for the six months ended July 3, 2020 resulted primarily as result of our acquisitions of Onsite Energy and E3, Inc., improvements in cash collections, and significant reductions in working capital requirements as a result of the reduction of revenues from the suspension of our small business energy programs. Cash flows provided by operating activities for the six months ended June 28, 2019 resulted primarily from a net decrease in our working capital through the first half of that year.

Cash Flows used in Investing Activities

Cash flows used in investing activities were $2.9 million for the six months ended July 3, 2020, as compared to cash flows used in investing activities of $25.4 million for the six months ended June 28, 2019. Cash flows used in investing activities for the six months ended July 3, 2020 were primarily due to cash paid for the purchase of equipment and leasehold improvements. The cash flows used in investing activities for the six months ended June 28, 2019 was primarily due to cash paid for the acquisition of The Weidt Group.

Cash Flows from Financing Activities

Cash flows used in financing activities were $14.6 million for the six months ended July 3, 2020, as compared to cash flows provided by financing activities of $25.2 million for the six months ended June 28, 2019. Cash flows used in financing activities for the six months ended July 3, 2020 were primarily attributable to repayments of $35.5 million under our term loan facility and revolving line of credit, a payment of $2.9 million in employee payroll taxes related to the vesting of performance-based restricted stock units, payments of $1.4 million for contingent consideration related to prior acquisitions, partially offset by $24.0 million of borrowings under our revolving line of credit. The cash flows provided by financing activities for the six months ended June 28, 2019 were primarily attributable to borrowings under our term loan, partially offset by the payment of $2.9 million in employee payroll taxes related to the repurchase of shares of our common stock in connection with the vesting of restricted stock awards and performance-based restricted stock units during the six months ended June 28, 2019.

Off-Balance Sheet Arrangements

Other than operating lease commitments, 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 Liquidity

Contractual Obligations

The following table sets forth our known contractual obligations as of July 3, 2020:

Contractual Obligations	Total	Less than 1 Year	1 - 3 Years	3 - 5 Years	More than 5 Years
			(*in thousands*)		
Long term debt [1]	$ 118,458	$ 13,866	$ 25,327	$ 79,265	$ —
Interest payments on debt outstanding [2]	11,945	3,574	5,973	2,399	—
Operating leases	23,929	5,994	10,176	5,872	1,888
Finance leases	588	332	233	23	—
Total contractual cash obligations	$ 154,920	$ 23,766	$ 41,709	$ 87,559	$ 1,888

(1) Long-term debt includes $90.0 million outstanding on our Term A Loan, no borrowed amounts on our Revolving Credit Facility and $28.5 million outstanding on our Delayed Draw Term Loan as of July 3, 2020. We have assumed no future borrowings or repayments (other than at maturity) for purposes of this table.

(2) Borrowings under our Credit Facilities bear interest at a variable rate. Future interest payments on our Credit Facilities are estimated using floating rates in effect as of July 3, 2020.

We are obligated to pay earn-out payments in connection with our acquisitions of E3, Inc. and Integral Analytics. We are obligated to pay up to (i) $12.0 million in cash if E3, Inc. exceeds certain financial targets during the three years after the E3, Inc. closing date, and (ii) $12.0 million in cash based on future work obtained from the business of Integral Analytics during the four years after the closing of the acquisition, payable in installments, if certain financial targets are met during the four years. As of July 3, 2020, we had contingent consideration payable of $10.2 million related to these acquisitions. For the six months ended July 3, 2020, our statement of operations includes $1.6 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 27, 2019, 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.

As of July 3, 2020, we had $50.0 million in borrowing capacity under the Revolving Credit Facility.

Interest Rate Swap

We have entered into an interest rate swap agreement 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 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 July 3, 2020, approximately 31% of our contracts are time-and-materials contracts and approximately 37% of our contracts are unit-based contracts, compared to approximately 17% for time-and-materials contracts and approximately 65% for unit-based contracts as of June 28, 2019.

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 City of Elk Grove, 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 27, 2019. Please refer to Part II, Item 7 of our Annual Report on Form 10-K for the fiscal year ended December 27, 2019 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 July 3, 2020, we had cash and cash equivalents of $17.2 million. This amount represents cash on hand in business checking accounts with BMO.

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 July 3, 2020, $90.0 million was outstanding under our Term A Loan, $28.5 million was outstanding under our delayed draw term loan, no borrowed amounts were outstanding and $2.7 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. During the Covenant Relief Period (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), borrowings under the Credit Agreement bear interest (A) from March 5, 2020 until the date of the Third Amendment, at a rate equal to one-month LIBOR plus 2.0%, (B) from the date of the Third Amendment until the date the administrative agent receives our financial statements for the quarter ended July 3, 2020, at a rate equal to one-month LIBOR, plus an applicable margin of 1.50% with respect to Base Rate borrowings and 2.50% with respect to LIBOR borrowings and (C) at all other times during the Covenant Relief Period, at a rate equal to either, at our option, (i) the Base Rate or (ii) one-month LIBOR, in each case plus an applicable margin ranging from 0.125% to 1.50% with respect to Base Rate borrowings and 1.125% to 2.50% with respect to LIBOR borrowings, depending on our consolidated leverage ratio; *provided*, that one-month LIBOR shall not be less than 0.75% during the Covenant Relief Period. During the Covenant Relief Period, we will pay a commitment fee for the unused portion of the revolving credit facility and the delayed draw term loan facility, which ranges from 0.15% to 0.45% per annum depending on our consolidated leverage ratio, and fees on the face amount of any letters of credit outstanding under the revolving credit facility, which range from 0.84% to 2.50% 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 Covenant Relief Period, borrowings under the Credit Agreement will bear interest at a rate equal to either, at our option, (i) the Base Rate or (ii) one-month LIBOR, in each case plus an applicable margin ranging from 0.125% to 1.00% with respect to Base Rate borrowings and 1.125% to 2.00% with respect to LIBOR borrowings, depending on our consolidated leverage ratio; *provided*, that one-month LIBOR shall not be less than 0.00%. After the Covenant Relief Period, we will pay a commitment fee for the unused portion of the revolving credit facility and the delayed draft term loan facility, which will range from 0.15% to 0.35% per annum depending on our consolidated 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 2.00% per annum, in each case, depending on whether such letter of credit is a performance or financial letter of credit and our consolidated leverage ratio.

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. 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.

On January 31, 2019, we entered into an interest swap agreement for $35.0 million notional amount. 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 fixed rate is 2.47% and the amortization is quarterly in an amount equal to 10% annually. The interest swap agreement expires on January 31, 2022.

Based upon the amount of our outstanding indebtedness as of July 3, 2020, a one percentage point increase in the effective interest rate would change our annual interest expense by approximately $1.2 million in 2020.

Risk Related to Potential LIBOR Transition

All of our $118.5 million of debt outstanding under our credit agreement as of July 3, 2020 bears interest at a floating rate that uses LIBOR as the applicable reference rate to calculate the interest. The Chief Executive of the U.K. Financial Conduct Authority (the "FCA"), which regulates the London Interbank Offered Rate, or LIBOR, has announced that the FCA will no longer persuade or compel banks to submit rates for the calculation of LIBOR after 2021. That announcement indicates that the continuation of LIBOR on the current basis cannot and will not be guaranteed after 2021. Moreover, it is possible that LIBOR will be discontinued or modified prior to 2021.

Our credit agreement provides that, if the administrative agent has determined that adequate means do not exist for ascertaining LIBOR or the lenders have advised the administrative agent that (i) LIBOR does not adequately and fairly reflect the cost to lenders for maintaining their loans or (ii) making or funding LIBOR loans has become impracticable for the lenders, then, unless we amend the credit agreement to replace LIBOR with an alternative reference rate, all of our outstanding loans under the credit agreement will be converted to Base Rate Loans and the component of the Base Rate based upon LIBOR will not be used in any determination of the Base Rate Further, the lenders under our credit agreement will no longer be obligated to make loans using LIBOR as the applicable reference rate. If the rate used to calculate interest on our outstanding floating rate debt under our credit agreement that currently uses LIBOR were to increase by 1.0% either as a result of an increase in LIBOR or the result of the conversion to Base Rate Loans, we would expect to incur additional interest expense on such indebtedness as of July 3, 2020 of approximately $1.2 million on an annualized basis.

Item 4. Controls and Procedures

We maintain disclosure controls and procedures defined in Rule 13a-15(e) under the Exchange Act, as controls and other procedures that are designed to ensure that information required to be disclosed by the issuer in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in the reports that we file or submit under the Securities Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer, Thomas Brisbin, and our Chief Financial Officer, Stacy McLaughlin, 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 July 3, 2020. 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 July 3, 2020.

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. We acquired Energy and Environmental Economics, Inc. on October 28, 2019. We are in the process of evaluating the internal controls of that acquired business and integrating them into our existing operations and internal control processes.

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 have been 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 27, 2019 and in Part II, Item 1A, *Risk Factors* in our Quarterly Report on Form 10-Q for the quarter ended April 3, 2020.

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

None.

ITEM 3. Defaults upon Senior Securities

None.

ITEM 4. Mine Safety Disclosures

Not applicable.

ITEM 5. Other Information

None.

ITEM 6. Exhibits

Exhibit Number	Exhibit Description
2.1‡	Stock Purchase Agreement, dated July 28, 2017, by and among Willdan Group, Inc., Willdan Energy Solutions, Integral Analytics, Inc., the Shareholders of Integral Analytics, Inc. and the Sellers' Representative (as defined therein) (portions of this exhibit have been omitted pursuant to a request for confidential treatment) (incorporated by reference to Exhibit 2.1 to Willdan Group, Inc.'s Current Report on Form 8-K, filed with the SEC on August 3, 2017).
2.2	Amendment No. 1, dated as of August 1, 2019, to the Stock Purchase Agreement, dated as of July 28, 2017, by and among Willdan Group, Inc., Willdan Energy Solutions, Integral Analytics, Inc., the stockholders of Integral Analytics, Inc. and the Sellers' Representative (as defined therein) (incorporated by reference to Exhibit 2.2 to Willdan Group, Inc.'s Quarterly Report on Form 10-Q filed on November 1, 2019).
2.3‡	Stock Purchase Agreement, dated as of October 28, 2019, by and among Willdan Group, Inc., Willdan Energy Solutions, Energy and Environmental Economics, Inc., each of the stockholders of Energy and Environmental Economics, Inc., and Ren Orans, as seller representative of the stockholders of Energy and Environmental Economics, Inc. (incorporated by reference to Exhibit 2.1 to Willdan Group, Inc.'s Quarterly Report on Form 10-Q filed on October 31, 2019).
3.1	First Amended and Restated Certificate of Incorporation of Willdan Group, Inc. (incorporated by reference to Exhibit 3.1 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 Exhibit 4.1 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	Description of Willdan Group, Inc.'s Capital Stock (incorporated by reference to Exhibit 4.2 to Willdan Group, Inc.'s Annual Report on Form 10-K filed on March 6, 2020).
4.3	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	Third Amendment to Amended and Restated Credit Agreement, dated as of May 6, 2020, 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 10.1 to Willdan Group, Inc.'s Quarterly Report on Form 10-Q filed on May 7, 2020).
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

Exhibit Number	Exhibit Description
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)

* Filed herewith.

** Furnished herewith.

‡ Portions of the referenced exhibit have been omitted pursuant to (A) a request for confidential treatment under Rule 406 promulgated under the Securities Act of 1933, as amended or (B) Item 601(b) of Regulation S-K because it (i) is not material and (ii) would be competitively harmful if publicly disclosed.

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/ STACY B. MCLAUGHLIN

Stacy B. McLaughlin
Chief Financial Officer and Vice President
(Principal Financial Officer, Principal Accounting Officer and duly authorized officer)
August 6, 2020

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: August 6, 2020

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, Stacy B. McLaughlin, 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: August 6, 2020

By: /s/ STACY B. MCLAUGHLIN

Stacy B. McLaughlin

Chief Financial Officer and Vice President

(Principal Financial Officer)

Exhibit 32.1

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 July 3, 2020, 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 Stacy B. McLaughlin, 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)
August 6, 2020

By: /s/ STACY B. MCLAUGHLIN
Stacy B. McLaughlin
Chief Financial Officer and Vice President
(Principal Financial Officer)
August 6, 2020

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.