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

FORM 10-Q

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

For the quarterly period ended September 30, 2022

OR

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

For the transition period from to

Commission file number 001-33076

WILLDAN GROUP, INC.
(Exact Name of Registrant as Specified in Its Charter)

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

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

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

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

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

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

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

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of November 2, 2022, there were 13,294,922 shares of common stock, $0.01 par value per share, of Willdan Group, Inc. issued and outstanding.

WILLDAN GROUP, INC.
FORM 10-Q QUARTERLY REPORT

TABLE OF CONTENTS

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

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

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	September 30, 2022	December 31, 2021
Assets		
Current assets:		
Cash and cash equivalents	$ 8,818	$ 11,221
Accounts receivable, net of allowance for doubtful accounts of $756 and $1,115 at September 30, 2022 and December 31, 2021, respectively	60,376	67,211
Contract assets	74,924	59,288
Other receivables	5,112	6,267
Prepaid expenses and other current assets	4,891	4,972
Total current assets	154,121	148,959
Equipment and leasehold improvements, net	21,147	16,757
Goodwill	130,124	130,124
Right-of-use assets	12,715	15,177
Other intangible assets, net	44,182	52,713
Other assets	11,862	13,843
Deferred income taxes, net	20,960	16,849
Total assets	$ 395,111	$ 394,422
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 23,487	$ 36,672
Accrued liabilities	50,996	35,680
Contingent consideration payable	2,491	10,206
Contract liabilities	12,163	13,499
Notes payable	15,510	15,036
Finance lease obligations	970	539
Lease liability	4,889	5,575
Total current liabilities	110,506	117,207
Contingent consideration payable	—	832
Notes payable	93,912	85,538
Finance lease obligations, less current portion	1,657	778
Lease liability, less current portion	8,747	10,768
Other noncurrent liabilities	78	78
Total liabilities	214,900	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; 13,297 and 12,804 shares issued and outstanding at September 30, 2022 and December 31, 2021, respectively	133	128
Additional paid-in capital	176,002	167,032
Accumulated other comprehensive loss	—	(38)
Retained earnings	4,076	12,099
Total stockholders' equity	180,211	179,221
Total liabilities and stockholders' equity	$ 395,111	$ 394,422

See accompanying notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended		Nine Months Ended	
	September 30, 2022	October 1, 2021	September 30, 2022	October 1, 2021
Contract revenue	$ 121,399	$ 98,297	$ 315,882	$ 261,537
Direct costs of contract revenue (inclusive of directly related depreciation and amortization):				
Salaries and wages	21,420	16,346	61,514	48,532
Subcontractor services and other direct costs	62,457	43,824	153,896	111,860
Total direct costs of contract revenue	83,877	60,170	215,410	160,392
General and administrative expenses:				
Salaries and wages, payroll taxes and employee benefits	20,373	19,374	60,169	57,530
Facilities and facility related	2,228	2,351	6,999	7,373
Stock-based compensation	1,607	4,210	6,626	14,349
Depreciation and amortization	4,405	4,267	13,240	12,678
Other	9,664	6,482	25,099	19,033
Total general and administrative expenses	38,277	36,684	112,133	110,963
Income (Loss) from operations	(755)	1,443	(11,661)	(9,818)
Other income (expense):				
Interest expense, net	(1,435)	(937)	(3,216)	(3,100)
Other, net	740	98	1,266	34
Total other expense, net	(695)	(839)	(1,950)	(3,066)
Income (Loss) before income taxes	(1,450)	604	(13,611)	(12,884)
Income tax (benefit) expense	(1,526)	(236)	(5,588)	(5,357)
Net income (loss)	76	840	(8,023)	(7,527)
Other comprehensive income (loss):				
Unrealized gain (loss) on derivative contracts, net of tax	—	111	38	343
Comprehensive income (loss)	$ 76	$ 951	$ (7,985)	$ (7,184)
Earnings (Loss) per share:				
Basic	$ 0.01	$ 0.07	$ (0.62)	$ (0.61)
Diluted	$ 0.01	$ 0.06	$ (0.62)	$ (0.61)
Weighted-average shares outstanding:				
Basic	13,110	12,606	12,971	12,391
Diluted	13,360	13,141	12,971	12,391

See accompanying notes to Condensed Consolidated Financial Statements.

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

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
Balance at December 31, 2021	12,804	$ 128	$ 167,032	$ (38)	$ 12,099	$ 179,221
Shares of common stock issued in connection with employee stock purchase plan	52	1	1,560	—	—	1,561
Shares of common stock issued in connection with incentive stock plan	4	—	23	—	—	23
Shares used to pay taxes on stock grants	(27)	—	(837)	—	—	(837)
Issuance of restricted stock award and units	373	3	(3)	—	—	—
Stock-based compensation expense	—	—	3,305	—	—	3,305
Net income (loss)	—	—	—	—	(3,773)	(3,773)
Net unrealized gain on derivative contracts	—	—	—	38	—	38
Balance at April 1, 2022	13,206	$ 132	$ 171,080	$ —	$ 8,326	$ 179,538
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)
Net unrealized gain on derivative contracts	—	—	—	—	—	—
Balance at July 1, 2022	13,215	$ 132	$ 172,678	$ —	$ 4,000	$ 176,810
Shares of common stock issued in connection with employee stock purchase plan	63	1	1,475	—	—	1,476
Shares of common stock issued in connection with incentive stock plan	29	—	247	—	—	247
Shares used to pay taxes on stock grants	—	—	(5)	—	—	(5)
Issuance of restricted stock award and units	(10)	—	—	—	—	—
Stock-based compensation expense	—	—	1,607	—	—	1,607
Net income (loss)	—	—	—	—	76	76
Net unrealized gain on derivative contracts	—	—	—	—	—	—
Balance at September 30, 2022	13,297	$ 133	$ 176,002	$ —	$ 4,076	$ 180,211

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

	Common Stock		Additional Paid-in	Accumulated other Comprehensive	Retained	
	Shares	Amount	Capital	Income (Loss)	Earnings	Total
Balance at January 1, 2021	12,160	$ 122	$ 149,014	$ (488)	$ 20,516	$ 169,164
Shares of common stock issued in connection with employee stock purchase plan	66	1	1,384	—	—	1,385
Shares of common stock issued in connection with incentive stock plan	27	—	527	—	—	527
Shares used to pay taxes on stock grants	—	—	(12)	—	—	(12)
Issuance of restricted stock award and units	255	2	(3)	—	—	(1)
Stock-based compensation expense	—	—	4,206	—	—	4,206
Net income (loss)	—	—	—	—	(3,766)	(3,766)
Net unrealized gain on derivative contracts	—	—	—	128	—	128
Balance at April 2, 2021	12,508	$ 125	$ 155,116	$ (360)	$ 16,750	$ 171,631
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)
Net unrealized gain on derivative contracts	—	—	—	104	—	104
Balance at July 2, 2021	12,713	$ 127	$ 158,793	$ (256)	$ 12,149	$ 170,813
Shares of common stock issued in connection with employee stock purchase plan	40	1	1,270	—	—	1,271
Shares of common stock issued in connection with incentive stock plan	35	—	369	—	—	369
Issuance of restricted stock award and units	1	—	—	—	—	—
Stock-based compensation expense	—	—	4,210	—	—	4,210
Net income (loss)	—	—	—	—	840	840
Net unrealized gain on derivative contracts	—	—	—	111	—	111
Balance at October 1, 2021	12,789	$ 128	$ 164,642	$ (145)	$ 12,989	$ 177,614

See accompanying notes to Condensed Consolidated Financial Statements.

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

	Nine Months Ended	
	September 30, 2022	**October 1, 2021**
Cash flows from operating activities:		
Net income (loss)	$ (8,023)	$ (7,527)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	13,240	12,678
Deferred income taxes, net	(4,111)	(3,544)
(Gain) loss on sale/disposal of equipment	(67)	(37)
Provision for doubtful accounts	230	87
Stock-based compensation	6,626	14,349
Accretion and fair value adjustments of contingent consideration	1,659	860
Changes in operating assets and liabilities, net of effects from business acquisitions:		
Accounts receivable	6,605	(1,892)
Contract assets	(15,636)	(3,318)
Other receivables	1,155	376
Prepaid expenses and other current assets	256	2,005
Other assets	1,981	(4,557)
Accounts payable	(13,185)	(17,787)
Accrued liabilities	15,354	5,726
Contract liabilities	(1,336)	1,016
Right-of-use assets	(245)	(145)
Net cash (used in) provided by operating activities	4,503	(1,710)
Cash flows from investing activities:		
Purchase of equipment and leasehold improvements	(6,969)	(4,898)
Proceeds from sale of equipment	75	46
Net cash (used in) provided by investing activities	(6,894)	(4,852)
Cash flows from financing activities:		
Payments on contingent consideration	(10,206)	(6,615)
Payments on notes payable	(1,577)	(1,724)
Proceeds from notes payable	—	206
Borrowings under term loan facility and line of credit	20,000	—
Repayments under term loan facility and line of credit	(9,750)	(9,750)
Principal payments on finance leases	(827)	(440)
Proceeds from stock option exercise	270	1,747
Proceeds from sales of common stock under employee stock purchase plan	3,036	2,656
Cash used to pay taxes on stock grants	(958)	(3,117)
Restricted Stock Award and Units	—	(1)
Net cash (used in) provided by financing activities	(12)	(17,038)
Net increase (decrease) in cash and cash equivalents	(2,403)	(23,600)
Cash and cash equivalents at beginning of period	11,221	28,405
Cash and cash equivalents at end of period	$ 8,818	$ 4,805
Supplemental disclosures of cash flow information:		
Cash paid (received) during the period for:		
Interest	$ 2,790	$ 2,701
Income taxes	(1,027)	(1,742)
Supplemental disclosures of noncash investing and financing activities:		
Equipment acquired under finance leases	2,137	987

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 November 2, 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 September 30, 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.

2. RECENT ACCOUNTING PRONOUNCEMENTS

Accounting Pronouncements Recently Adopted

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

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

3. REVENUES

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

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

Segment	Contract Type	Revenue Recognition Method
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.

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)
(Unaudited)

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)
(Unaudited)

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 September 30, 2022 and December 31, 2021, contract assets included retainage of approximately $7.7 million and $4.5 million, respectively.

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

4. SUPPLEMENTAL FINANCIAL STATEMENT DATA

Accounts Receivable

From time to time, in connection with factoring agreements, the Company sells trade accounts receivable without recourse to third party purchasers in exchange for cash. During the nine months ended September 30, 2022, the Company did not sell any trade accounts receivable. During the nine months ended October 1, 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

	September 30, 2022	December 31, 2021
	(in thousands)	
Furniture and fixtures	$ 4,065	$ 4,070
Computer hardware and software	33,085	26,425
Leasehold improvements	3,083	3,011
Equipment under finance leases	5,204	3,286
Automobiles, trucks, and field equipment	3,102	3,099
Subtotal	48,539	39,891
Accumulated depreciation and amortization	(27,392)	(23,134)
Equipment and leasehold improvements, net	$ 21,147	$ 16,757

Included in accumulated depreciation and amortization is $0.8 million and $0.6 million of amortization expense related to equipment held under finance leases for the nine months ended September 30, 2022 and for fiscal year 2021, respectively.

Accrued Liabilities

	September 30, 2022	December 31, 2021
	(in thousands)	
Accrued subcontractor costs	$ 34,624	$ 19,727
Other	5,013	2,750
Compensation and payroll taxes	3,676	2,244
Accrued bonuses	3,606	7,767
Employee withholdings	3,396	2,665
Accrued workers' compensation insurance	681	527
Total accrued liabilities	$ 50,996	$ 35,680

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

Goodwill

	December 31, 2021	Additional Purchase Cost	Additions / Adjustments	September 30, 2022
		(in thousands)		
Reporting Unit:				
Energy	$ 129,375	$ —	$ —	$ 129,375
Engineering and Consulting	749	—	—	749
	$ 130,124	$ —	$ —	$ 130,124

The Company tests for impairment, at a minimum, on an annual basis or earlier when certain events or changes in circumstances indicate that goodwill may more likely than not be impaired. During the quarter ended September 30, 2022, although the Company experienced declines in the market price of its stock, such decreases did not result in the Company's market capitalization decreasing below book value. Subsequent to the end of the quarter, the Company's market capitalization based upon its stock price has fluctuated below book value. The fair value of the Company using a market capitalization approach based on the Company's share price would also include a control premium not reflected in the current share price based on recent transactions that have occurred in the Company's industry. This indicative fair value exceeded the Company's book value; therefore, the Company does not believe it is more likely than not that goodwill was impaired as of September 30, 2022.

If there are further decreases in the Company's stock price for a sustained period or other unfavorable factors, the Company may be required to perform a goodwill impairment assessment, which may result in a recognition of goodwill impairment that could be material to the consolidated financial statements.

Intangible Assets

	September 30, 2022		December 31, 2021		
	Gross Amount	Accumulated Amortization	Gross Amount	Accumulated Amortization	Amortization Period
		(in thousands)			*(in years)*
Finite:					
Backlog	$ 7,944	$ 7,872	$ 7,944	$ 7,222	1.0
Tradename	15,911	10,492	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	11,141	15,500	8,950	8.0
Customer relationships	58,149	24,127	58,149	19,939	5.0 - 8.0
Total finite intangible assets	99,234	55,052	98,924	46,521	
In-process research and technology [(1)]	—	—	310	—	
Total intangible assets	$ 99,234	$ 55,052	$ 99,234	$ 46,521	

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

During the nine months ended September 30, 2022, the Company reclassified $0.3 million of in-process research and technology to developed technology and commenced amortization over its estimated useful life.

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 September 30, 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:

	September 30, 2022	December 31, 2021
	(in thousands)	
Outstanding borrowings on Term A Loan	$ 67,500	$ 75,000
Outstanding borrowings on Revolving Credit Facility	—	—
Outstanding borrowings on Delayed Draw Term Loan	41,750	24,000
Other debt agreements	583	2,161
Total debt	109,833	101,161
Issuance costs and debt discounts	(411)	(587)
Subtotal	109,422	100,574
Less current portion of long-term debt	15,510	15,036
Long-term debt portion	$ 93,912	$ 85,538

Credit Facilities

On June 26, 2019, the Company and certain of its subsidiaries entered into an Amended and Restated Credit Agreement (as amended by the First Amendment, dated as of August 15, 2019, the Second Amendment, dated as of November 6, 2019, the Third Amendment, dated as of May 6, 2020, 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 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 Total 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 Total 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 Total 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 Total 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 Total 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 Total Leverage Ratio.

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, with no other changes to the Credit Agreement.

As of September 30, 2022, the Company was in compliance with all covenants contained in the Credit Agreement, as amended, other than the minimum Adjusted EBITDA thresholds for the test period ended September 30, 2022. Such non-compliance with the minimum Adjusted EBITDA thresholds for the test period ended September 30, 2022 was subsequently waived by the lenders under the Credit Agreement pursuant to the Seventh Amendment (defined and described in Note 13. “*Subsequent Events*” below).

Other Debt Agreements

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

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

7. LEASES

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

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 September 30, 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		Nine Months Ended	
	September 30, 2022	October 1, 2021	September 30, 2022	October 1, 2021
	(in thousands)		*(in thousands)*	
Operating lease cost	$ 1,523	$ 1,596	$ 4,635	$ 4,941
Finance lease cost:				
Amortization of assets	311	139	799	397
Interest on lease liabilities	22	9	51	22
Total net lease cost	$ 1,856	$ 1,744	$ 5,485	$ 5,360

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

	September 30, 2022	December 31, 2021
	(in thousands)	
Operating leases:		
Right-of-use assets	$ 12,715	$ 15,177
Lease liability	$ 4,889	$ 5,575
Lease liability, less current portion	8,747	10,768
Total lease liabilities	$ 13,636	$ 16,343
Finance leases (included in equipment and leasehold improvements, net):		
Equipment and leasehold improvements, net	$ 5,204	$ 3,286
Accumulated depreciation	(2,524)	(1,947)
Total equipment and leasehold improvements, net	$ 2,680	$ 1,339
Finance lease obligations	$ 970	$ 539
Finance lease obligations, less current portion	1,657	778
Total finance lease obligations	$ 2,627	$ 1,317
Weighted average remaining lease term (in years):		
Operating Leases	3.48	3.79
Finance Leases	2.70	2.62
Weighted average discount rate:		
Operating Leases	4.16 %	4.28 %
Finance Leases	3.08 %	2.78 %

Rent expense was $1.6 million and $4.9 million for the three and nine months ended September 30, 2022, respectively, as compared to $1.6 million and $5.2 million for the three and nine months ended October 1, 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:

	Nine Months Ended	
	September 30, 2022	October 1, 2021
	(in thousands)	
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flow from operating leases	$ 4,879	$ 5,115
Operating cash flow from finance leases	51	22
Financing cash flow from finance leases	827	440
Right-of-use assets obtained in exchange for lease liabilities:		
Operating leases	$ 1,706	$ 326

The following is a summary of the maturities of lease liabilities as of September 30, 2022:

	Operating	Finance
	(in thousands)	
Fiscal year:		
Remainder of 2022	$ 1,542	$ 228
2023	4,765	1,161
2024	3,313	887
2025	2,493	303
2026	2,140	134
2027 and thereafter	453	30
Total lease payments	14,706	2,743
Less: Imputed interest	(1,070)	(116)
Total lease obligations	13,636	2,627
Less: Current obligations	4,889	970
Noncurrent lease obligations	$ 8,747	$ 1,657

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)
(Unaudited)

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 nine months ended September 30, 2022 and October 1, 2021, the Company made matching contributions of $2.0 million and $1.6 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.

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

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 September 30, 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 nine months ended September 30, 2022 and October 1, 2021. The Company's chief operating decision maker evaluates the performance of each segment based upon income or loss from operations before income taxes. Certain segment asset information including expenditures for long-lived assets has not been presented as it is not reported to or reviewed by the chief operating decision maker. In addition, enterprise-wide service line contract revenue is not included as it is impracticable to report this information for each group of similar services.

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

	Energy	Engineering & Consulting	Unallocated Corporate	Intersegment	Consolidated Total
			(in thousands)		
Fiscal Three Months Ended September 30, 2022					
Contract revenue	$ 102,625	$ 18,774	$ -	$ -	$ 121,399
Depreciation and amortization	4,166	239	-	-	4,405
Interest expense, net	3	-	1,432	-	1,435
Segment profit (loss) before income tax expense	(1,815)	3,473	(3,108)	-	(1,450)
Income tax expense (benefit)	(1,565)	1,781	(1,742)	-	(1,526)
Net income (loss)	(250)	1,692	(1,366)	-	76
Segment assets [1]	336,036	22,630	59,575	(23,130)	395,111
Fiscal Three Months Ended October 1, 2021					
Contract revenue	$ 81,523	$ 16,774	$ -	$ -	$ 98,297
Depreciation and amortization	4,023	244	-	-	4,267
Interest expense, net	-	-	937	-	937
Segment profit (loss) before income tax expense	2,138	2,673	(4,207)	-	604
Income tax expense (benefit)	610	1,286	(2,132)	-	(236)
Net income (loss)	1,529	1,387	(2,076)	-	840
Segment assets [1]	331,573	23,134	55,329	(23,130)	386,906
Fiscal Nine Months Ended September 30, 2022					
Contract revenue	$ 262,186	$ 53,696	$ -	$ -	$ 315,882
Depreciation and amortization	12,506	734	-	-	13,240
Interest expense, net	8	-	3,208	-	3,216
Segment profit (loss) before income tax expense	(12,525)	8,111	(9,197)	-	(13,611)
Income tax expense (benefit)	(5,143)	3,330	(3,775)	-	(5,588)
Net income (loss)	(7,382)	4,780	(5,421)	-	(8,023)
Segment assets [1]	336,036	22,630	59,575	(23,130)	395,111
Fiscal Nine Months Ended October 1, 2021					
Contract revenue	$ 209,977	$ 51,560	$ -	$ -	$ 261,537
Depreciation and amortization	11,934	744	-	-	12,678
Interest expense, net	5	-	3,095	-	3,100
Segment profit (loss) before income tax expense	(5,607)	7,507	(14,784)	-	(12,884)
Income tax expense (benefit)	(2,331)	3,122	(6,148)	-	(5,357)
Net income (loss)	(3,275)	4,386	(8,638)	-	(7,527)
Segment assets [1]	331,573	23,134	55,329	(23,130)	386,906

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

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

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

	Three months ended September 30, 2022		
	Energy	Engineering and Consulting	Total
		(in thousands)	
Contract Type			
Time-and-materials	$ 7,468	$ 13,880	$ 21,348
Unit-based	43,039	3,791	46,830
Fixed price	52,118	1,103	53,221
Total [1]	$ 102,625	$ 18,774	$ 121,399
Client Type			
Commercial	$ 6,848	$ 1,376	$ 8,224
Government	48,073	17,348	65,421
Utilities [2]	47,704	50	47,754
Total [1]	$ 102,625	$ 18,774	$ 121,399
Geography [3]			
Domestic	$ 102,625	$ 18,774	$ 121,399

	Nine months ended September 30, 2022		
	Energy	Engineering and Consulting	Total
		(in thousands)	
Contract Type			
Time-and-materials	$ 23,873	$ 40,221	$ 64,094
Unit-based	128,540	10,530	139,070
Fixed price	109,773	2,945	112,718
Total [1]	$ 262,186	$ 53,696	$ 315,882
Client Type			
Commercial	$ 21,638	$ 4,330	$ 25,968
Government	96,293	49,139	145,432
Utilities [2]	144,255	227	144,482
Total [1]	$ 262,186	$ 53,696	$ 315,882
Geography [3]			
Domestic	$ 262,186	$ 53,696	$ 315,882

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

	Three months ended October 1, 2021		
	Energy	Engineering and Consulting	Total
		(in thousands)	
Contract Type			
Time-and-materials	$ 9,104	$ 13,160	$ 22,264
Unit-based	51,470	2,650	54,120
Fixed price	20,950	963	21,913
Total [1]	$ 81,524	$ 16,773	$ 98,297
Client Type			
Commercial	$ 7,741	$ 1,568	$ 9,309
Government	18,537	15,181	33,718
Utilities [2]	55,245	24	55,269
Total [1]	$ 81,524	$ 16,773	$ 98,297
Geography [3]			
Domestic	$ 81,524	$ 16,773	$ 98,297

	Nine months ended October 1, 2021		
	Energy	Engineering and Consulting	Total
		(in thousands)	
Contract Type			
Time-and-materials	$ 25,060	$ 40,444	$ 65,504
Unit-based	132,688	7,817	140,505
Fixed price	52,229	3,299	55,528
Total [1]	$ 209,977	$ 51,560	$ 261,537
Client Type			
Commercial	$ 20,685	$ 4,037	$ 24,723
Government	45,766	47,391	93,157
Utilities [2]	143,525	132	143,657
Total [1]	$ 209,977	$ 51,560	$ 261,537
Geography [3]			
Domestic	$ 209,977	$ 51,560	$ 261,537

(1) *Amounts may not add to the totals due to rounding.*
(2) *Includes the portion of revenue related to small business programs paid by the end user/customer.*
(3) *Revenue from the Company's foreign operations were not material for the three and nine months ended September 30, 2022 and October 1, 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 nine months ended September 30, 2022 nor for the three and nine months ended October 1, 2021.

Customer Concentration

For the three and nine months ended September 30, 2022, the Company's top 10 customers accounted for 57.2%, and 54.5%, respectively, of the Company's consolidated contract revenue. For the three and nine months ended October 1, 2021, the Company's top 10 customers accounted for 52.4%, and 46.8%, respectively, of the Company's consolidated contract revenue.

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

For the three months ended September 30, 2022, the Company had one customer, Pueblo County School District, that accounted for 13.3% of its consolidated contract revenues. For the nine months ended September 30, 2022, the Company had one customer, LADWP, that accounted for 13.2% of its consolidated contract revenues. For the three months ended October 1, 2021, the Company had one customer, LADWP, that accounted for 17.0% of its consolidated contract revenue. For the nine months ended October 1, 2021, the Company had no individual customer that accounted for more than 10% of its consolidated contract revenue.

On a segment basis, the Company had individual customers that accounted for more than 10% of its segment contract revenues. For the three months ended September 30, 2022, the Company derived 38.3% of its Energy segment revenues from three customers, Pueblo County School District, The Dormitory Authority State of New York ("DASNY") and LADWP. For the nine months ended September 30, 2022, the Company derived 26.5% of its Energy segment revenues from two customers, LADWP and Pueblo County School District. For the three months ended October 1, 2021, the Company derived 20.4% of its Energy segment revenues from one customer, LADWP. For the nine months ended October 1, 2021, the Company derived 21.5% of its Energy segment revenues from two customers, LADWP and Consolidated Edison of New York. For the three months and nine months ended September 30, 2022, and for the three months ended October 1, 2021, no single customer accounted for 10% or more of the Company's Engineering and Consulting segment revenues. For the nine months ended October 1, 2021, the Company derived 12.2% of its Engineering and Consulting segment revenues from one customer, the City of Elk Grove.

On a geographical basis, the Company's largest clients are based in California and New York. For the three and nine months ended September 30, 2022, services provided to clients in California accounted for 37.2% and 40.3%, respectively, of the Company's contract revenue and services provided to clients in New York accounted for 23.4% and 21.4%, respectively, of the Company's contract revenue. For the three and nine months ended October 1, 2021, services provided to clients in California accounted for 38.9% and 36.2%, respectively, of the Company's consolidated contract revenue and services provided to clients in New York accounted for 19.0% and 20.7%, respectively, of the Company's consolidated 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 the Company’s 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 September 30, 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 September 30, 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 nine months ended September 30, 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 nine months ended September 30, 2022, the Company did not record a liability for uncertain tax positions.

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

Based on the Company’s estimates and determination of an effective tax rate for the year, the Company recorded an income tax benefit of $1.5 million and $5.6 million for the three and nine months ended September 30, 2022, respectively, as compared to an income tax benefit of $0.2 million and $5.4 million for the three and nine months ended October 1, 2021, respectively. During the three and nine months ended September 30, 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 nine months ended October 1, 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		Nine months ended	
	September 30, 2022	October 1, 2021	September 30, 2022	October 1, 2021
	(in thousands, except per share amounts)			
Net income (loss)	$ 76	$ 840	$ (8,023)	$ (7,527)
Weighted-average common shares outstanding	13,110	12,606	12,971	12,391
Effect of dilutive stock options and restricted stock awards	250	535	—	—
Weighted-average common shares outstanding-diluted	13,360	13,141	12,971	12,391
Earnings (Loss) per share:				
Basic	$ 0.01	$ 0.07	$ (0.62)	$ (0.61)
Diluted	$ 0.01	$ 0.06	$ (0.62)	$ (0.61)

For the three months ended September 30, 2022 and October 1, 2021, the Company excluded 401,000 and 26,000 common shares subject to outstanding equity awards, respectively, from the calculation of diluted shares because their impact would have been anti-dilutive. For the nine months ended September 30, 2022 and October 1, 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

Seventh Amendment to the Credit Agreement

On November 1, 2022, the Company entered into the Seventh Amendment to the Credit Agreement (the "Seventh Amendment"). The Seventh Amendment, (A) waives the minimum Adjusted EBITDA (as defined in the Fifth Amendment) threshold and any related Default or Event of Default (each as defined in the Fifth Amendment) for the fiscal quarter ending September 30, 2022, (B) amends the maximum Total Leverage Ratio (as defined in the Fifth Amendment) threshold and the minimum Adjusted EBITDA threshold for the remainder of the Extended Covenant Relief Period, (C) amends the pricing structure of borrowings under the Credit Agreement during the remainder of the Extended Covenant Relief Period, (D) restricts aggregate borrowings under the Revolving Credit Facility to no more than $10.0 million at any time during the period from November 1, 2022 through the date on which financial statements and compliance documents have been received by the Administrative Agent (as defined in the Credit Agreement) for the fiscal quarter ending March 31, 2023, (E) conditions access to the accordion feature of the Credit Agreement to periods when the Company's Total Leverage ratio is less than 3.0, (F) amends the Total Leverage Ratio requirement contained in the conditions precedent required upon any Credit Event (as defined in the Credit Agreement) occurring prior to the delivery to the Administrative Agent of the financial statements and compliance documents required for the fiscal quarter ending March 31, 2023, (G) includes a general release of all Claims (as defined in the Seventh Amendment) against the Administrative Agent, the L/C Issuer and the Lenders (each as defined in the Credit Agreement) and (H) amends the timing requirement of certain financial reports. Additionally, during the remainder of the Extended Covenant Relief Period, the Company may not make Share Repurchases (as defined in the Seventh Amendment).

Pursuant to the Seventh Amendment, during the Extended Covenant Relief Period, (A) borrowings under the Credit Agreement will bear interest at SOFR plus 4.00%; provided, that SOFR cannot be less than 0.00%, and (B) the Company will pay a commitment fee of 0.50% per annum for the unused portion of the revolving credit facility under the Credit Agreement.

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 Total 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 Total 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 Total Leverage Ratio.

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 November 2, 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 September 30, 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

Third Quarter and Nine Months Overview

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

	Three Months Ended					
	September 30, 2022		October 1, 2021		$ Change	% Change
	(in thousands, except percentages)					
Contract revenue	$ 121,399	100.0 %	$ 98,297	100.0 %	$ 23,102	23.5 %
Direct costs of contract revenue:						
Salaries and wages	21,420	17.6	16,346	16.6	5,074	31.0
Subcontractor services and other direct costs	62,457	51.4	43,824	44.6	18,633	42.5
Total direct costs of contract revenue	83,877	69.1	60,170	61.2	23,707	39.4
Gross profit	37,522	30.9	38,127	38.8	(605)	(1.6)
General and administrative expenses:						
Salaries and wages, payroll taxes and employee benefits	20,373	16.8	19,374	19.7	999	5.2
Facilities and facilities related	2,228	1.8	2,351	2.4	(123)	(5.2)
Stock-based compensation	1,607	1.3	4,210	4.3	(2,603)	(61.8)
Depreciation and amortization	4,405	3.6	4,267	4.3	138	3.2
Other	9,664	8.0	6,482	6.6	3,182	49.1
Total general and administrative expenses	38,277	31.5	36,684	37.3	1,593	4.3
Income (loss) from operations	(755)	(0.6)	1,443	1.5	(2,198)	(152.3)
Other income (expense):						
Interest expense	(1,435)	(1.2)	(937)	(1.0)	(498)	53.1
Other, net	740	0.6	98	0.1	642	N/M
Total other income (expense)	(695)	(0.6)	(839)	(0.9)	144	(17.2)
Income (Loss) before income tax expense	(1,450)	(1.2)	604	0.6	(2,054)	(340.1)
Income tax expense (benefit)	(1,526)	(1.3)	(236)	(0.2)	(1,290)	546.6
Net income (loss)	$ 76	0.1	$ 840	0.9	$ (764)	(91.0)

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

	Nine Months Ended					
	September 30, 2022		October 1, 2021		$ Change	% Change
	(in thousands, except percentages)					
Contract revenue	$ 315,882	100.0 %	$ 261,537	100.0 %	$ 54,345	20.8 %
Direct costs of contract revenue:						
Salaries and wages	61,514	19.5	48,532	18.6	12,982	26.7
Subcontractor services and other direct costs	153,896	48.7	111,860	42.8	42,036	37.6
Total direct costs of contract revenue	215,410	68.2	160,392	61.3	55,018	34.3
Gross profit	100,472	31.8	101,145	38.7	(673)	(0.7)
General and administrative expenses:						
Salaries and wages, payroll taxes and employee benefits	60,169	19.0	57,530	22.0	2,639	4.6
Facilities and facilities related	6,999	2.2	7,373	2.8	(374)	(5.1)
Stock-based compensation	6,626	2.1	14,349	5.5	(7,723)	(53.8)
Depreciation and amortization	13,240	4.2	12,678	4.8	562	4.4
Other	25,099	7.9	19,033	7.3	6,066	31.9
Total general and administrative expenses	112,133	35.5	110,963	42.4	1,170	1.1
Income (loss) from operations	(11,661)	(3.7)	(9,818)	(3.8)	(1,843)	18.8
Other income (expense):						
Interest expense	(3,216)	(1.0)	(3,100)	(1.2)	(116)	3.7
Other, net	1,266	0.4	34	0.0	1,232	N/M
Total other income (expense)	(1,950)	(0.6)	(3,066)	(1.2)	1,116	(36.4)
Income (Loss) before income tax expense	(13,611)	(4.3)	(12,884)	(4.9)	(727)	5.6
Income tax expense (benefit)	(5,588)	(1.8)	(5,357)	(2.0)	(231)	4.3
Net income (loss)	$ (8,023)	(2.5)	$ (7,527)	(2.9)	$ (496)	6.6

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

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

	Three months ended September 30, 2022		
	Energy	Engineering and Consulting	Total
		(in thousands)	
Contract Type			
Time-and-materials	$ 7,468	$ 13,880	$ 21,348
Unit-based	43,039	3,791	46,830
Fixed price	52,118	1,103	53,221
Total [1]	$ 102,625	$ 18,774	$ 121,399
Client Type			
Commercial	$ 6,848	$ 1,376	$ 8,224
Government	48,073	17,348	65,421
Utilities [2]	47,704	50	47,754
Total [1]	$ 102,625	$ 18,774	$ 121,399
Geography [3]			
Domestic	$ 102,625	$ 18,774	$ 121,399

	Nine months ended September 30, 2022		
	Energy	Engineering and Consulting	Total
		(in thousands)	
Contract Type			
Time-and-materials	$ 23,873	$ 40,221	$ 64,094
Unit-based	128,540	10,530	139,070
Fixed price	109,773	2,945	112,718
Total [1]	$ 262,186	$ 53,696	$ 315,882
Client Type			
Commercial	$ 21,638	$ 4,330	$ 25,968
Government	96,293	49,139	145,432
Utilities [2]	144,255	227	144,482
Total [1]	$ 262,186	$ 53,696	$ 315,882
Geography [3]			
Domestic	$ 262,186	$ 53,696	$ 315,882

	Three months ended October 1, 2021		
	Energy	Engineering and Consulting	Total
		(in thousands)	
Contract Type			
Time-and-materials	$ 9,104	$ 13,160	$ 22,264
Unit-based	51,470	2,650	54,120
Fixed price	20,950	963	21,913
Total (1)	$ 81,524	$ 16,773	$ 98,297
Client Type			
Commercial	$ 7,741	$ 1,568	$ 9,309
Government	18,537	15,181	33,718
Utilities (2)	55,245	24	55,269
Total (1)	$ 81,524	$ 16,773	$ 98,297
Geography (3)			
Domestic	$ 81,524	$ 16,773	$ 98,297

	Nine months ended October 1, 2021		
	Energy	Engineering and Consulting	Total
		(in thousands)	
Contract Type			
Time-and-materials	$ 25,060	$ 40,444	$ 65,504
Unit-based	132,688	7,817	140,505
Fixed price	52,229	3,299	55,528
Total (1)	$ 209,977	$ 51,560	$ 261,537
Client Type			
Commercial	$ 20,685	$ 4,037	$ 24,723
Government	45,766	47,391	93,157
Utilities (2)	143,525	132	143,657
Total (1)	$ 209,977	$ 51,560	$ 261,537
Geography (3)			
Domestic	$ 209,977	$ 51,560	$ 261,537

(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 nine months ended September 30, 2022 and October 1, 2021.*

Three Months Ended September 30, 2022 Compared to Three Months Ended October 1, 2021

Contract revenue. Consolidated contract revenue increased $23.1 million, or 23.5%, in the three months ended September 30, 2022, compared to the three months ended October 1, 2021, primarily due to incremental revenues in our Energy segment generated from new governmental construction-management and design-build projects, combined with increased governmental revenues in our Engineering and Consulting segment, partially offset by decreased utility program revenues in our Energy segment.

Contract revenue in our Energy segment increased $21.1 million, or 25.9%, in the three months ended September 30, 2022, compared to the three months ended October 1, 2021, primarily as a result of incremental revenues generated from new governmental construction-management and design-build projects, partially offset by decreases in utility program revenues. Governmental revenues increased as a result of the start-up of newly awarded contracts. Utility program revenues decreased primarily as a result of software licensing sales that occurred in the third quarter of fiscal year 2021 that did not recur in the same period for 2022, combined with decreases in our utility program revenues that were driven by temporary funding reductions.

Contract revenue in our Engineering and Consulting segment increased $2.0 million, or 11.9%, in the three months ended September 30, 2022, compared to the three months ended October 1, 2021, primarily due to increased services provided to our governmental clients.

Direct costs of contract revenue. Direct costs of consolidated contract revenue increased $23.7 million, or 39.4%, in the three months ended September 30, 2022, compared to the three months ended October 1, 2021, primarily due to increases in our contract revenues 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 $23.4 million, or 45.2%, in the three months ended September 30, 2022, compared to the three months ended October 1, 2021. Direct costs of contract revenue for the Engineering and Consulting segment increased $0.3 million, or 4.1%, in the three months ended September 30, 2022, compared to the three months ended October 1, 2021.

Subcontractor services and other direct costs increased by $18.6 million, or 42.5%, and salaries and wages increased by $5.1 million, or 31.0%, in the three months ended September 30, 2022, compared to the three months ended October 1, 2021. The increases were primarily due to the increase in contract revenues as described above combined with changes in the mix of those contract revenues to those which contain a higher percentage of material costs and installation subcontracting and lower percentage of labor costs, as well as the ramping up of new projects for which we saw higher project startup costs relative to the revenue recognized.

Gross Profit. Gross profit decreased 1.6% to $37.5 million, or 30.9% gross margin, for the three months ended September 30, 2022, compared to gross profit of $38.1 million, or 38.8% gross margin, for the three months ended October 1, 2021. The decrease in our gross margin was primarily driven by changes in the mix of revenues as described above combined with the ramping up of new projects for which we saw higher project startup costs relative to the revenue recognized.

General and administrative expenses. General and administrative (“G&A”) expenses increased by $1.6 million, or 4.3%, in the three months ended September 30, 2022, compared to the three months ended October 1, 2021. The increase in G&A expenses consisted of an increase of $2.4 million in the Energy segment combined with an increase of $0.8 million in the Engineering and Consulting segment, partially offset by a decrease of $1.6 million in unallocated corporate expense. The increase in G&A expenses was primarily attributed to increased contingent consideration expense related to prior acquisitions, higher computer-related expenses, and higher salaries and wages, payroll taxes and employee benefits, partially offset by lower stock-based compensation expenses.

Within G&A expenses, the increase of $3.2 million in other general and administrative expenses combined with the increase of $1.0 million in salaries and wages, payroll taxes and employee benefits and the increase of $0.1 million in depreciation and amortization was partially offset by a decrease of $2.6 million in stock-based compensation and a decrease of $0.1 million in facilities and facility related expenses. The increase in other general and administrative expenses was primarily due to increased contingent consideration expense related to prior acquisitions, higher computer-related expenses and professional service fees. The increase in salaries and wages, payroll taxes and employee benefits was primarily due to increases in personnel. The increase in depreciation and amortization was primarily related to higher amortization of internally-developed computer software. The decrease in stock-based compensation expenses was primarily related to previously awarded stock grants reaching the end of their corresponding vesting periods. The decrease in facilities and facility related expenses was due to satisfied facility leases that were not renewed.

Income (loss) from operations. Operating loss was $0.8 million for the three months ended September 30, 2022, compared to an operating income of $1.4 million for the three months ended October 1, 2021, as a result of the factors noted above.

Total other expense, net. Total other expense, net, decreased $0.1 million, or 17.2%, for the three months ended September 30, 2022, compared to the three months ended October 1, 2021, as a result of income from indemnification agreements, partially offset by higher interest expense related to an increase in the average borrowings under our term loans.

Income tax expense (benefit). We recorded an income tax benefit of $1.5 million for the three months ended September 30, 2022, compared to a tax benefit of $0.2 million for the three months ended October 1, 2021. The increase in the tax benefit is primarily attributable to the loss before income tax combined with various tax deductions and tax credits.

Net income (loss). Our net income was $0.1 million for the three months ended September 30, 2022, as compared to a net income of $0.8 million for the three months ended October 1, 2021. The decrease in net income was primarily attributable to the decrease in gross profit combined with higher G&A, offset by higher income tax benefit.

Nine Months Ended September 30, 2022 Compared to Nine Months Ended October 1, 2021

Contract revenue. Consolidated contract revenue increased $54.3 million, or 20.8%, in the nine months ended September 30, 2022, compared to the nine months ended October 1, 2021, primarily due to incremental revenues in our Energy segment generated from new governmental construction-management and design-build projects, combined with incremental revenues from the resumption of projects that had been suspended in fiscal 2021 due to Covid-19, and increased governmental revenues in our Engineering and Consulting segment, partially offset by software licensing sales that occurred in the third quarter of fiscal year 2021 that did not recur in the same period for 2022.

Contract revenue in our Energy segment increased $52.2 million, or 24.9%, in the nine months ended September 30, 2022, compared to the nine months ended October 1, 2021, primarily as a result of incremental revenues from new governmental construction-management and design-build projects, combined with incremental revenues from the resumption of projects that had been suspended in fiscal 2021 due to Covid-19, partially offset by software licensing sales that occurred in the third quarter of fiscal year 2021 that did not recur in the same period for 2022.

Contract revenue in our Engineering and Consulting segment increased $2.1 million, or 4.1%, in the nine months ended September 30, 2022, compared to the nine months ended October 1, 2021, primarily due to increased services provided to our governmental clients.

Direct costs of contract revenue. Direct costs of consolidated contract revenue increased $55.0 million, or 34.3%, in the nine months ended September 30, 2022, compared to the nine months ended October 1, 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 $55.9 million, or 41.7%, in the nine months ended September 30, 2022, compared to the nine months ended October 1, 2021. Direct costs of contract revenue for the Engineering and Consulting segment decreased $0.9 million, or 3.4%, in the nine months ended September 30, 2022, compared to the nine months ended October 1, 2021.

Subcontractor services and other direct costs increased by $42.0 million, or 37.6%, and salaries and wages increased by $13.0 million, or 26.7%, in the nine months ended September 30, 2022, compared to the nine months ended October 1, 2021, primarily due to the increases in contract revenues as described above combined with changes in the mix of those contract revenues to those which contain a higher percentage of material costs and installation subcontracting and lower percentage of labor costs, as well as the ramping up of new projects for which we saw higher project startup costs relative to the revenue recognized.

Gross Profit. Gross profit decreased 0.7% to $100.5 million, or 31.8% gross margin, for the nine months ended September 30, 2022, compared to gross profit of $101.1 million, or 38.7% gross margin, for the nine months ended October 1, 2021. The decrease in gross margin was primarily driven by changes in the mix of revenues as described above, combined with a reduction in software licensing revenues and the ramping up of new projects for which we saw higher project startup costs relative to the revenue recognized.

General and administrative expenses. G&A expenses increased $1.2 million, or 1.1%, in the nine months ended September 30, 2022, compared to the nine months ended October 1, 2021. The increase in G&A expenses consisted of an increase of $4.1 million in the Energy segment combined with an increase of $2.2 million in the Engineering and Consulting segment, partially offset by a decrease of $5.1 million in unallocated corporate expense. The increase in G&A expenses was primarily attributed to increased contingent consideration expense related to prior acquisitions, higher computer-related expenses, and higher salaries and wages, payroll taxes and employee benefits, partially offset by lower stock-based compensation expenses.

Within G&A expenses, the increase of $6.1 million in other general and administrative expenses combined with the increase of $2.6 million in salaries and wages, payroll taxes and employee benefits and the increase of $0.6 million in depreciation and amortization was partially offset by a decrease of $7.7 million in stock-based compensation and a decrease of $0.4 million in facilities and facility related expenses. The increase in other general and administrative expenses was primarily due to increased contingent consideration expense related to prior acquisitions, higher computer-related expenses and higher professional service fees. The increase in salaries and wages, payroll taxes and employee benefits was primarily due to increases in personnel. The increase in depreciation and amortization was primarily related to higher amortization of internally-developed computer software. The decrease in stock-based compensation expenses was primarily related to previously awarded stock grants reaching the end of their corresponding vesting periods. The decrease in facilities and facility related expenses was due to satisfied facility leases that were not renewed.

Income (loss) from operations. Operating loss was $11.7 million for the nine months ended September 30, 2022, compared to operating loss of $9.8 million for the three months ended October 1, 2021, as a result of the factors noted above. As a percentage of contract revenue, operating loss improved from 3.8% to 3.7% for the nine months ended September 30, 2022, compared to the nine months ended October 1, 2021.

Total other expense, net. Total other expense, net, decreased $1.1 million, or 36.4%, for the nine months ended September 30, 2022, compared to the nine months ended October 1, 2021, as a result of income from indemnification agreements.

Income tax expense (benefit). We recorded an income tax benefit of $5.6 million for the nine months ended September 30, 2022 compared to a tax benefit of $5.4 million for the nine months ended October 1, 2021. The increase in the tax benefit is primarily attributable to the increase in loss before income tax combined with various tax deductions and tax credits.

Net income (loss). Our net loss was $8.0 million for the nine months ended September 30, 2022, as compared to a net loss of $7.5 million for the nine months ended October 1, 2021, primarily as a result of lower gross profit, as described above, partially offset by lower total other expense, net.

Liquidity and Capital Resources

	Nine Months Ended	
	September 30, 2022	**October 1, 2021**
	(in thousands)	
Net cash provided by (used in):		
Operating activities	$ 4,503	$ (1,710)
Investing activities	(6,894)	(4,852)
Financing activities	(12)	(17,038)
Net increase (decrease) in cash and cash equivalents	$ (2,403)	$ (23,600)

Sources of Cash

Our primary source of liquidity for the next 12 months and beyond is cash generated from operations and borrowings under our Revolving Credit Facility. 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. However, as a result of the recent amendment to our Revolving Credit Facility, which limits our borrowing capacity to no more than $10.0 million as described below, our liquidity may be impacted if we continue to incur higher than expected costs under certain of our utility contracts where project costs remain high relative to revenue received.

As of September 30, 2022, we had a fully drawn $100 million Term A Loan with $67.5 million outstanding, a $50.0 million Revolving Credit Facility with no borrowed amounts outstanding and $4.1 million in letters of credit issued, and a fully drawn $50.0 million Delayed Draw Term Loan with $41.8 million outstanding, each scheduled to mature on June 26, 2024. In addition, as of September 30, 2022, we had $8.8 million of cash and cash equivalents.

On November 1, 2022, we entered into the Seventh Amendment to the Credit Agreement (the “Seventh Amendment”). The Seventh Amendment, among other things, restricts our borrowing capacity under the Revolving Credit Facility to no more than $10.0 million from November 1, 2022 through the date on which financial statements and compliance documents have been received by the Administrative Agent (as defined in the Credit Agreement) for the fiscal quarter ending March 31, 2023 and condition our access to the accordion feature of the Credit Agreement to periods when our Total Leverage ratio is less than 3.0. 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 September 30, 2022, we were in compliance with all covenants contained in the Credit Agreement, as amended, other than the minimum Adjusted EBITDA thresholds for the test period ended September 30, 2022. Such non-compliance with the minimum Adjusted EBITDA thresholds for the test period ended September 30, 2022 was subsequently waived by the lenders under the Credit Agreement pursuant to the Seventh Amendment. To reduce the risk of future potential covenant breaches, we are in discussions with certain utilities to streamline our contract delivery requirements and eliminate certain cost inefficiencies. For information on our risks related to debt covenant defaults and our indebtedness, see Part I, Item 1A, *Risk Factors* in our Annual Report on Form 10-K for the year ended December 31, 2021.

As of September 30, 2022, borrowings under our Credit Facilities, exclusive of the effects of upfront fees, undrawn fees and issuance cost amortization, bore interest at 4.6%. 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 provided by operating activities were $4.5 million for the nine months ended September 30, 2022, as compared to cash flows used in operating activities of $1.7 million for the nine months ended October 1, 2021. Cash flows provided by operating activities for the nine months ended September 30, 2022 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 provided by operating activities for the nine months ended September 30, 2022, was favorably impacted by lower working capital requirements, offset by increases in operating expenses due to new contract awards. Changes in cash flows used in operating activities for the nine months ended October 1, 2021, resulted primarily due to the increased demand for working capital related to the resumption of utility programs that were suspended in 2020 and start-up costs associated with certain new contract awards.

Cash Flows from Investing Activities

Cash flows used in investing activities were $6.9 million for the nine months ended September 30, 2022, as compared to cash flows used in investing activities of $4.9 million for the nine months ended October 1, 2021. Cash flows used in investing activities for the nine months ended September 30, 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 nine months ended October 1, 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 used in financing activities were $12,000 for the nine months ended September 30, 2022, as compared to cash flows used in financing activities of $17.0 million for the nine months ended October 1, 2021. Cash flows used in financing activities for the nine months ended September 30, 2022 were primarily attributable to payments of $10.2 million for contingent consideration related to prior acquisitions combined with repayments of $9.8 million under our term loan facility and revolving line of credit, offset by borrowings of $20.0 million under our Delayed Draw Term Loan. Cash flows used in financing activities for the nine months ended October 1, 2021 were primarily attributable to repayments of $9.8 million under our term loan facility and revolving line of credit, payments of $6.6 million for contingent consideration related to prior acquisitions, payments of taxes on stock grants of $3.1 million, payments on notes payable of $1.7 million, partially offset by $2.7 million in proceeds from sales of common stock under our employee stock purchase plan and $1.7 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 September 30, 2022:

Contractual Obligations	Total	Less than 1 Year	1 - 3 Years	3 - 5 Years	More than 5 Years
			(in thousands)		
Long term debt [1]	$ 109,422	$ 15,510	$ 93,912	$ —	$ —
Interest payments on debt outstanding [2]	7,847	4,654	3,193	—	—
Operating leases	13,636	4,889	5,815	2,520	412
Finance leases	2,627	970	1,417	211	29
Total contractual cash obligations	$ 133,532	$ 26,023	$ 104,337	$ 2,731	$ 441

(1) Long-term debt includes $67.5 million outstanding on our Term A Loan and $41.8 million outstanding on our Delayed Draw Term Loan as of September 30, 2022. We have assumed no future borrowings or repayments (other than at maturity) for purposes of this table. Our term loans are scheduled to mature on June 26, 2024.

(2) Borrowings under our Delayed Draw Term Loan bear interest at a variable rate. Future interest payments on our Credit Facilities are estimated using floating rates in effect as of September 30, 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 September 30, 2022, we had estimated remaining contingent consideration payable of $2.5 million related to this acquisition. For the nine months ended September 30, 2022, our statement of operations includes $1.7 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 September 30, 2022, 20% of our contracts are time-and-materials contracts, 44% of our contracts are unit-based contracts, and 36% are fixed price contracts, compared to 25% for time-and-materials contracts, 54% for unit-based contracts, and 21% for fixed price contracts, as of October 1, 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 September 30, 2022, we had cash and cash equivalents of $8.8 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 September 30, 2022, $67.5 million was outstanding under our Term A Loan, $41.75 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 Total 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 Total 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 Total Leverage Ratio. Based upon the amount of our outstanding indebtedness as of September 30, 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 September 30, 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 September 30, 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 September 30, 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:

	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares That May Yet be Purchased Under the Plans or Programs
July 2, 2022 – July 29, 2022	—	—	—	—
July 30, 2022 – August 26, 2022	175	$27.65	—	—
August 27, 2022 – September 30, 2022	—	—	—	—
TOTAL	**175**	**$27.65**	—	—

ITEM 3. Defaults upon Senior Securities

None.

ITEM 4. Mine Safety Disclosures

Not applicable.

ITEM 5. Other Information

On November 1, 2022, the Company entered into the Seventh Amendment to the Credit Agreement (the "Seventh Amendment"). The Seventh Amendment, (A) waives the minimum Adjusted EBITDA (as defined in the Fifth Amendment) threshold and any related Default or Event of Default (each as defined in the Fifth Amendment) for the fiscal quarter ending September 30, 2022, (B) amends the maximum Total Leverage Ratio (as defined in the Fifth Amendment) threshold and the minimum Adjusted EBITDA threshold for the remainder of the Extended Covenant Relief Period, (C) amends the pricing structure of borrowings under the Credit Agreement during the remainder of the Extended Covenant Relief Period, (D) restricts aggregate borrowings under the Revolving Credit Facility to no more than $10.0 million at any time during the period from November 1, 2022 through the date on which financial statements and compliance documents have been received by the Administrative Agent (as defined in the Credit Agreement) for the fiscal quarter ending March 31, 2023, (E) conditions access to the accordion feature of the Credit Agreement to periods when the Company's Total Leverage ratio is less than 3.0, (F) amends the Total Leverage Ratio requirement contained in the conditions precedent required upon any Credit Event (as defined in the Credit Agreement) occurring prior to the delivery to the Administrative Agent of the financial statements and compliance documents required for the fiscal quarter ending March 31, 2023, (G) includes a general release of all Claims (as defined in the Seventh Amendment) against the Administrative Agent, the L/C Issuer and the Lenders (each as defined in the Credit Agreement) and (H) amends the timing requirement of certain financial reports. Additionally, during the remainder of the Extended Covenant Relief Period, the Company may not make Share Repurchases (as defined in the Seventh Amendment).

Pursuant to the Seventh Amendment, during the Extended Covenant Relief Period, (A) borrowings under the Credit Agreement will bear interest at SOFR plus 4.00%; provided, that SOFR cannot be less than 0.00%, and (B) the Company will pay a commitment fee of 0.50% per annum for the unused portion of the revolving credit facility under the Credit Agreement.

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 Total 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 Total 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 Total Leverage Ratio.

ITEM 6. Exhibits

Exhibit Number	Exhibit Description
3.1	First Amended and Restated Certificate of Incorporation of Willdan Group, Inc. (incorporated by reference to Willdan Group, Inc.'s Registration Statement on Form S-1, filed with the SEC on August 9, 2006, as amended (File No. 333-136444)).
3.2	Amended and Restated Bylaws of Willdan Group, Inc. (incorporated by reference to Exhibit 3.1 to Willdan Group, Inc.'s Current Report on Form 8-K, filed with the SEC on April 16, 2020).
4.1	Specimen Stock Certificate for shares of the Registrant's Common Stock (incorporated by reference to Willdan Group, Inc.'s Registration Statement on Form S-1, filed with the SEC on August 9, 2006, as amended (File No. 333-136444)).
4.2	The Company agrees to furnish to the Securities and Exchange Commission upon request a copy of each instrument with respect to issues of long-term debt of Willdan Group, Inc. and its subsidiaries, the authorized principal amount of which does not exceed 10% of the consolidated assets of Willdan Group, Inc. and its subsidiaries.
10.1*	Seventh Amendment to Amended and Restated Credit Agreement, dated as of November 1, 2022, by and among Willdan Group, Inc., the Guarantors signatory thereto, the Lenders signatory thereto and BMO Harris Bank N.A., as administrative agent.
31.1*	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to § 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to § 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002.
101.INS*	Inline XBRL Instance Document (the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document)
101.SCH*	Inline XBRL Taxonomy Extension Schema Document
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104*	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)

* 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)
November 3, 2022

SEVENTH AMENDMENT TO AMENDED AND RESTATED CREDIT AGREEMENT

This Seventh Amendment to Amended and Restated Credit Agreement (herein, the *"Amendment"*) is entered into as of November 1, 2022 (the "*Seventh 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 Seventh Amendment Effective Date, 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. WAIVER.

Pursuant to Section 8.23(c) of the Credit Agreement, the Borrower is required to have Adjusted EBITDA of no less than $25,000,000 for the Test Period ended September 30, 2022 (the "*September 2022 Adjusted EBITDA Requirement*"). The Borrower has requested that the Lenders waive (i) the September 2022 Adjusted EBITDA Requirement and (ii) any Default or Event of Default arising from (A) non-compliance with the September 2022 Adjusted EBITDA Requirement, (B) any failure to give notice when due pursuant to Section 8.5(g) of the Credit Agreement of any Default or Event of Default of a type contemplated by this clause (ii) relating to non-compliance with the September 2022 Adjusted EBITDA Requirement, and/or (C) the inaccuracy of any representation, warranty or certificate regarding the absence of any Default or Event of Default of a type contemplated by this clause (ii) relating to non-compliance with the September 2022 Adjusted EBITDA Requirement (collectively, the "*Waived Defaults*"), and, subject to the satisfaction of the conditions precedent set forth in Section 3 below, the Lenders party hereto agree to such request and, accordingly, hereby waive the Waived Defaults and the September 2022 Adjusted EBITDA Requirement solely with respect to the Test Period ended September 30, 2022. The foregoing waiver is limited to the matters expressly set forth in this Section 1 and all other terms and conditions of the Credit Agreement and the other Loan Documents shall stand and remain unchanged and in full force and effect except as expressly amended herein.

SECTION 2. AMENDMENTS.

Subject to the satisfaction of the conditions precedent set forth in Section 3 below, effective as of the Seventh Amendment Effective Date, the Credit Agreement shall be and hereby is amended as follows:

2.1. Section 1.1 of the Credit Agreement is hereby amended by amending and restating the following defined terms to read as follows:

> *"Applicable Margin"* means, with respect to Loans, Reimbursement Obligations, Letter of Credit Fees, and the commitment fees payable under Section 3.1(a), the rates per annum determined in accordance with the applicable pricing grid below:
>
> (i) At all times from the Seventh Amendment Effective Date until the first Pricing Date occurring after the end of the Covenant Relief Period (notwithstanding anything in this definition to the contrary):

APPLICABLE MARGIN FOR BASE RATE LOANS AND REIMBURSEMENT OBLIGATIONS	APPLICABLE MARGIN FOR SOFR LOANS AND FINANCIAL LETTER OF CREDIT FEES	APPLICABLE MARGIN FOR PERFORMANCE LETTER OF CREDIT FEES	APPLICABLE MARGIN FOR REVOLVING CREDIT COMMITMENT FEES AND DELAYED DRAW TERM LOAN COMMITMENT FEES
3.00%	4.00%	3.00%	0.50%

(ii) From one Pricing Date to the next (commencing with the first Pricing Date occurring after the end of the Covenant Relief Period):

Level	Total Leverage Ratio for Such Pricing Date	Applicable Margin for Base Rate Loans and Reimbursement Obligations	Applicable Margin for SOFR Loans and Financial Letter of Credit Fees	Applicable Margin for Performance Letter of Credit Fees	Applicable Margin for Revolving Credit Commitment Fees and Delayed Draw Term Loan Commitment Fees
VI	Greater than or equal to 3.50 to 1.0	1.25%	2.25%	1.688%	0.40%
V	Less than 3.50 to 1.0, and greater than or equal to 2.50 to 1.0	1.00%	2.00%	1.50%	0.35%
IV	Less than 2.50 to 1.0, and greater than or equal to 2.00 to 1.0	0.75%	1.75%	1.31%	0.30%
III	Less than 2.00 to 1.0, and greater than or equal to 1.25 to 1.0	0.50%	1.50%	1.125%	0.25%
II	Less than 1.25 to 1.0, and greater than or equal to 0.50 to 1.0	0.25%	1.25%	0.94%	0.20%
I	Less than 0.50 to 1.0	0.125%	1.125%	0.84%	0.15%

For purposes hereof, the term “Pricing Date” means the date on which the Administrative Agent is in receipt of the Borrower’s most recent financial statements pursuant to Section 8.5(a) or (b), as applicable, for the Fiscal Quarter then ended, commencing with the Fiscal Quarter ending March 31, 2023. Following the Covenant Relief Period, the Applicable Margin shall be established based on the Total Leverage Ratio for the most recently completed Fiscal Quarter and the Applicable Margin established on a Pricing Date shall remain in effect until the next Pricing Date. If the Borrower has not delivered its financial statements by the date such financial statements are required to be delivered under Section 8.5(a) or (b), until such financial statements are delivered, the Applicable Margin shall be the highest Applicable Margin (i.e., Level VI of the pricing grid in subsection (ii) above shall apply). If the Borrower subsequently delivers such financial statements before the next Pricing Date, the Applicable Margin shall be determined on the date of delivery of such financial statements and remain in effect until the next Pricing Date. In all other circumstances, the Applicable Margin shall be in effect from the Pricing Date that occurs immediately after the end of the Fiscal Quarter covered by such financial statements until the next Pricing Date. Each determination of the Applicable Margin made by the Administrative Agent in accordance with the foregoing shall be conclusive and binding on the Borrower and the Lenders if reasonably determined. Notwithstanding the foregoing, in the event that any financial statement or compliance certificate delivered pursuant to Sections 8.5(a), (b) or (h) is inaccurate, and such inaccuracy, if corrected, would have led to the imposition of a higher Applicable Margin for any period than the Applicable Margin applied for that period, then (A) the Borrower shall immediately deliver to the Administrative Agent a corrected financial statement and a corrected compliance certificate for that period (the "Corrected Financials Date"), (B) the Applicable Margin shall be determined based on the corrected compliance certificate for that period, and (C) the Borrower shall immediately pay to the Administrative Agent (for the account of the Lenders that hold the Commitments and Loans at the time such payment is received, regardless of whether those Lenders held the Commitments and Loans during the relevant period) the accrued additional interest owing as a result of such increased Applicable Margin for that period; provided, for the avoidance of doubt, such deficiency shall be due and payable as at such Corrected Financials Date and no Default under Section 9.1(a) shall be deemed to have occur with respect to such deficiency prior to such date. This paragraph shall not limit the rights of the Administrative Agent or the Lenders with respect to Section 2.9 and Section 9 hereof and shall survive the termination of this Agreement until the payment in full in cash of the Obligations.

"Repurchase Conditions" means with respect to any purchase, redemption or other acquisition or retiring any of the Borrower's capital stock or other equity interests (as contemplated by Section 8.12 hereof) (each a *"Share Repurchase"*), the following conditions:

(i) upon giving effect to such Share Repurchase, the Borrower shall: (A) be in compliance with the financial covenants contained in Section 8.23 on a pro forma basis, calculated using the then prevailing financial covenant compliance levels permitted as of the last day of the most recently ended Fiscal Quarter for which financial statements were required to be delivered hereunder; provided that, (I) in the case of the Fixed Charge Coverage Ratio, the Fixed Charge Coverage Ratio after giving effect to such Share Repurchase shall not be less than 1.20 to 1.00 and (II) at all times prior to delivery of the financial statements and compliance certificate required to be delivered pursuant to Sections 8.5(a) and 8.5(h), respectively, hereof for the Fiscal Quarter ending March 31, 2023, the Total Leverage Ratio on a pro forma basis after giving effect to such Share Repurchase shall not be greater than 3.25 to 1.00; and (B) have Liquidity of not less than $10,000,000;

(ii) such Share Repurchase together with all other Share Repurchases made under Section 8.12 following the Closing Date shall not exceed $8,000,000 in the aggregate;

(iii) no Default exists or would arise upon giving effect to such Share Repurchase;

(iv) the Borrower shall have delivered a written certificate to the Administrative Agent in the form attached hereto as Exhibit J signed by a Financial Officer of the Borrower (or in such other form acceptable to the Administrative Agent) certifying that each of the Repurchase Conditions have been satisfied in connection with such Share Repurchase and setting forth in reasonable detail the calculations supporting such certifications in respect of clause (i) of this definition; and

(v) the Covenant Relief Period shall have ended.

2.2. Section 1.1 of the Credit Agreement is hereby further amended by adding the following new defined term thereto in the appropriate alphabetical order therein:

"Seventh Amendment Effective Date" means November 1, 2022.

2.3. Clause (iv) in the first paragraph of Section 2.15 of the Credit Agreement is hereby amended in its entirety to read as follows:

(iv) the Borrower shall be in compliance on a pro forma basis (after giving effect to such Increase as fully-drawn) with all financial covenants in Section 8.23 hereof, calculated using the required covenant compliance levels for the next succeeding determination period, provided that the Total Leverage Ratio shall be no greater than 3.00 to 1.00 on a pro forma basis (after giving effect to such Increase as fully-drawn),

2.4. Section 7.1(b) of the Credit Agreement is hereby amended in its entirety to read as follows:

(b) (i) no Default shall have occurred and be continuing or would occur as a result of such Credit Event, (ii) the Total Leverage Ratio (calculated on a *pro forma basis* after giving effect to such Credit Event and, notwithstanding anything herein to the contrary, based upon Adjusted EBITDA for the most recently ended twelve (12) month period for which financial statements required under Section 8.5(j) have been delivered to the Administrative Agent) shall be no greater than the maximum permitted Total Leverage Ratio pursuant to Section 8.23(a) for the most recently ended determination period and (iii) the Borrower shall have delivered to the Administrative Agent reasonably satisfactory calculations evidencing the satisfaction of the condition in the foregoing clause (ii); *provided* that the foregoing clauses (ii) and (iii) shall only apply with respect to Credit Events occurring prior to the delivery to the Administrative Agent of the financial statements and compliance certificate pursuant to Section 8.5(a) and 8.5(h), respectively, for the Fiscal Quarter ending on or about March 31, 2023;

2.5. Section 8.5 of the Credit Agreement is hereby amended by (i) deleting the ‘and’ at the end of clause (h), (ii) replacing the “.” at the end of clause (i) with “; and”, (iii) adding a new clause (j) immediately succeeding clause (i) which shall read in its entirety as follows and (iv) amending and restating the last paragraph of Section 8.5 to read as follows:

(j) as soon as available, and in any event no later than thirty (30) days after the last day of each calendar month ending prior to the delivery of the financial statements and compliance certificate pursuant to Section 8.5(a) and 8.5(h), respectively, for the Fiscal Quarter ending on or about March 31, 2023 (commencing with the calendar month ending October 31, 2022), a copy of the consolidated balance sheet of the Loan Parties and their Subsidiaries as of the last day of such calendar month and the consolidated statements of income, retained earnings, and cash flows of the Loan Parties and their Subsidiaries for the calendar month and the Fiscal Year-to-date period then ended, each in reasonable detail showing in comparative form the figures for the corresponding date and period in the previous Fiscal Year, prepared by the Borrower in accordance with GAAP (subject to the absence of footnote disclosures and Fiscal Year-end audit adjustments) and certified to by a Financial Officer of the Borrower, together with customary management discussion and analysis.

Furthermore, within five (5) Business Days (or such later date as the Administrative Agent may permit in its reasonable discretion) following the delivery of the financial statements referred to in Section 8.5(j) above with respect to any calendar month (at a reasonable time to be scheduled by the Administrative Agent in consultation with the Borrower and the Lenders), the Borrower, the Administrative Agent and the Lenders shall participate in a conference call to discuss, without limitation, the latest reports provided to the Administrative Agent pursuant to this Section 8.5 and any other matter of interest to the Administrative Agent or any Lender concerning the financial condition, operating performance, and business prospects of the Loan Parties.

Notwithstanding the above, (i) if any report or other information required under this Section 8.5 is due on a day that is not a Business Day, then such report or other information shall be required to be delivered on the first day after such day that is a Business Day, and (ii) documents required to be delivered pursuant to Section 8.5(a), (b) or (j) may be delivered electronically and if so delivered, shall be deemed to have been delivered on the date on which (x) such financial statements are filed for public availability on the Securities and Exchange Commission's Electronic Data Gathering and Retrieval System (or any successor thereto) or (y) the Borrower notifies (which may be by facsimile or electronic mail) the Administrative Agent (and the Administrative Agent hereby agrees to notify each of the Lenders) that such financial statements have been posted at a site (the address of which shall be contained in such notice) on the world wide web, which site is accessible by the Administrative Agent and the Lenders through a widely held nationally recognized web browser, from which such financial statements may be readily viewed and printed.

2.6. Section 8.23(a) of the Credit Agreement is hereby amended in its entirety to read as follows:

(a) *Total Leverage Ratio*. As of the last day of each Fiscal Quarter of the Borrower ending during the relevant period set forth below, the Borrower shall not permit the Total Leverage Ratio to be greater than the corresponding ratio set forth opposite such period:

Period(s) Ending	Total Leverage Ratio shall not be greater than:
Fiscal Quarter ending on or about 07/02/21	4.50 to 1.00
Fiscal Quarter ending on or about 10/01/21	5.25 to 1.00
Fiscal Quarter ending on or about 12/31/21	4.50 to 1.00
Fiscal Quarter ending on or about 04/01/22	5.75 to 1.00
Fiscal Quarter ending on or about 07/01/22	5.50 to 1.00
Fiscal Quarter ending on or about 09/30/22	5.00 to 1.00
Fiscal Quarter ending on or about 12/30/22	5.25 to 1.00
Fiscal Quarter ending on or about 03/31/23 and at all times thereafter	3.25 to 1.00

2.7. Section 8.23(c) of the Credit Agreement is hereby amended in its entirety to read as follows:

> (c) *Minimum Adjusted EBITDA*. Solely during the Covenant Relief Period, as of the last day of each Test Period ending on the relevant date set forth below, the Borrower shall have Adjusted EBITDA for such Test Period of no less than the amount set forth opposite such date:

Test Period Ending	Minimum Adjusted EBITDA:
12/31/21	$22,500,000
04/01/22	$20,500,000
07/01/22	$22,500,000
09/30/22	N/A
12/30/22	$20,000,000

2.8. Section 8.23 of the Credit Agreement is hereby amended by adding a new clause (e) immediately following clause (d) to read in its entirety as follows:

> (e) *Maximum Revolving Credit Exposure*. The Borrower shall not permit the aggregate outstanding principal amount of Revolving Loans, Swingline Loans and L/C Obligations

(excluding the undrawn face amounts of outstanding Letters of Credit as of the Seventh Amendment Effective Date) to exceed $10,000,000 at any time during the period from the Seventh Amendment Effective Date through the date on which the Administrative Agent has received the financial statements and compliance certificate required to be delivered pursuant to Sections 8.5(a) and 8.5(h), respectively, for the Fiscal Quarter ending March 31, 2023.

SECTION 3. CONDITIONS PRECEDENT.

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

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

3.2. The Borrower shall have paid (or caused to be paid) to the Administrative Agent, for the ratable benefit of the Lenders that have executed and delivered this Amendment as of the Seventh Amendment Effective Date, such fees as have been agreed to between the Borrower and the Administrative Agent in writing as of the Seventh Amendment Effective Date.

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

SECTION 4. 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 or waived 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 5. Release.

5.1. In consideration of the agreements of the Administrative Agent, the L/C Issuer and the Lenders contained herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, each Loan Party, on behalf of itself and its successors and assigns, and its present and former members, managers, shareholders, affiliates, subsidiaries, divisions, predecessors, directors, officers, attorneys, employees, agents, legal representatives and other representatives (the Loan Parties and all such other Persons being hereinafter referred to collectively as the "*Releasing Parties*" and individually as a "*Releasing Party*"), hereby absolutely, unconditionally and irrevocably releases, remises and forever discharges the Administrative Agent, the L/C Issuer and each Lender, and each of their respective successors and assigns, and their respective present and former shareholders, members, managers, affiliates, subsidiaries, divisions, predecessors, directors, officers, investment managers, attorneys, employees, agents, legal representatives and other representatives (the Administrative Agent, Lenders and all such other Persons being hereinafter referred to collectively as the "*Releasees*" and individually as a "*Releasee*"), of and from any and all demands, actions, causes of action, suits, damages and any and all other claims, counterclaims, defenses, rights of set-off, demands and liabilities whatsoever (individually, a "*Claim*" and collectively, "*Claims*") of every kind and nature, known or unknown, suspected or unsuspected, at law or in equity, which any Releasing Party or any of its successors, assigns, or other legal representatives may now or hereafter own, hold, have or claim to have against the Releasees or any of them for, upon, or by reason of any circumstance, action, cause or thing whatsoever which arises at any time on or prior to the date of this Amendment, including, without limitation, for or on account of, or in relation to, or in any way in connection with this Amendment, the Credit Agreement, any of the other Loan Documents or any of the transactions hereunder or thereunder. Releasing Parties hereby represent to the Releasees that they have not assigned or transferred any interest in any Claims against any Releasee prior to the date hereof.

5.2. Each Loan Party understands, acknowledges and agrees that the release set forth above may be pleaded as a full and complete defense to any Claim and may be used as a basis for an injunction against any action, suit or other proceeding which may be instituted, prosecuted or attempted in breach of the provisions of such release.

5.3. Each Loan Party agrees that no fact, event, circumstance, evidence or transaction which could now be asserted or which may hereafter be discovered will affect in any manner the final, absolute and unconditional nature of the release set forth above.

SECTION 6. MISCELLANEOUS.

6.1. 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.

6.2. Except as specifically amended or waived herein, the Credit Agreement shall continue in full force and effect in accordance with its original terms. Each of the Guarantors reaffirm their Guaranties 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 or waived hereby.

6.3. 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.

6.4. 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]

This Seventh 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

“Guarantors”

Genesys Engineering, P.C.

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

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

“Administrative Agent” and “Lenders”

BMO Harris Bank N.A., as a Lender and as Administrative Agent

By */s/ Maria Wisniewski*
Name: Maria Wisniewski
Title: Senior Vice President

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

"LENDERS"

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

By /s/ *Mary Beatty*
Name: Mary Beatty
Title: Sr. Vice President

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

“Lenders”

CITIBANK, N.A., as a Lender

By*/s/ Benjamin Schwartz*
Name:Benjamin Schwartz
Title: Attorney-in-Fact

"LENDERS"

U.S. BANK NATIONAL ASSOCIATION, as a Lender

By*/s/ James P. Cecil*
Name: James P. Cecil
Title: Senior Vice President

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

"LENDERS"

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

By */s/ Lance Zediker*
Name: Lance Zediker
Title: Director

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

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: November 3, 2022

By: /s/ THOMAS D. BRISBIN

Thomas D. Brisbin

Chief Executive Officer

(Principal Executive Officer)

Exhibit 31.2

SECTION 302 CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Creighton K. Early, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: November 3, 2022

By: /s/ CREIGHTON K. EARLY

Creighton K. Early
Chief Financial Officer and Vice President
(Principal Financial Officer)

Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. 1350, as Adopted Pursuant to § 906 of the Sarbanes-Oxley Act of 2002

In connection with the Quarterly Report on Form 10-Q of Willdan Group, Inc. (the "Company") for the quarterly period ended September 30, 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)
November 3, 2022

By: /s/ CREIGHTON K. EARLY
Creighton K. Early
Chief Financial Officer and Vice President
(Principal Financial Officer)
November 3, 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.