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**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 1, 2022

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission file number 001-33076

**WILLDAN GROUP, INC.**

(Exact Name of Registrant as Specified in Its Charter)

Delaware **14-1951112**  
(State or Other Jurisdiction of Incorporation or Organization) (IRS Employer Identification No.)

2401 East Katella Avenue, Suite 300 **92806**  
Anaheim, California (Zip Code)  
(Address of Principal Executive Offices)

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 3, 2022, there were 13,282,133 shares of common stock, \$0.01 par value per share, of Willdan Group, Inc. issued and outstanding.

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**WILLDAN GROUP, INC.**  
**FORM 10-Q QUARTERLY REPORT**

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## **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:

- our ability to adequately complete projects in a timely manner;
- our ability to compete successfully in the highly competitive energy services market, which represented 81% of our consolidated revenue in fiscal year 2021;
- our reliance on work from our top ten clients, which accounted for 49% of our consolidated contract revenue for fiscal year 2021;
- 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;
- changes in state, local and regional economies and government budgets;
- our ability to win new contracts, to renew existing contracts and to compete effectively for contracts awarded through bidding processes;
- our ability to successfully integrate our acquisitions and execute on our growth strategy;
- our ability to make principal and interest payments on our outstanding debt as they come due and to comply with the financial covenants contained in our debt agreements;
- our ability to obtain financing and to refinance our outstanding debt as it matures;
- our ability to attract and retain managerial, technical, and administrative talent; and
- our ability to manage supply chain constraints, labor shortages, and rising inflation.

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

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persons acting on our behalf, are expressly qualified in their entirety by the cautionary statements disclosed elsewhere in this Quarterly Report on Form 10-Q, and under Part I, Item 1A. “Risk Factors”, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and in our Annual Report on Form 10-K for the fiscal year ended December 31, 2021, as such disclosures may be amended, supplemented or superseded from time to time by other reports we file with the Securities and Exchange Commission, including subsequent Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and public communications. You should evaluate all forward-looking statements made in this Quarterly Report on Form 10-Q and otherwise in the context of these risks and uncertainties.

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

**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements**

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

	Assets	July 1, 2022	December 31, 2021
Current assets:			
Cash and cash equivalents	\$ 5,811	\$ 11,221	
Accounts receivable, net of allowance for doubtful accounts of \$751 and \$1,115 at July 1, 2022 and December 31, 2021, respectively	60,301	67,211	
Contract assets	61,177	59,288	
Other receivables	6,231	6,267	
Prepaid expenses and other current assets	4,864	4,972	
Total current assets	138,384	148,959	
Equipment and leasehold improvements, net	19,382	16,757	
Goodwill	130,124	130,124	
Right-of-use assets	13,387	15,177	
Other intangible assets, net	47,024	52,713	
Other assets	13,891	13,843	
Deferred income taxes, net	19,691	16,849	
Total assets	\$ 381,883	\$ 394,422	
Liabilities and Stockholders' Equity			
Current liabilities:			
Accounts payable	\$ 27,813	\$ 36,672	
Accrued liabilities	34,994	35,680	
Contingent consideration payable	943	10,206	
Contract liabilities	11,410	13,499	
Notes payable	16,019	15,036	
Finance lease obligations	891	539	
Lease liability	5,435	5,575	
Total current liabilities	97,505	117,207	
Contingent consideration payable	—	832	
Notes payable	97,121	85,538	
Finance lease obligations, less current portion	1,413	778	
Lease liability, less current portion	8,956	10,768	
Other noncurrent liabilities	78	78	
Total liabilities	205,073	215,201	
Commitments and contingencies			
Stockholders' equity:			
Preferred stock, \$0.01 par value, 10,000 shares authorized, no shares issued and outstanding	—	—	
Common stock, \$0.01 par value, 40,000 shares authorized; 13,215 and 12,804 shares issued and outstanding at July 1, 2022 and December 31, 2021, respectively	132	128	
Additional paid-in capital	172,678	167,032	
Accumulated other comprehensive loss	—	(38)	
Retained earnings	4,000	12,099	
Total stockholders' equity	176,810	179,221	
Total liabilities and stockholders' equity	\$ 381,883	\$ 394,422	

See accompanying notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended		Six Months Ended	
	July 1, 2022	July 2, 2021	July 1, 2022	July 2, 2021
Contract revenue	\$ 102,645	\$ 84,154	\$ 194,483	\$ 163,240
Direct costs of contract revenue (inclusive of directly related depreciation and amortization):				
Salaries and wages	21,284	16,366	40,094	32,186
Subcontractor services and other direct costs	49,771	36,902	91,439	68,036
Total direct costs of contract revenue	71,055	53,268	131,533	100,222
General and administrative expenses:				
Salaries and wages, payroll taxes and employee benefits	20,439	18,712	39,796	38,156
Facilities and facility related	2,373	2,379	4,771	5,022
Stock-based compensation	1,714	5,933	5,019	10,139
Depreciation and amortization	4,426	4,224	8,835	8,411
Other	7,936	6,710	15,435	12,551
Total general and administrative expenses	36,888	37,958	73,856	74,279
Income (Loss) from operations	(5,298)	(7,072)	(10,906)	(11,261)
Other income (expense):				
Interest expense, net	(1,030)	(1,099)	(1,781)	(2,163)
Other, net	329	(93)	526	(64)
Total other expense, net	(701)	(1,192)	(1,255)	(2,227)
Income (Loss) before income taxes	(5,999)	(8,264)	(12,161)	(13,488)
Income tax (benefit) expense	(1,673)	(3,663)	(4,062)	(5,121)
Net income (loss)	<u>(4,326)</u>	<u>(4,601)</u>	<u>(8,099)</u>	<u>(8,367)</u>
Other comprehensive income (loss):				
Unrealized gain (loss) on derivative contracts, net of tax	—	104	38	232
Comprehensive income (loss)	<u>\$ (4,326)</u>	<u>\$ (4,497)</u>	<u>\$ (8,061)</u>	<u>\$ (8,135)</u>
Earnings (Loss) per share:				
Basic	\$ (0.33)	\$ (0.37)	\$ (0.63)	\$ (0.68)
Diluted	<u>\$ (0.33)</u>	<u>\$ (0.37)</u>	<u>\$ (0.63)</u>	<u>\$ (0.68)</u>
Weighted-average shares outstanding:				
Basic	13,016	12,421	12,901	12,284
Diluted	13,016	12,421	12,901	12,284

See accompanying notes to Condensed Consolidated Financial Statements.

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

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
<b>Balance at January 1, 2021</b>	12,160	\$ 122	\$149,014	\$ (488)	\$ 20,516	\$169,164
Shares of common stock issued in connection with employee stock purchase plan	66	1	1,384	—	—	1,385
Shares of common stock issued in connection with incentive stock plan	27	—	527	—	—	527
Shares used to pay taxes on stock grants	—	—	(12)	—	—	(12)
Issuance of restricted stock award and units	255	2	(3)	—	—	(1)
Stock-based compensation expense	—	—	4,206	—	—	4,206
Net income (loss)	—	—	—	—	(3,766)	(3,766)
Other comprehensive income	—	—	—	128	—	128
<b>Balance at April 2, 2021</b>	<u>12,508</u>	<u>\$ 125</u>	<u>\$155,116</u>	<u>\$ (360)</u>	<u>\$ 16,750</u>	<u>\$171,631</u>
Shares of common stock issued in connection with incentive stock plan	77	1	850	—	—	851
Shares used to pay taxes on stock grants	(79)	(1)	(3,104)	—	—	(3,105)
Issuance of restricted stock award and units	207	2	(2)	—	—	—
Stock-based compensation expense	—	—	5,933	—	—	5,933
Net income (loss)	—	—	—	—	(4,601)	(4,601)
Other comprehensive income	—	—	—	104	—	104
<b>Balance at July 2, 2021</b>	<u>12,713</u>	<u>\$ 127</u>	<u>\$158,793</u>	<u>\$ (256)</u>	<u>\$ 12,149</u>	<u>\$170,813</u>
	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
<b>Balance at December 31, 2021</b>	12,804	\$ 128	\$167,032	\$ (38)	\$ 12,099	\$179,221
Shares of common stock issued in connection with employee stock purchase plan	52	1	1,560	—	—	1,561
Shares of common stock issued in connection with incentive stock plan	4	—	23	—	—	23
Shares used to pay taxes on stock grants	(27)	—	(837)	—	—	(837)
Issuance of restricted stock award and units	373	3	(3)	—	—	—
Stock-based compensation expense	—	—	3,305	—	—	3,305
Net income (loss)	—	—	—	—	(3,773)	(3,773)
Other comprehensive income	—	—	—	38	—	38
<b>Balance at April 1, 2022</b>	<u>13,206</u>	<u>\$ 132</u>	<u>\$171,080</u>	<u>\$ —</u>	<u>\$ 8,326</u>	<u>\$179,538</u>
Shares of common stock issued in connection with employee stock purchase plan	—	—	—	—	—	—
Shares of common stock issued in connection with incentive stock plan	—	—	—	—	—	—
Shares used to pay taxes on stock grants	(5)	—	(116)	—	—	(116)
Issuance of restricted stock award and units	14	—	—	—	—	—
Stock-based compensation expense	—	—	1,714	—	—	1,714
Net income (loss)	—	—	—	—	(4,326)	(4,326)
Other comprehensive income	—	—	—	—	—	—
<b>Balance at July 1, 2022</b>	<u>13,215</u>	<u>\$ 132</u>	<u>\$172,678</u>	<u>\$ —</u>	<u>\$ 4,000</u>	<u>\$176,810</u>

See accompanying notes to Condensed Consolidated Financial Statements.

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

	Six Months Ended	
	July 1, 2022	July 2, 2021
Cash flows from operating activities:		
Net income (loss)	\$ (8,099)	\$ (8,367)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	8,835	8,411
Deferred income taxes, net	(2,842)	(3,041)
(Gain) loss on sale/disposal of equipment	(69)	(25)
Provision for doubtful accounts	107	342
Stock-based compensation	5,019	10,139
Accretion and fair value adjustments of contingent consideration	111	751
Changes in operating assets and liabilities, net of effects from business acquisitions:		
Accounts receivable	6,803	2,946
Contract assets	(1,889)	(4,266)
Other receivables	36	984
Prepaid expenses and other current assets	225	1,525
Other assets	(48)	5,000
Accounts payable	(8,859)	(13,311)
Accrued liabilities	(648)	(2,712)
Contract liabilities	(2,089)	1,020
Right-of-use assets	(162)	(104)
Net cash (used in) provided by operating activities	<u>(3,569)</u>	<u>(708)</u>
Cash flows from investing activities:		
Purchase of equipment and leasehold improvements	(4,344)	(3,100)
Proceeds from sale of equipment	73	43
Net cash (used in) provided by investing activities	<u>(4,271)</u>	<u>(3,057)</u>
Cash flows from financing activities:		
Payments on contingent consideration	(10,206)	(6,616)
Payments on notes payable	(1,051)	(1,541)
Borrowings under term loan facility and line of credit	20,000	—
Repayments under term loan facility and line of credit	(6,500)	(6,500)
Principal payments on finance leases	(444)	(214)
Proceeds from stock option exercise	23	1,378
Proceeds from sales of common stock under employee stock purchase plan	1,561	1,385
Cash used to pay taxes on stock grants	(953)	(3,117)
Restricted Stock Award and Units	—	(1)
Net cash (used in) provided by financing activities	<u>2,430</u>	<u>(15,226)</u>
Net increase (decrease) in cash and cash equivalents	(5,410)	(18,991)
Cash and cash equivalents at beginning of period	11,221	28,405
Cash and cash equivalents at end of period	<u>\$ 5,811</u>	<u>\$ 9,414</u>
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	\$ 1,584	\$ 1,961
Income taxes	413	(1,669)
Supplemental disclosures of noncash investing and financing activities:		
Equipment acquired under finance leases	1,431	575

See accompanying notes to Condensed Consolidated Financial Statements.

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

**1. ORGANIZATION AND OPERATIONS OF THE COMPANY**

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

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

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

*Fiscal Years*

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

*Use of Estimates*

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

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

*Historical and Current Impact of Covid-19*

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

Through the current fiscal year 2022, though none of the Company’s current programs are under suspension due to Covid-19 restrictions, certain market segments such as small business customers of major utilities continue to experience lingering impacts of the reduced economic activity due to the Covid-19 related mandates in 2020 and 2021. As of August 3, 2022, none of the Company’s contracts were cancelled as a result of Covid-19.

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

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

*Impact on Clients and Subcontractors and Other Risks*

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

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

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

**2. RECENT ACCOUNTING PRONOUNCEMENTS**

*Accounting Pronouncements Recently Adopted*

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

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

### 3. REVENUES

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Retainage, included in contract assets, represents amounts withheld from billings to the Company's clients pursuant to provisions in the contracts and may not be paid to the Company until specific tasks are completed or the project is completed and, in some instances, for even longer periods. As of July 1, 2022 and December 31, 2021, contract assets included retainage of approximately \$6.4 million and \$4.5 million, respectively.

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

*Accounts Receivable*

From time to time, in connection with factoring agreements, the Company sells trade accounts receivable without recourse to third party purchasers in exchange for cash. During the six months ended July 1, 2022, the Company did not sell any trade accounts receivable. During the six months ended July 2, 2021, the Company sold trade accounts receivable and received cash proceeds of \$8.0 million. The discounts on the trade accounts receivable sold were \$0.8 million and were recorded within “Other, net” in other income (expense) in the condensed consolidated financial statements.

*Equipment and Leasehold Improvements*

	July 1, 2022	December 31, 2021
	(in thousands)	
Furniture and fixtures	\$ 4,018	\$ 4,070
Computer hardware and software	30,659	26,425
Leasehold improvements	3,011	3,011
Equipment under finance leases	4,541	3,286
Automobiles, trucks, and field equipment	3,111	3,099
Subtotal	45,340	39,891
Accumulated depreciation and amortization	(25,958)	(23,134)
Equipment and leasehold improvements, net	\$ 19,382	\$ 16,757

Included in accumulated depreciation and amortization is \$0.5 million and \$0.6 million of amortization expense related to equipment held under finance leases for the six months ended July 1, 2022 and for fiscal year 2021, respectively.

*Accrued Liabilities*

	July 1, 2022	December 31, 2021
	(in thousands)	
Accrued subcontractor costs	\$ 22,938	\$ 19,727
Other	4,263	2,750
Employee withholdings	2,943	2,665
Compensation and payroll taxes	2,546	2,244
Accrued bonuses	1,733	7,767
Accrued workers' compensation insurance	571	527
Total accrued liabilities	\$ 34,994	\$ 35,680

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

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

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 1, 2022.

*Intangible Assets*

	<b>July 1, 2022</b>		<b>December 31, 2021</b>		<b>Amortization Period (in years)</b>
	<b>Gross Amount</b>	<b>Accumulated Amortization</b>	<b>Gross Amount</b>	<b>Accumulated Amortization</b>	
(in thousands)					
<b>Finite:</b>					
Backlog	\$ 7,944	\$ 7,655	\$ 7,944	\$ 7,222	1.0
Tradename	15,911	9,993	15,911	8,997	2.5 - 6.0
Non-compete agreements	1,420	1,420	1,420	1,413	4.0 - 5.0
Developed technology	15,810	10,411	15,500	8,950	8.0
Customer relationships	58,149	22,731	58,149	19,939	5.0 - 8.0
Total finite intangible assets	<b><u>99,234</u></b>	<b><u>52,210</u></b>	<b><u>98,924</u></b>	<b><u>46,521</u></b>	
In-process research and technology <sup>(1)</sup>	—	—	310	—	
Total intangible assets	<b><u>\$ 99,234</u></b>	<b><u>\$ 52,210</u></b>	<b><u>\$ 99,234</u></b>	<b><u>\$ 46,521</u></b>	

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

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

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

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

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

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

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

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

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

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

## 6. DEBT OBLIGATIONS

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

	July 1, 2022	December 31, 2021
	(in thousands)	
Outstanding borrowings on Term A Loan	\$ 70,000	\$ 75,000
Outstanding borrowings on Revolving Credit Facility	—	—
Outstanding borrowings on Delayed Draw Term Loan	42,500	24,000
Other debt agreements	1,110	2,161
Total debt	113,610	101,161
Issuance costs and debt discounts	(470)	(587)
Subtotal	113,140	100,574
Less current portion of long-term debt	16,019	15,036
Long-term debt portion	<u>\$ 97,121</u>	<u>\$ 85,538</u>

### Credit Facilities

On June 26, 2019, the Company and certain of its subsidiaries entered into an Amended and Restated Credit Agreement (as amended by the First Amendment, dated as of August 15, 2019, the Second Amendment, dated as of November 6, 2019, the Third Amendment, dated as of May 6, 2020, the Fourth Amendment, dated April 30, 2021, and the Fifth Amendment, dated March 8, 2022, the “Credit Agreement”) with a syndicate of financial institutions as lenders and BMO Harris Bank, N.A. (“BMO”), as administrative agent. The Credit Agreement provides for (i) a \$100.0 million secured term loan (the “Term A Loan”), (ii) up to \$50.0 million in delayed draw secured term loans (the “Delayed Draw Term Loan”), and (iii) a \$50.0 million secured revolving credit facility (the “Revolving Credit Facility” and, collectively with the Term A Loan and the Delayed Draw Term Loan, the “Credit Facilities”), each maturing on June 26, 2024. The Company’s obligations under the Credit Agreement are guaranteed by its present and future domestic subsidiaries, with limited exceptions.

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

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

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

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

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

*Fifth Amendment to the Credit Agreement*

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

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

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from utilizing as a reference rate the LIBOR to utilizing the Secured Overnight Financing Rate (“SOFR”). Additionally, during the remainder of the Covenant Relief Period, the aggregate amount of all capital expenditures made by the Company may not exceed \$20.0 million.

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

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

As of July 1, 2022, the Company was in compliance with all covenants contained in the Credit Agreement, as amended.

*Other Debt Agreements*

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

**WILLDAN GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**  
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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 2026.

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

*Financing Leases*

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

*Right-of-use assets*

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

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

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

	Three Months Ended		Six Months Ended	
	July 1, 2022	July 2, 2021	July 1, 2022	July 2, 2021
	(in thousands)		(in thousands)	
Operating lease cost	\$ 1,534	\$ 1,653	\$ 3,112	\$ 3,345
Finance lease cost:				
Amortization of assets	255	135	488	258
Interest on lease liabilities	15	7	29	13
Total net lease cost	<u>\$ 1,804</u>	<u>\$ 1,795</u>	<u>\$ 3,629</u>	<u>\$ 3,616</u>

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

	July 1, 2022	December 31, 2021
	(in thousands)	
Operating leases:		
Right-of-use assets	<u>\$ 13,387</u>	<u>\$ 15,177</u>
Lease liability	\$ 5,435	\$ 5,575
Lease liability, less current portion	<u>8,956</u>	<u>10,768</u>
Total lease liabilities	<u>\$ 14,391</u>	<u>\$ 16,343</u>
Finance leases (included in equipment and leasehold improvements, net):		
Equipment and leasehold improvements, net	\$ 4,541	\$ 3,286
Accumulated depreciation	(2,259)	(1,947)
Total equipment and leasehold improvements, net	<u>\$ 2,282</u>	<u>\$ 1,339</u>
Finance lease obligations	\$ 891	\$ 539
Finance lease obligations, less current portion	<u>1,413</u>	<u>778</u>
Total finance lease obligations	<u>\$ 2,304</u>	<u>\$ 1,317</u>
Weighted average remaining lease term (in years):		
Operating Leases	3.55	3.79
Finance Leases	2.65	2.62
Weighted average discount rate:		
Operating Leases	4.13 %	4.28 %
Finance Leases	2.57 %	2.78 %

Rent expense was \$1.7 million and \$3.3 million for the three and six months ended July 1, 2022, respectively, as compared to \$1.8 million and \$3.6 million for the three and six months ended July 2, 2021, respectively.

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

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

	Six Months Ended	
	July 1, 2022	July 2, 2021
(in thousands)		
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flow from operating leases	\$ 3,273	\$ 3,477
Operating cash flow from finance leases	29	13
Financing cash flow from finance leases	444	214
Right-of-use assets obtained in exchange for lease liabilities:		
Operating leases	\$ 1,002	\$ 240

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

	Operating	Finance
	(in thousands)	(in thousands)
Fiscal year:		
Remainder of 2022	\$ 3,117	\$ 522
2023	4,543	947
2024	3,030	674
2025	2,225	157
2026	2,159	73
2027 and thereafter	453	7
Total lease payments	15,527	2,380
Less: Imputed interest	(1,136)	(76)
Total lease obligations	14,391	2,304
Less: Current obligations	5,435	891
Noncurrent lease obligations	\$ 8,956	\$ 1,413

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

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

*Employee Benefit Plans*

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

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

During the six months ended July 1, 2022 and July 2, 2021, the Company made matching contributions of \$1.6 million and \$1.3 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 1, 2022, the Company had one VIE — Genesys.

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

**9. SEGMENT AND GEOGRAPHICAL INFORMATION**

*Segment Information*

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

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

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

	Energy	Engineering & Consulting	Unallocated Corporate	Intersegment	Consolidated Total
	(in thousands)				
<b>Fiscal Three Months Ended July 1, 2022</b>					
Contract revenue	\$ 84,675	\$ 17,970	\$ -	\$ -	\$ 102,645
Depreciation and amortization	4,183	243	-	-	4,426
Interest expense, net	1	-	1,029	-	1,030
Segment profit (loss) before income tax expense	(6,357)	2,531	(2,173)	-	(5,999)
Income tax expense (benefit)	(1,891)	732	(514)	-	(1,673)
Net income (loss)	(4,467)	1,798	(1,657)	-	(4,326)
Segment assets <sup>(1)</sup>	323,070	23,293	58,650	(23,130)	381,883
<b>Fiscal Three Months Ended July 2, 2021</b>					
Contract revenue	\$ 66,447	\$ 17,707	\$ -	\$ -	\$ 84,154
Depreciation and amortization	3,973	251	-	-	4,224
Interest expense, net	1	-	1,098	-	1,099
Segment profit (loss) before income tax expense	(4,913)	2,724	(6,075)	-	(8,264)
Income tax expense (benefit)	(2,151)	1,247	(2,759)	-	(3,663)
Net income (loss)	(2,762)	1,478	(3,317)	-	(4,601)
Segment assets <sup>(1)</sup>	322,255	22,952	58,410	(23,130)	380,487
<b>Fiscal Six Months Ended July 1, 2022</b>					
Contract revenue	\$ 159,561	\$ 34,922	\$ -	\$ -	\$ 194,483
Depreciation and amortization	8,340	495	-	-	8,835
Interest expense, net	5	-	1,776	-	1,781
Segment profit (loss) before income tax expense	(10,710)	4,638	(6,089)	-	(12,161)
Income tax expense (benefit)	(3,578)	1,549	(2,033)	-	(4,062)
Net income (loss)	(7,132)	3,088	(4,055)	-	(8,099)
Segment assets <sup>(1)</sup>	323,070	23,293	58,650	(23,130)	381,883
<b>Fiscal Six Months Ended July 2, 2021</b>					
Contract revenue	\$ 128,454	\$ 34,786	\$ -	\$ -	\$ 163,240
Depreciation and amortization	7,911	500	-	-	8,411
Interest expense, net	5	-	2,158	-	2,163
Segment profit (loss) before income tax expense	(7,745)	4,834	(10,577)	-	(13,488)
Income tax expense (benefit)	(2,941)	1,836	(4,016)	-	(5,121)
Net income (loss)	(4,804)	2,999	(6,562)	-	(8,367)
Segment assets <sup>(1)</sup>	322,255	22,952	58,410	(23,130)	380,487

<sup>(1)</sup> Segment assets are presented net of intercompany receivables.

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

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

Three months ended July 1, 2022				
	Energy	Engineering and Consulting	Total	
	(in thousands)			
<b>Contract Type</b>				
Time-and-materials	\$ 7,587	\$ 13,340	\$ 20,927	
Unit-based	42,544	3,755	46,299	
Fixed price	34,545	874	35,419	
Total <sup>(1)</sup>	<u>\$ 84,675</u>	<u>\$ 17,970</u>	<u>\$ 102,645</u>	
<b>Client Type</b>				
Commercial	\$ 6,701	\$ 1,476	\$ 8,177	
Government	29,861	16,338	46,199	
Utilities <sup>(2)</sup>	48,114	156	48,270	
Total <sup>(1)</sup>	<u>\$ 84,675</u>	<u>\$ 17,970</u>	<u>\$ 102,645</u>	
<b>Geography <sup>(3)</sup></b>				
Domestic	<u>\$ 84,675</u>	<u>\$ 17,970</u>	<u>\$ 102,645</u>	
Six months ended July 1, 2022				
	Energy	Engineering and Consulting	Total	
	(in thousands)			
<b>Contract Type</b>				
Time-and-materials	\$ 16,405	\$ 26,341	\$ 42,746	
Unit-based	85,501	6,739	92,240	
Fixed price	57,655	1,842	59,497	
Total <sup>(1)</sup>	<u>\$ 159,561</u>	<u>\$ 34,922</u>	<u>\$ 194,483</u>	
<b>Client Type</b>				
Commercial	\$ 14,790	\$ 2,954	\$ 17,744	
Government	48,220	31,791	80,011	
Utilities <sup>(2)</sup>	96,551	177	96,728	
Total <sup>(1)</sup>	<u>\$ 159,561</u>	<u>\$ 34,922</u>	<u>\$ 194,483</u>	
<b>Geography <sup>(3)</sup></b>				
Domestic	<u>\$ 159,561</u>	<u>\$ 34,922</u>	<u>\$ 194,483</u>	
Three months ended July 2, 2021				
	Energy	Engineering and Consulting	Total	
	(in thousands)			
<b>Contract Type</b>				
Time-and-materials	\$ 9,056	\$ 13,863	\$ 22,919	
Unit-based	41,604	2,722	44,326	
Fixed price	15,786	1,123	16,909	
Total <sup>(1)</sup>	<u>\$ 66,446</u>	<u>\$ 17,708</u>	<u>\$ 84,154</u>	
<b>Client Type</b>				
Commercial	\$ 7,016	\$ 1,372	\$ 8,388	
Government	13,675	16,281	29,956	
Utilities <sup>(2)</sup>	45,756	55	45,811	
Total <sup>(1)</sup>	<u>\$ 66,446</u>	<u>\$ 17,708</u>	<u>\$ 84,154</u>	
<b>Geography <sup>(3)</sup></b>				
Domestic	<u>\$ 66,446</u>	<u>\$ 17,708</u>	<u>\$ 84,154</u>	

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

	Six months ended July 2, 2021			(in thousands)
	Energy	Engineering and Consulting	Total	
<b>Contract Type</b>				
Time-and-materials	\$ 15,956	\$ 27,284	\$ 43,240	
Unit-based	81,218	5,167	86,385	
Fixed price	31,279	2,336	33,615	
Total <sup>(1)</sup>	<u><u>\$ 128,453</u></u>	<u><u>\$ 34,787</u></u>	<u><u>\$ 163,240</u></u>	
<b>Client Type</b>				
Commercial	\$ 12,944	\$ 2,469	\$ 15,413	
Government	27,229	32,210	59,439	
Utilities <sup>(2)</sup>	88,280	108	88,388	
Total <sup>(1)</sup>	<u><u>\$ 128,453</u></u>	<u><u>\$ 34,787</u></u>	<u><u>\$ 163,240</u></u>	
<b>Geography <sup>(3)</sup></b>				
Domestic	<u><u>\$ 128,453</u></u>	<u><u>\$ 34,787</u></u>	<u><u>\$ 163,240</u></u>	

<sup>(1)</sup> Amounts may not add to the totals due to rounding.

<sup>(2)</sup> Includes the portion of revenue related to small business programs paid by the end user/customer.

<sup>(3)</sup> Revenue from the Company's foreign operations were not material for the three and six months ended July 1, 2022 and July 2, 2021.

#### *Geographical Information*

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

#### *Customer Concentration*

For the three and six months ended July 1, 2022, the Company's top 10 customers accounted for 55.4%, and 54.4%, respectively, of the Company's consolidated contract revenue. For the three and six months ended July 2, 2021, the Company's top 10 customers accounted for 48.4%, and 46.2%, respectively, of the Company's consolidated contract revenue.

For the three and six months ended July 1, 2022, the Company had one customer, LADWP, that accounted for 14.6% and 15.8%, respectively, of its consolidated contract revenues. For the three and six months ended July 2, 2021, the Company did not have any individual customers that accounted for more than 10% of its consolidated contract revenues.

On a segment basis, the Company had individual customers that accounted for more than 10% of its segment contract revenues. For the three and six months ended July 1, 2022, the Company derived 17.6% and 19.2%, respectively, of its Energy segment revenues from one customer, LADWP. For the three and six months ended July 1, 2022, no single customer accounted for 10% or more of its Engineering and Consulting segment revenues. For the three and six months ended July 1, 2021, the Company derived 11.5% and 10.9%, respectively, of its Energy segment revenues from one customer, Consolidated Edison of New York, and it derived 13.9% and 15.8%, respectively, of its Engineering and Consulting segment revenues from one customer, the City of Elk Grove.

The Company's largest clients are based in California and New York. For the three and six months ended July 1, 2022, services provided to clients in California accounted for 40.9% and 42.2%, respectively, of the Company's

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

contract revenue and services provided to clients in New York accounted for 19.6% and 20.2%, respectively, of the Company's contract revenue. For the three and six months ended July 2, 2021, services provided to clients in California accounted for 34.8% and 34.5%, respectively, of the Company's contract revenue and services provided to clients in New York accounted for 21.6% and 21.8%, respectively, of the Company's contract revenue.

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

**10. INCOME TAXES**

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

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

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

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

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

**WILLDAN GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**  
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Based on the Company's estimates and determination of an effective tax rate for the year, the Company recorded an income tax benefit of \$1.7 million and \$4.1 million for the three and six months ended July 1, 2022, respectively, as compared to an income tax benefit of \$3.7 million and \$5.1 million for the three and six months ended July 2, 2021, respectively. During the three and six months ended July 1, 2022, the difference between the effective tax rate and the federal statutory rate was primarily attributable to state taxes, non-deductible stock compensation, nondeductible executive compensation, research and development tax credits, and the commercial building energy efficiency deduction. During the three and six months ended July 2, 2021, the difference between the effective tax rate and the federal statutory rate was primarily attributable to state taxes, excess tax benefit on stock compensation, nondeductible executive compensation, research and development tax credits, the commercial building energy efficiency deduction, and additional benefits provided by the Coronavirus Aid, Relief, and Economic Security (CARES) Act (H.R 748).

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

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

**11. EARNINGS PER SHARE (“EPS”)**

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

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

	Three months ended		Six months ended	
	July 1, 2022	July 2, 2021	July 1, 2022	July 2, 2021
(in thousands, except per share amounts)				
Net income (loss)	\$ (4,326)	\$ (4,601)	\$ (8,099)	\$ (8,367)
Weighted-average common shares outstanding	13,016	12,421	12,901	12,284
Effect of dilutive stock options and restricted stock awards	—	—	—	—
Weighted-average common shares outstanding-diluted	13,016	12,421	12,901	12,284
Earnings (Loss) per share:				
Basic	\$ (0.33)	\$ (0.37)	\$ (0.63)	\$ (0.68)
Diluted	\$ (0.33)	\$ (0.37)	\$ (0.63)	\$ (0.68)

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

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

**12. CONTINGENCIES**

***Claims and Lawsuits***

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

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

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

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

**13. SUBSEQUENT EVENTS**

*Sixth Amendment to the Credit Agreement*

On August 2, 2022, the Company entered into the Sixth Amendment to the Credit Agreement (the “Sixth Amendment”). The Sixth Amendment increased the purchase money indebtedness and Capitalized Lease Obligations (as defined in the Credit Agreement) permissible limit from \$1.5 million to \$4.0 million.

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

### **Our Company**

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

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

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

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

### **Historical and Current Impact of Covid-19**

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

Through the current fiscal year 2022, though none of our current programs are under suspension due to Covid-19 restrictions, certain market segments such as small business customers of major utilities continue to experience lingering impacts of the reduced economic activity due to the Covid-19 related mandates in 2020 and 2021. As of August 3, 2022, none of our contracts were cancelled as a result of Covid-19.

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

As of July 1, 2022, we did not have any impairment with respect to goodwill or long-lived assets, including intangible assets. Because the full extent of the impact of a resurgence in 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. Should there be a resurgence related to Covid-19, some of these customers could experience significant budget shortfalls for the current year and beyond as a result of the measures taken to mitigate the resurgence effects of the Covid-19 pandemic and/or revenue shortfalls as a result of reduced economic activity. Although none of our contracts with governmental or public agencies were materially modified during our fiscal year 2020 or fiscal year 2021, these potential budget deficits could result in delayed funding for existing contracts, postponements of new contracts or price concessions. Further, most of our clients are not committed to purchase any minimum amount of services, as our agreements with them are based on a “purchase order” or “master service agreement” model. As a result, they may discontinue utilizing some or all of our services with little or no notice.

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

## Results of Operations

### Second Quarter and First Half Overview

The following tables set forth, for the periods indicated, certain information derived from our consolidated statements of comprehensive income<sup>(1)</sup>:

	Three Months Ended					
	July 1, 2022		July 2, 2021		\$ Change	% Change
	(in thousands, except percentages)					
Contract revenue	\$ 102,645	100.0 %	\$ 84,154	100.0 %	\$ 18,491	22.0 %
Direct costs of contract revenue:						
Salaries and wages	21,284	20.7	16,366	19.4	4,918	30.1
Subcontractor services and other direct costs	49,771	48.5	36,902	43.9	12,869	34.9
Total direct costs of contract revenue	<u>71,055</u>	<u>69.2</u>	<u>53,268</u>	<u>63.3</u>	<u>17,787</u>	<u>33.4</u>
Gross profit	31,590	30.8	30,886	36.7	704	2.3
General and administrative expenses:						
Salaries and wages, payroll taxes and employee benefits	20,439	19.9	18,712	22.2	1,727	9.2
Facilities and facilities related	2,373	2.3	2,379	2.8	(6)	(0.3)
Stock-based compensation	1,714	1.7	5,933	7.1	(4,219)	(71.1)
Depreciation and amortization	4,426	4.3	4,224	5.0	202	4.8
Other	7,936	7.7	6,710	8.0	1,226	18.3
Total general and administrative expenses	<u>36,888</u>	<u>35.9</u>	<u>37,958</u>	<u>45.1</u>	<u>(1,070)</u>	<u>(2.8)</u>
Income (loss) from operations	(5,298)	(5.2)	(7,072)	(8.4)	1,774	(25.1)
Other income (expense):						
Interest expense	(1,030)	(1.0)	(1,099)	(1.3)	69	(6.3)
Other, net	329	0.3	(93)	(0.1)	422	N/M
Total other income (expense)	<u>(701)</u>	<u>(0.7)</u>	<u>(1,192)</u>	<u>(1.4)</u>	<u>491</u>	<u>(41.2)</u>
Income (Loss) before income tax expense	(5,999)	(5.8)	(8,264)	(9.8)	2,265	(27.4)
Income tax expense (benefit)	(1,673)	(1.6)	(3,663)	(4.4)	1,990	(54.3)
Net income (loss)	<u>\$ (4,326)</u>	<u>(4.2)</u>	<u>\$ (4,601)</u>	<u>(5.5)</u>	<u>\$ 275</u>	<u>(6.0)</u>

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

N/M = Not meaningful

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	Six Months Ended					
	July 1, 2022		July 2, 2021		\$ Change	% Change
	(in thousands, except percentages)					
Contract revenue	\$ 194,483	100.0 %	\$ 163,240	100.0 %	\$ 31,243	19.1 %
Direct costs of contract revenue:						
Salaries and wages	40,094	20.6	32,186	19.7	7,908	24.6
Subcontractor services and other direct costs	91,439	47.0	68,036	41.7	23,403	34.4
Total direct costs of contract revenue	131,533	67.6	100,222	61.4	31,311	31.2
Gross profit	62,950	32.4	63,018	38.6	(68)	(0.1)
General and administrative expenses:						
Salaries and wages, payroll taxes and employee benefits	39,796	20.5	38,156	23.4	1,640	4.3
Facilities and facilities related	4,771	2.5	5,022	3.1	(251)	(5.0)
Stock-based compensation	5,019	2.6	10,139	6.2	(5,120)	(50.5)
Depreciation and amortization	8,835	4.5	8,411	5.2	424	5.0
Other	15,435	7.9	12,551	7.7	2,884	23.0
Total general and administrative expenses	73,856	38.0	74,279	45.5	(423)	(0.6)
Income (loss) from operations	(10,906)	(5.6)	(11,261)	(6.9)	355	(3.2)
Other income (expense):						
Interest expense	(1,781)	(0.9)	(2,163)	(1.3)	382	(17.7)
Other, net	526	0.3	(64)	(0.0)	590	N/M
Total other income (expense)	(1,255)	(0.6)	(2,227)	(1.4)	972	(43.6)
Income (Loss) before income tax expense	(12,161)	(6.3)	(13,488)	(8.3)	1,327	(9.8)
Income tax expense (benefit)	(4,062)	(2.1)	(5,121)	(3.1)	1,059	(20.7)
Net income (loss)	\$ (8,099)	(4.2)	\$ (8,367)	(5.1)	\$ 268	(3.2)

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

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

				Three months ended July 1, 2022		
				Energy	Engineering and Consulting (in thousands)	Total
<b>Contract Type</b>						
Time-and-materials	\$	7,587	\$	13,340	\$	20,927
Unit-based		42,544		3,755		46,299
Fixed price		34,545		874		35,419
Total <sup>(1)</sup>	\$	<u>84,675</u>	\$	<u>17,970</u>	\$	<u>102,645</u>
<b>Client Type</b>						
Commercial	\$	6,701	\$	1,476	\$	8,177
Government		29,861		16,338		46,199
Utilities <sup>(2)</sup>		48,114		156		48,270
Total <sup>(1)</sup>	\$	<u>84,675</u>	\$	<u>17,970</u>	\$	<u>102,645</u>
<b>Geography <sup>(3)</sup></b>						
Domestic	\$	<u>84,675</u>	\$	<u>17,970</u>	\$	<u>102,645</u>
				Six months ended July 1, 2022		
				Energy	Engineering and Consulting (in thousands)	Total
<b>Contract Type</b>						
Time-and-materials	\$	16,405	\$	26,341	\$	42,746
Unit-based		85,501		6,739		92,240
Fixed price		57,655		1,842		59,497
Total <sup>(1)</sup>	\$	<u>159,561</u>	\$	<u>34,922</u>	\$	<u>194,483</u>
<b>Client Type</b>						
Commercial	\$	14,790	\$	2,954	\$	17,744
Government		48,220		31,791		80,011
Utilities <sup>(2)</sup>		96,551		177		96,728
Total <sup>(1)</sup>	\$	<u>159,561</u>	\$	<u>34,922</u>	\$	<u>194,483</u>
<b>Geography <sup>(3)</sup></b>						
Domestic	\$	<u>159,561</u>	\$	<u>34,922</u>	\$	<u>194,483</u>

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	Three months ended July 2, 2021			<i>(in thousands)</i>
	Energy	Engineering and Consulting	Total	
<b>Contract Type</b>				
Time-and-materials	\$ 9,056	\$ 13,863	\$ 22,919	
Unit-based	41,604	2,722	44,326	
Fixed price	15,786	1,123	16,909	
Total <sup>(1)</sup>	<u><u>\$ 66,446</u></u>	<u><u>\$ 17,708</u></u>	<u><u>\$ 84,154</u></u>	
<b>Client Type</b>				
Commercial	\$ 7,016	\$ 1,372	\$ 8,388	
Government	13,675	16,281	29,956	
Utilities <sup>(2)</sup>	45,756	55	45,811	
Total <sup>(1)</sup>	<u><u>\$ 66,446</u></u>	<u><u>\$ 17,708</u></u>	<u><u>\$ 84,154</u></u>	
<b>Geography <sup>(3)</sup></b>				
Domestic	<u><u>\$ 66,446</u></u>	<u><u>\$ 17,708</u></u>	<u><u>\$ 84,154</u></u>	
Six months ended July 2, 2021				
	Engineering and Consulting			<i>(in thousands)</i>
	Energy	Engineering and Consulting	Total	
<b>Contract Type</b>				
Time-and-materials	\$ 15,956	\$ 27,284	\$ 43,240	
Unit-based	81,218	5,167	86,385	
Fixed price	31,279	2,336	33,615	
Total <sup>(1)</sup>	<u><u>\$ 128,453</u></u>	<u><u>\$ 34,787</u></u>	<u><u>\$ 163,240</u></u>	
<b>Client Type</b>				
Commercial	\$ 12,944	\$ 2,469	\$ 15,413	
Government	27,229	32,210	59,439	
Utilities <sup>(2)</sup>	88,280	108	88,388	
Total <sup>(1)</sup>	<u><u>\$ 128,453</u></u>	<u><u>\$ 34,787</u></u>	<u><u>\$ 163,240</u></u>	
<b>Geography <sup>(3)</sup></b>				
Domestic	<u><u>\$ 128,453</u></u>	<u><u>\$ 34,787</u></u>	<u><u>\$ 163,240</u></u>	

(1) Amounts may not add to the totals due to rounding.

(2) Includes the portion of revenue related to small business programs paid by the end user/customer.

(3) Revenue from our foreign operations were immaterial for the three and six months ended July 1, 2022 and July 2, 2021.

#### Three Months Ended July 1, 2022 Compared to Three Months Ended July 2, 2021

**Contract revenue.** Consolidated contract revenue increased \$18.5 million, or 22.0%, in the three months ended July 1, 2022, compared to the three months ended July 2, 2021, primarily due to incremental revenues in our Energy segment generated from new governmental construction management projects, combined with incremental revenues from the resumption of Covid-19 suspended projects for utilities.

Contract revenue in our Energy segment increased \$18.3 million, or 27.6%, in the three months ended July 1, 2022, compared to the three months ended July 2, 2021, primarily as a result of incremental revenues generated from new governmental construction management projects, combined with incremental revenues from the resumption of Covid-19 suspended projects. Governmental revenues increased as a result of the start-up of newly awarded contracts. Covid-19 suspended projects resumed as a result of the lifting of business suspensions resulting from the Covid-19 pandemic and efforts to limit its spread that impacted projects during the first half of fiscal 2021.

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

**Direct costs of contract revenue.** Direct costs of consolidated contract revenue increased \$17.8 million, or 33.4%, in the three months ended July 1, 2022, compared to the three months ended July 2, 2021, primarily due to

increases in our contract revenues in our Energy segment as described above, as well as the ramping up of new projects for which we saw higher project startup costs relative to the revenue recognized.

Direct costs of contract revenue in our Energy segment increased \$18.4 million, or 41.6%, in the three months ended July 1, 2022, compared to the three months ended July 2, 2021. Direct costs of contract revenue for the Engineering and Consulting segment decreased \$0.6 million, or 6.7%, in the three months ended July 1, 2022, compared to the three months ended July 2, 2021.

Subcontractor services and other direct costs increased by \$12.9 million, or 34.9%, and salaries and wages increased by \$4.9 million, or 30.1%, in the three months ended July 1, 2022, compared to the three months ended July 2, 2021, primarily due to the increases in contract revenues as described above combined with changes in the mix of those contract revenues to those which contain a higher percentage of material costs and installation subcontracting and lower percentage of labor costs, as well as the ramping up of new projects for which we saw higher project startup costs relative to the revenue recognized.

*Gross Profit.* Gross profit increased 2.3% to \$31.6 million, or 30.8% gross margin, for the three months ended July 1, 2022, compared to gross profit of \$30.9 million, or 36.7% gross margin, for the three months ended July 2, 2021. The decrease in our gross margin was primarily driven by changes in the mix of revenues as described above combined with the ramping up of new projects for which we saw higher project startup costs relative to the revenue recognized.

*General and administrative expenses.* General and administrative (“G&A”) expenses decreased by \$1.1 million, or 2.8%, in the three months ended July 1, 2022 compared to the three months ended July 2, 2021. The decrease in G&A expenses consisted of a decrease of \$3.1 million in unallocated corporate expense, partially offset by an increase of \$1.0 million in the Energy segment and an increase of \$1.0 million in the Engineering and Consulting segment. The decrease in G&A expenses was primarily attributed to lower stock-based compensation expenses, partially offset by higher salaries and wages, payroll taxes and employee benefits combined with higher computer-related expenses and professional service fees.

Within G&A expenses, the decrease of \$4.2 million in stock-based compensation was partially offset by an increase of \$1.7 million in salaries and wages, payroll taxes and employee benefits, combined with an increase of \$1.2 million in other general and administrative expenses, and an increase of \$0.2 million in depreciation and amortization. Facilities and facility related expenses were relatively flat for the three months ended July 1, 2022, compared to the three months ended July 2, 2021. The decrease in stock-based compensation expenses was primarily related to previously awarded stock grants reaching the end of their corresponding vesting periods. The increase in salaries and wages, payroll taxes and employee benefits was primarily due to increases in personnel. The increase in other general and administrative expenses was primarily due to higher computer-related expenses and professional service fees. The increase in depreciation and amortization was primarily related to higher depreciation of internally-developed computer software.

*Income (loss) from operations.* Operating loss was \$5.3 million for the three months ended July 1, 2022 as a result of the factors noted above. As a percentage of contract revenue, operating loss decreased from 8.4% to 5.2% for the three months ended July 1, 2022, compared to the three months ended July 2, 2021.

*Total other expense, net.* Total other expense, net, decreased \$0.5 million, or 41.2%, for the three months ended July 1, 2022, compared to the three months ended July 2, 2021, as a result of income from indemnification agreements and lower interest expense related to principal reductions in term loans.

*Income tax expense (benefit).* We recorded an income tax benefit of \$1.7 million for the three months ended July 1, 2022, compared to a tax benefit of \$3.7 million for the three months ended July 2, 2021. The decrease in the tax rate is primarily attributable to a one-time benefit derived from the CARES Act that was realized in the three months ended July 2, 2021, and that did not recur in the three months ended July 1, 2022.

*Net income (loss).* Our net loss was \$4.3 million for the three months ended July 1, 2022, as compared to a net loss of \$4.6 million for the three months ended July 2, 2021. The improvement in net loss was primarily attributable to

the increase in gross profit combined with lower G&A and lower total other expense, net, partially offset by lower income tax benefits.

*Six Months Ended July 1, 2022 Compared to Six Months Ended July 2, 2021*

*Contract revenue.* Consolidated contract revenue increased \$31.2 million, or 19.1%, in the six months ended July 1, 2022, compared to the six months ended July 2, 2021, primarily due to incremental revenues in our Energy segment generated from new governmental construction management projects, combined with incremental revenues from the resumption of Covid-19 suspended projects for utilities.

Contract revenue in our Energy segment increased \$31.2 million, or 24.3%, in the six months ended July 1, 2022, compared to the six months ended July 2, 2021, primarily as a result of incremental revenues generated from new government projects, combined with incremental revenues from the resumption of Covid-19 suspended projects, as described above.

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

*Direct costs of contract revenue.* Direct costs of consolidated contract revenue increased \$31.3 million, or 31.2%, in the six months ended July 1, 2022, compared to the six months ended July 2, 2021, primarily due to increases in our contract revenues in our Energy segment as described above as well as the ramping up of new projects for which we saw higher project startup costs relative to the revenue recognized.

Direct costs of contract revenue in our Energy segment increased \$32.5 million, or 39.6%, in the six months ended July 1, 2022, compared to the six months ended July 2, 2021. Direct costs of contract revenue for the Engineering and Consulting segment decreased \$1.2 million, or 6.9%, in the six months ended July 1, 2022, compared to the six months ended July 2, 2021.

Subcontractor services and other direct costs increased by \$23.4 million, or 34.4%, and salaries and wages increased by \$7.9 million, or 24.6%, in the six months ended July 1, 2022, compared to the six months ended July 2, 2021, primarily due to the increases in contract revenues as described above combined with changes in the mix of those contract revenues to those which contain a higher percentage of material costs and installation subcontracting and lower percentage of labor costs, as well as the ramping up of new projects for which we saw higher project startup costs relative to the revenue recognized.

*Gross Profit.* Gross profit was relatively flat for the six months ended July 1, 2022, compared to the six months ended July 2, 2021 for the reasons noted above.

*General and administrative expenses.* G&A expenses were relatively flat for the six months ended July 1, 2022, compared to the six months ended July 2, 2021. G&A expenses consisted of a decrease of \$3.5 million in unallocated corporate expense, partially offset by an increase of \$1.7 million in the Energy segment combined with an increase of \$1.4 million in the Engineering and Consulting segment. The decrease in G&A expenses was primarily attributed to lower stock-based compensation expenses, partially offset by higher computer-related expenses and higher professional service fee, combined with higher salaries and wages, payroll taxes and employee benefits.

Within G&A expenses, the decrease of \$5.1 million in stock-based compensation combined with the decrease of \$0.3 million in facilities and facility related expense was partially offset by an increase of \$2.9 million in other general and administrative expenses, combined with an increase of \$1.6 million in salaries and wages, payroll taxes and employee benefits, and an increase of \$0.4 million in depreciation and amortization. The decrease in stock-based compensation expenses was primarily related to previously awarded stock grants reaching the end of their corresponding vesting periods. The decrease in facilities and facility related expense was primarily attributed to satisfied facility leases that were not renewed. The increase in salaries and wages, payroll taxes and employee benefits was primarily due to increases in personnel. The increase in other general and administrative expenses was primarily due to higher computer-

related expenses and professional service fees. The increase in depreciation and amortization was primarily related to higher depreciation of internally-developed computer software.

*Income (loss) from operations.* Operating loss was \$10.9 million for the six months ended July 1, 2022, as a result of the factors noted above. As a percentage of contract revenue, operating loss decreased from 6.9% to 5.6% for the six months ended July 1, 2022, compared to the six months ended July 2, 2021.

*Total other expense, net.* Total other expense, net, decreased \$1.0 million, or 43.6%, for the six months ended July 1, 2022, compared to the six months ended July 2, 2021, as a result of income from an indemnification agreement and lower interest expense related to principal reductions in term loans.

*Income tax expense (benefit).* We recorded an income tax benefit of \$4.1 million for the six months ended July 1, 2022 compared to a tax benefit of \$5.1 million for the six months ended July 2, 2021. The decrease in the tax rate is primarily attributable to a one-time benefit derived from the CARES Act that was realized in the six months ended July 2, 2021, and that did not recur in the three months ended July 1, 2022.

*Net income (loss).* Our net loss was \$8.1 million for the six months ended July 1, 2022, as compared to a net loss of \$8.4 million for the six months July 2, 2021. The improvement in our net loss was primarily attributable to lower G&A combined with lower total other expense, net, partially offset by lower income tax benefit.

### Liquidity and Capital Resources

	Six Months Ended	
	July 1, 2022	July 2, 2021
(in thousands)		
Net cash provided by (used in):		
Operating activities	\$ (3,569)	\$ (708)
Investing activities	(4,271)	(3,057)
Financing activities	2,430	(15,226)
Net increase (decrease) in cash and cash equivalents	<u>\$ (5,410)</u>	<u>\$ (18,991)</u>

#### Sources of Cash

We believe that our cash and cash equivalents, cash generated by operating activities, and available borrowings under our Revolving Credit Facility and Delayed Draw Term Loan will be sufficient to finance our operating activities for at least the next 12 months. As a result of forecasted increased working capital requirements related to our California Investor-Owned Utility Contracts and other organic growth, on March 8, 2022, we amended our Credit Agreement to, among other things, adjust certain covenants to ensure an adequate margin for compliance obligations through fiscal year 2022. On August 2, 2022, we amended our Credit Agreement to increase the purchase money indebtedness and Capitalized Lease Obligations (as defined in the Credit Agreement) limit. For more information, see Part I, Item 1, Note 6, “*Debt Obligations*”, and Note 13, “*Subsequent Events*”, of the Notes to Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q.

As of July 1, 2022, we had a fully drawn \$100 million Term A Loan with \$70.0 million outstanding, a \$50.0 million Revolving Credit Facility with no borrowed amounts outstanding and \$4.1 million in letters of credit issued, and a fully drawn \$50.0 million Delayed Draw Term Loan with \$42.5 million outstanding, each scheduled to mature on June 26, 2024. In addition, as of July 1, 2022, we had \$5.8 million of cash and cash equivalents. Our primary source of liquidity for the next 12 months and beyond is cash generated from operations and borrowings under our Revolving Credit Facility.

As of July 1, 2022, borrowings under our Credit Facilities, exclusive of the effects of upfront fees, undrawn fees and issuance cost amortization, bore interest at 3.9%. See Part I, Item 1, Note 6, “*Debt Obligations*”, of the Notes to Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q, and Part II, Item 8, Note

5, “*Debt Obligations*”, of the Notes to the Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2021, for information regarding our indebtedness, including information about new borrowings and repayments, principal repayment terms, interest rates, covenants, and other key terms of our outstanding indebtedness.

*Cash Flows from Operating Activities*

Cash flows used in operating activities were \$3.6 million for the six months ended July 1, 2022, as compared to cash flows used in operating activities of \$0.7 million for the six months ended July 2, 2021. Cash flow from operating activities primarily consists of net income, adjusted for non-cash charges, such as depreciation and amortization and stock-based compensation, plus or minus changes in operating assets and liabilities. Cash flows used in operating activities for the six months ended July 1, 2022, resulted primarily from the changing mix of revenues, combined with the increased demand for working capital related to the resumption of our utility programs that were suspended in 2021 and start-up costs associated with certain new contract awards. Changes in cash flows used in operating activities for the six months ended July 2, 2021, resulted primarily due to the changing mix of revenues and start-up costs associated with certain new contract awards.

*Cash Flows from Investing Activities*

Cash flows used in investing activities were \$4.3 million for the six months ended July 1, 2022, as compared to cash flows used in investing activities of \$3.1 million for the six months ended July 2, 2021. Cash flows used in investing activities for the six months ended July 1, 2022 were primarily due to cash paid for the development of software, and the purchase of equipment. Cash flows used in investing activities for the six months ended July 2, 2021 were primarily due to cash paid for the development of software, the purchase of equipment and leasehold improvements.

*Cash Flows from Financing Activities*

Cash flows provided by financing activities were \$2.4 million for the six months ended July 1, 2022, as compared to cash flows used in financing activities of \$15.2 million for the six months ended July 2, 2021. Cash flows provided by financing activities for the six months ended July 1, 2022, were primarily attributable to borrowings of \$20.0 million under our Delayed Draw Term Loan, partially offset by payments of \$10.2 million for contingent consideration related to prior acquisitions combined with repayments of \$6.5 million under our term loan facility and revolving line of credit. Cash flows used in financing activities for the six months ended July 2, 2021, were primarily attributable to payments of \$6.6 million for contingent consideration related to prior acquisitions, repayments of \$6.5 million under our term loan facility and revolving line of credit, payments of taxes on stock grants of \$3.1 million, payments on notes payable of \$1.5 million, partially offset by \$1.4 million in proceeds from sales of common stock under our employee stock purchase plan and \$1.4 million in proceeds from stock option exercise.

*Off-Balance Sheet Arrangements*

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

## Short and Long-term Uses of Cash

### *General*

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

### *Contractual Obligations*

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

Contractual Obligations	Total	Less than 1 Year			More than 5 Years	
		1 - 3 Years	3 - 5 Years	(in thousands)	5 Years	
Long term debt <sup>(1)</sup>	\$ 113,140	\$ 16,019	\$ 97,121	\$ —	\$ —	
Interest payments on debt outstanding <sup>(2)</sup>	7,631	4,005	3,626	—	—	
Operating leases	14,391	5,435	5,667	2,890	399	
Finance leases	2,304	891	1,251	155	7	
Total contractual cash obligations	<u>\$ 137,466</u>	<u>\$ 26,350</u>	<u>\$ 107,665</u>	<u>\$ 3,045</u>	<u>\$ 406</u>	

<sup>(1)</sup> Long-term debt includes \$70.0 million outstanding on our Term A Loan and \$42.5 million outstanding on our Delayed Draw Term Loan as of July 1, 2022. We have assumed no future borrowings or repayments (other than at maturity) for purposes of this table. Our term loans are scheduled to mature on June 26, 2024.

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

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

### *Outstanding Indebtedness*

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

### *Interest Rate Swap*

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

## **Impact of Inflation**

Due to the average duration of our projects and our ability to negotiate prices as contracts end and new contracts begin, our operations have not been materially impacted by inflation. However, inflationary pressures, including expectations of future inflation, may impact the customers of our utility clients, which may lead to delayed or deferred decisions regarding expenditures to improve energy efficiency, and therefore potentially impacting our future revenues.

## **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 1, 2022, 22% of our contracts are time-and-materials contracts, 47% of our contracts are unit-based contracts, and 31% are fixed price contracts, compared to 26% for time-and-materials contracts, 53% for unit-based contracts, and 21% for fixed price contracts, as of July 2, 2021.

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

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

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

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

### *Direct Costs of Contract Revenue*

Direct costs of contract revenue consist primarily of that portion of salaries and wages that have been incurred in connection with revenue producing projects. Direct costs of contract revenue also include material costs,

subcontractor services, equipment and other expenses that are incurred in connection with revenue producing projects. Direct costs of contract revenue exclude that portion of salaries and wages related to marketing efforts, vacations, holidays and other time not spent directly generating revenue under existing contracts. Such costs are included in general and administrative expenses. Additionally, payroll taxes, bonuses and employee benefit costs for all of our personnel are included in general and administrative expenses since no allocation of these costs is made to direct costs of contract revenue.

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

#### *General and Administrative Expenses*

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

#### **Critical Accounting Policies**

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

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

#### **Recent Accounting Standards**

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

### **ITEM 3. Quantitative and Qualitative Disclosures About Market Risk**

#### *Interest Rate Risk*

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

As of July 1, 2022, we had cash and cash equivalents of \$5.8 million. This amount represents cash on hand in business checking accounts with BMO Harris Bank, N.A. We do not engage in trading activities and do not participate in foreign currency transactions.

We are subject to interest rate risk in connection with our Term A Loan and borrowings, if any, under our revolving credit facility and delayed draw term loan, each of which bears interest at variable rates. As of July 1, 2022, \$70.0 million was outstanding under our Term A Loan, \$42.5 million was outstanding under our delayed draw term loan, no borrowed amounts were outstanding and \$4.1 million in letters of credit were issued under the revolving credit facility. Each of our Term A Loan, revolving credit facility and delayed draw term loan mature as of June 26, 2024 and are governed by our credit agreement, as amended.

Pursuant to the Fifth Amendment, (as described in Part I, Item 1, Note 6, “Debt Obligations,” of the Notes to Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q), during the Extended Covenant Relief Period, borrowings under the Credit Agreement will bear interest at either a Base Rate or SOFR (plus 0.10% or 0.15% depending on the interest period), each as defined in the Credit Agreement, at our option, and in each case, plus an applicable margin, which applicable margin will range from 0.125% to 1.50% with respect to Base Rate borrowings and 1.125% to 2.50% with respect to SOFR borrowings, depending on the Leverage Ratio; provided, that SOFR cannot be less than 0.00%. We will also pay a commitment fee for the unused portion of the revolving credit facility and the delayed draft term loan facility under the Credit Agreement, which will range from 0.15% to 0.45% per annum depending on the Leverage Ratio, and fees on the face amount of any letters of credit outstanding under the revolving credit facility, which will range from 0.84% to 1.875% per annum, in each case, depending on whether such letter of credit is a performance or financial letter of credit and the Leverage Ratio. Based upon the amount of our outstanding indebtedness as of July 1, 2022, a one percentage point increase in the effective interest rate would change our annual interest expense by approximately \$1.1 million in 2022.

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

#### **ITEM 4. Controls and Procedures**

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

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

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

## PART II. OTHER INFORMATION

### ITEM 1. Legal Proceedings

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

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

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

#### **ITEM 1A. Risk Factors**

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

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

During the fiscal quarter ended July 1, 2022, we made the following repurchases of shares of our common stock from employees to satisfy tax withholding obligations incurred in connection with the vesting of restricted stock:

	<b>Total Number of Shares Purchased</b>	<b>Average Price Paid Per Share</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</b>	<b>Maximum Number (or Approximate Dollar Value) of Shares That May Yet be Purchased Under the Plans or Programs</b>
April 2, 2022 – April 29, 2022	—	—	—	—
April 30, 2022 – May 27, 2022	2,412	\$29.58	—	—
May 28, 2022 – July 1, 2022	1,691	\$26.60	—	—
<b>TOTAL</b>	<b>4,103</b>	<b>\$28.35</b>	—	—

#### **ITEM 3. Defaults upon Senior Securities**

None.

#### **ITEM 4. Mine Safety Disclosures**

Not applicable.

#### **ITEM 5. Other Information**

##### *Sixth Amendment to the Credit Agreement*

On August 2, 2022, the Company entered into the Sixth Amendment to the Credit Agreement (the “Sixth Amendment”). The Sixth Amendment increased the purchase money indebtedness and Capitalized Lease Obligations (as defined in the Credit Agreement) permissible limit from \$1.5 million to \$4.0 million.

The foregoing description of the Sixth Amendment is qualified in its entirety by reference to the full text of the Sixth Amendment, which is attached as Exhibit 10.2 to this Quarterly Report on Form 10-Q and is incorporated herein by reference.

**ITEM 6. Exhibits**

Exhibit Number	Exhibit Description
3.1	<a href="#">First Amended and Restated Certificate of Incorporation of Willdan Group, Inc. (incorporated by reference to Willdan Group, Inc.'s Registration Statement on Form S-1, filed with the SEC on August 9, 2006, as amended (File No. 333-136444)).</a>
3.2	<a href="#">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).</a>
4.1	<a href="#">Specimen Stock Certificate for shares of the Registrant's Common Stock (incorporated by reference to Willdan Group, Inc.'s Registration Statement on Form S-1, filed with the SEC on August 9, 2006, as amended (File No. 333-136444)).</a>
4.2	The Company agrees to furnish to the Securities and Exchange Commission upon request a copy of each instrument with respect to issues of long-term debt of Willdan Group, Inc. and its subsidiaries, the authorized principal amount of which does not exceed 10% of the consolidated assets of Willdan Group, Inc. and its subsidiaries.
10.1*	<a href="#">Sixth Amendment to Amended and Restated Credit Agreement, dated as of August 2, 2022, by and among Willdan Group, Inc., the Guarantors signatory thereto, the Lenders signatory thereto and BMO Harris Bank N.A., as administrative agent.</a>
10.2†	<a href="#">Willdan Group, Inc. Amended and Restated 2008 Performance Incentive Plan (incorporated by reference to Exhibit 10.1 to Willdan Group, Inc.'s Current Report on Form 8-K, filed with the SEC on June 10, 2022).</a>
31.1*	<a href="#">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.</a>
31.2*	<a href="#">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.</a>
32.1**	<a href="#">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.</a>
101.INS*	Inline XBRL Instance Document (the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document)
101.SCH*	Inline XBRL Taxonomy Extension Schema Document
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104*	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)

\* Filed herewith.

\*\* Furnished herewith.

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

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

† Indicates a management contract or compensating plan or arrangement

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

WILLDAN GROUP, INC.

/S/ CREIGHTON K. EARLY

Creighton K. Early

*Chief Financial Officer and Vice President*

*(Principal Financial Officer, Principal Accounting Officer  
and duly authorized officer)*

August 4, 2022

**EXHIBIT 10.1****SIXTH AMENDMENT TO AMENDED AND RESTATED CREDIT AGREEMENT**

This Sixth Amendment to Amended and Restated Credit Agreement (herein, the “Amendment”) is entered into as of August 2, 2022 (the “*Sixth Amendment Effective Date*”), among Willdan Group, Inc., a Delaware corporation (the “*Borrower*”), the Guarantors signatory hereto, the Lenders signatory hereto and BMO Harris Bank N.A., a national banking association, individually as a Lender and as Administrative Agent (the “*Administrative Agent*”).

**PRELIMINARY STATEMENTS**

A. The Borrower, the Guarantors, the Lenders and the Administrative Agent are parties to that certain Amended and Restated Credit Agreement dated as of June 26, 2019 (as amended prior to the date hereof, the “*Credit Agreement*”). All capitalized terms used herein without definition shall have the same meanings herein as such terms have in the Credit Agreement.

B. The Borrower has requested that the Lenders make certain amendments to the Credit Agreement, and the Lenders party hereto are willing to do so under the terms and conditions set forth in this Amendment.

Now, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

**SECTION 1. AMENDMENTS.**

Subject to the satisfaction of the conditions precedent set forth in Section 2 below, effective as of June 30, 2022, Section 8.7(b) of the Credit Agreement is hereby amended and restated in its entirety and as so amended and restated shall read as follows:

(b) purchase money indebtedness and Capitalized Lease Obligations of the Loan Parties and their Subsidiaries in an amount not to exceed \$4,000,000 in the aggregate at any one time outstanding;

**SECTION 2. CONDITIONS PRECEDENT.**

The effectiveness of this Amendment is subject to the satisfaction of all of the following conditions precedent:

2.1. The Loan Parties, the Required Lenders and the Administrative Agent shall have executed and delivered this Amendment.

2.2. All other legal matters incident to the execution and delivery of this Amendment shall be satisfactory to the Administrative Agent and its counsel.

**SECTION 3.**           **REPRESENTATIONS.**

In order to induce the Administrative Agent and the Required Lenders to execute and deliver this Amendment, the Borrower hereby represents to the Administrative Agent and the Lenders that as of the date hereof (a) the representations and warranties set forth in Section 6 of the Credit Agreement (as amended hereby) are and shall be and remain true and correct (except that the representations contained in Section 6.5 shall be deemed to refer to the most recent financial statements of the Borrower delivered to the Administrative Agent), (b) the Borrower is in compliance with the terms and conditions of the Credit Agreement (as amended hereby) and no Default or Event of Default has occurred and is continuing under the Credit Agreement (as amended hereby) or shall result upon giving effect to this Amendment, (c) each Loan Party has taken all necessary action to authorize it to execute, deliver and perform its obligations under this Amendment in accordance with the terms hereof and to consummate the transactions contemplated hereby, and (d) this Amendment has been duly executed and delivered by the Loan Parties and is the legal, valid and binding obligation of each Loan Party, enforceable in accordance with its terms except to the extent that the enforceability thereof may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting the enforcement of creditors' rights generally and by general principles of equity.

**SECTION 4.**           **MISCELLANEOUS.**

4.1. The Loan Parties heretofore executed and delivered to the Administrative Agent the Security Agreement and certain other Collateral Documents. The Loan Parties hereby acknowledge and agree that the Liens created and provided for by the Collateral Documents continue to secure, among other things, the Secured Obligations arising under the Credit Agreement as amended hereby; and the Collateral Documents and the rights and remedies of the Administrative Agent and the Lenders thereunder, the obligations of the Loan Parties thereunder, and the Liens created and provided for thereunder remain in full force and effect and shall not be affected, impaired or discharged hereby. Nothing herein contained shall in any manner affect or impair the priority of the liens and security interests created and provided for by the Collateral Documents as to the indebtedness which would be secured thereby prior to giving effect to this Amendment.

4.2. Except as specifically amended herein, the Credit Agreement shall continue in full force and effect in accordance with its original terms. Each of the Guarantors reaffirm their Guarantees under Section 11 of the Credit Agreement. Reference to this specific Amendment need not be made in the Credit Agreement, the Notes, or any other instrument or document executed in connection therewith, or in any certificate, letter or communication issued or made pursuant to or with respect to the Credit Agreement, any reference in any of such items to the Credit Agreement being sufficient to refer to the Credit Agreement as amended hereby.

4.3. Subject to Section 13.4(a) of the Credit Agreement, the Borrower agrees to pay on demand all costs and expenses of or incurred by the Administrative Agent in connection with the negotiation, preparation, execution and delivery of this Amendment, including the fees and expenses of counsel for the Administrative Agent.

4.4. This Amendment may be executed in any number of counterparts, and by the different parties on different counterpart signature pages, all of which taken together shall constitute one and the same agreement. Any of the parties hereto may execute this Amendment by signing any such counterpart and each of such counterparts shall for all purposes be deemed to be an original. Delivery of a counterpart hereof by facsimile transmission or by e-mail transmission of an Adobe portable document format file (also known as a "PDF" file) shall be effective as delivery of a manually executed counterpart hereof. The words "execution," "signed," "signature," and words of like import in this Amendment shall be deemed to include electronic signatures or electronic records, each of which shall be of the same legal effect, validity or enforceability as a manually executed signature or the use of a paper-based recordkeeping system, as the case may be, to the extent and as provided for in any applicable law, including the Federal Electronic Signatures in Global and National Commerce Act, the New York State Electronic Signatures and Records Act, or any other similar state laws based on the Uniform Electronic Transactions Act. This Amendment shall be construed and determined in accordance with the laws of the State of New York (including Section 5-1401 and Section 5-1402 of the General Obligations law of the State of New York) without regard to conflicts of law principles that would require application of the laws of another jurisdiction.

[SIGNATURE PAGES TO FOLLOW]

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This Sixth Amendment to Amended and Restated Credit Agreement is entered into as of the date and year first above written.

“BORROWER”

WILLDAN GROUP, INC.

By /s/ Thomas D. Brisbin  
Name: Thomas D. Brisbin  
Title: Chief Executive Officer

“GUARANTORS”

ELECTROTEC OF NY ELECTRICAL INC.  
PUBLIC AGENCY RESOURCES  
WILLDAN ENERGY SOLUTIONS  
WILLDAN ENGINEERING  
WILLDAN FINANCIAL SERVICES  
WILLDAN LIGHTING & ELECTRIC, INC.  
WILLDAN LIGHTING & ELECTRIC OF CALIFORNIA  
WILLDAN LIGHTING & ELECTRIC OF WASHINGTON, INC.  
ABACUS RESOURCE MANAGEMENT COMPANY  
INTEGRAL ANALYTICS, INC.  
ENERGY AND ENVIRONMENTAL ECONOMICS, INC.  
WILLDAN ENERGY CO.  
ENERPATH SERVICES, INC.

By /s/ Thomas D. Brisbin  
Name: Thomas D. Brisbin  
Title: Chairman of the Board

[Signature Page to Sixth Amendment to Amended and Restated Credit Agreement]

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*"GUARANTORS"*

GENESYS ENGINEERING, P.C.

By /s/ Vanessa Munoz  
Name: Vanessa Munoz  
Title: Vice President

[Signature Page to Sixth Amendment to Amended and Restated Credit Agreement]

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**“ADMINISTRATIVE AGENT” and “LENDERS”**

BMO HARRIS BANK N.A., as a Lender and as  
Administrative Agent

By /s/ James Stephens  
Name: James Stephens  
Title: Vice President

[Signature Page to Sixth Amendment to Amended and Restated Credit Agreement]

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***"LENDERS"***

BANK OF AMERICA, N.A., as a Lender

By /s/ Mary Beatty

Name: Mary Beatty

Title: Senior Vice President

[Signature Page to Sixth Amendment to Amended and Restated Credit Agreement]

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*"LENDERS"*

U.S. BANK NATIONAL ASSOCIATION, as a  
Lender

By /s/ Gina Ge  
Name: Gina Ge  
Title: Assistant Vice President

[Signature Page to Sixth Amendment to Amended and Restated Credit Agreement]

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***"LENDERS"***

MUFG UNION BANK, N.A., as a Lender

By /s/ Lance Zediker

Name: Lance Zediker

Title: Director

[Signature Page to Sixth Amendment to Amended and Restated Credit Agreement]

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## 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 4, 2022

By: /s/ THOMAS D. BRISBIN

Thomas D. Brisbin

*Chief Executive Officer*

*(Principal Executive Officer)*

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## SECTION 302 CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Creighton K. Early, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Willdan Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 4, 2022

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

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**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 1, 2022, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Thomas D. Brisbin, as Chief Executive Officer of the Company, and Creighton K. Early, as Chief Financial Officer of the Company, each hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his or her knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ THOMAS D. BRISBIN

Thomas D. Brisbin  
*Chief Executive Officer*  
*(Principal Executive Officer)*  
August 4, 2022

By: /s/ CREIGHTON K. EARLY

Creighton K. Early  
*Chief Financial Officer and Vice President*  
*(Principal Financial Officer)*  
August 4, 2022

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

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