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 June 30, 2023

OR

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

For the transition period from to

Commission file number 001-33076

WILLDAN GROUP, INC.

(Exact Name of Registrant as Specified in Its Charter)

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

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

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

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

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

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

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

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

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

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

As of August 2, 2023, there were 13,594,982 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 83% of our consolidated revenue in fiscal year 2022;
- our reliance on work from our top ten clients, which accounted for 55% of our consolidated contract revenue for fiscal year 2022;
- 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 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 manage supply chain constraints, labor shortages, rising interest rates, and rising inflation;
- our ability to obtain financing and to refinance our outstanding debt as it matures;
- our ability to successfully integrate our acquisitions and execute on our growth strategy; and
- our ability to attract and retain managerial, technical, and administrative talent.

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 elsewhere in our Annual Report on Form 10-K for the fiscal year ended December 30, 2022, 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)

	June 30, 2023	December 30, 2022
Assets		
Current assets:		
Cash and cash equivalents	$ 13,649	$ 8,806
Restricted cash	—	10,679
Accounts receivable, net of allowance for doubtful accounts of $373 and $640 at June 30, 2023 and December 30, 2022, respectively	54,572	60,202
Contract assets	79,300	83,060
Other receivables	2,852	4,773
Prepaid expenses and other current assets	5,399	6,454
Total current assets	155,772	173,974
Equipment and leasehold improvements, net	25,494	22,537
Goodwill	130,124	130,124
Right-of-use assets	13,894	12,390
Other intangible assets, net	36,237	41,486
Other assets	15,607	10,620
Deferred income taxes, net	17,692	18,543
Total assets	$ 394,820	$ 409,674
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 35,155	$ 28,833
Accrued liabilities	36,954	59,110
Contingent consideration payable	—	4,000
Contract liabilities	14,950	12,585
Notes payable	102,619	16,903
Finance lease obligations	1,143	1,113
Lease liability	4,877	4,625
Total current liabilities	195,698	127,169
Notes payable	19	90,544
Finance lease obligations, less current portion	1,251	1,601
Lease liability, less current portion	10,731	8,599
Other noncurrent liabilities	259	259
Total liabilities	207,958	228,172
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; 13,504 and 13,296 shares issued and outstanding at June 30, 2023 and December 30, 2022, respectively	135	133
Additional paid-in capital	181,747	177,718
Accumulated other comprehensive loss	—	—
Retained earnings	4,980	3,651
Total stockholders' equity	186,862	181,502
Total liabilities and stockholders' equity	$ 394,820	$ 409,674

See accompanying notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended		Six Months Ended	
	June 30, 2023	July 1, 2022	June 30, 2023	July 1, 2022
Contract revenue	$ 119,077	$ 102,645	$ 221,680	$ 194,483
Direct costs of contract revenue (inclusive of directly related depreciation and amortization):				
Salaries and wages	21,302	21,284	41,712	40,094
Subcontractor services and other direct costs	57,142	49,771	98,054	91,439
Total direct costs of contract revenue	78,444	71,055	139,766	131,533
General and administrative expenses:				
Salaries and wages, payroll taxes and employee benefits	22,416	20,439	44,801	39,796
Facilities and facility related	2,619	2,373	4,897	4,771
Stock-based compensation	1,287	1,714	2,820	5,019
Depreciation and amortization	4,128	4,426	8,328	8,835
Other	7,709	7,936	14,580	15,435
Total general and administrative expenses	38,159	36,888	75,426	73,856
Income (Loss) from operations	2,474	(5,298)	6,488	(10,906)
Other income (expense):				
Interest expense, net	(2,207)	(1,030)	(4,673)	(1,781)
Other, net	373	329	513	526
Total other expense, net	(1,834)	(701)	(4,160)	(1,255)
Income (Loss) before income taxes	640	(5,999)	2,328	(12,161)
Income tax (benefit) expense	243	(1,673)	999	(4,062)
Net income (loss)	397	(4,326)	1,329	(8,099)
Other comprehensive income (loss):				
Unrealized gain (loss) on derivative contracts, net of tax	—	—	—	38
Comprehensive income (loss)	$ 397	$ (4,326)	$ 1,329	$ (8,061)
Earnings (Loss) per share:				
Basic	$ 0.03	$ (0.33)	$ 0.10	$ (0.63)
Diluted	$ 0.03	$ (0.33)	$ 0.10	$ (0.63)
Weighted-average shares outstanding:				
Basic	13,344	13,016	13,305	12,901
Diluted	13,487	13,016	13,481	12,901

See accompanying notes to Condensed Consolidated Financial Statements.

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

	Common Stock		Additional Paid-in	Accumulated Other Comprehensive	Retained	
	Shares	Amount	Capital	Income (Loss)	Earnings	Total
Balance at December 30, 2022	13,296	$ 133	$ 177,718	$ —	$ 3,651	$ 181,502
Shares of common stock issued in connection with employee stock purchase plan	92	1	1,391	—	—	1,392
Shares used to pay taxes on stock grants	(7)	—	(124)	—	—	(124)
Issuance of restricted stock award and units	108	1	(1)	—	—	—
Stock-based compensation expense	—	—	1,533	—	—	1,533
Net income (loss)	—	—	—	—	932	932
Balance at March 31, 2023	13,489	$ 135	$ 180,517	$ —	$ 4,583	$ 185,235
Shares of common stock issued in connection with incentive stock plan	2	—	7	—	—	7
Shares used to pay taxes on stock grants	(4)	—	(64)	—	—	(64)
Issuance of restricted stock award and units	17	—	—	—	—	—
Stock-based compensation expense	—	—	1,287	—	—	1,287
Net income (loss)	—	—	—	—	397	397
Balance at June 30, 2023	13,504	$ 135	$ 181,747	$ —	$ 4,980	$ 186,862

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

See accompanying notes to Condensed Consolidated Financial Statements.

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

	Six Months Ended June 30, 2023	Six Months Ended July 1, 2022
Cash flows from operating activities:		
Net income (loss)	$ 1,329	$ (8,099)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	8,328	8,835
Deferred income taxes, net	851	(2,842)
(Gain) loss on sale/disposal of equipment	(50)	(69)
Provision for doubtful accounts	146	107
Stock-based compensation	2,820	5,019
Accretion and fair value adjustments of contingent consideration	—	111
Changes in operating assets and liabilities, net of effects from business acquisitions:		
Accounts receivable	5,484	6,803
Contract assets	3,760	(1,889)
Other receivables	1,921	36
Prepaid expenses and other current assets	1,217	225
Other assets	(4,987)	(48)
Accounts payable	6,322	(8,859)
Accrued liabilities	(11,477)	(648)
Contract liabilities	2,365	(2,089)
Right-of-use assets	880	(162)
Net cash (used in) provided by operating activities	18,909	(3,569)
Cash flows from investing activities:		
Purchase of equipment, software, and leasehold improvements	(5,762)	(4,344)
Proceeds from sale of equipment	55	73
Net cash (used in) provided by investing activities	(5,707)	(4,271)
Cash flows from financing activities:		
Payments on contingent consideration	(4,000)	(10,206)
Payment on restricted cash	(10,679)	—
Payments on notes payable	(971)	(1,051)
Borrowings under term loan facility and line of credit	5,000	20,000
Repayments under term loan facility and line of credit	(9,000)	(6,500)
Principal payments on finance leases	(599)	(444)
Proceeds from stock option exercise	7	23
Proceeds from sales of common stock under employee stock purchase plan	1,392	1,561
Cash used to pay taxes on stock grants	(188)	(953)
Net cash (used in) provided by financing activities	(19,038)	2,430
Net increase (decrease) in cash, cash equivalents and restricted cash	(5,836)	(5,410)
Cash, cash equivalents and restricted cash at beginning of period	19,485	11,221
Cash, cash equivalents and restricted cash at end of period	$ 13,649	$ 5,811
Supplemental disclosures of cash flow information:		
Cash paid (received) during the period for:		
Interest	$ 4,464	$ 1,584
Income taxes	(1,696)	474
Supplemental disclosures of noncash investing and financing activities:		
Equipment acquired under finance leases	278	1,431

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 resource and infrastructure needs undergo continuous change, the Company helps organizations and their communities evolve and thrive by providing a wide range of technical services for energy solutions, greenhouse gas reduction, 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 for our clients.

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 30, 2022. 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 30, 2022. 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 2023, which ends on December 29, 2023, will be comprised of 52 weeks, with all quarters consisting of 13 weeks each. Fiscal year 2022, which ended on December 30, 2022, 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.

Credit Agreement Refinancing

As described in Note 5, "*Debt Obligations*", and Part I, Item 3, "*Quantitative and Qualitative Disclosures About Market Risk*", the Company's current Credit Agreement (as defined below) matures on June 26, 2024. Pursuant to the terms of the Credit Agreement, the Company's Term A Loan (as defined below) 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. In addition, each borrowing under the Company's Delayed Draw Term Loan (as defined below) amortizes 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.

In accordance with ASC Topic 205, when preparing financial statements for each reporting period, the Company evaluates whether there are conditions or events that, when considered in the aggregate, raise substantial doubt about the Company's ability to continue as a going concern within one year after the date that the financial statements are issued. The Company considered its Credit Agreement's principal and interest payment due on June 26, 2024 and assessed its current financial condition and liquidity sources, including current funds available, forecasted future cash flows, and conditional and unconditional obligations due over the next twelve months. Based on that analysis, only as a result of the Company's obligation under the Credit Agreement to make final payment of all then remaining principal and interest on June 26, 2024, does an event arise which raises substantial doubt with respect to the Company's ability to continue as a going concern within one year after the date that the Condensed Consolidated Financial Statements are issued.

The Company intends to refinance its Credit Agreement and has entered into an engagement to secure a new three-year financing facility with a syndicate of financial institutions as lenders which, among other things, will repay 100% of the obligations under the existing Credit Agreement and extend the due date of the maturity payment by more than two years from the current maturity date. The Company expects to finalize its refinancing efforts and enter into a new credit facility during the second half of fiscal 2023. Accordingly, the Company believes that its refinancing plan alleviates any substantial doubt about the Company's ability to continue as a going concern within one year after the date that the consolidated financial statements are issued because it expects to fully refinance the Credit Agreement with a new credit facility prior to June 26, 2024, the date on which final payment of all then remaining principal and interest under the current Credit Agreement is due.

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

2. RECENT ACCOUNTING PRONOUNCEMENTS

As of June 30, 2023, there were no accounting pronouncements recently issued, or with future effective dates, that are either applicable nor are expected to have an 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.

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

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

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

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

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

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

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

WILLDAN GROUP, INC. AND SUBSIDIARIES
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 June 30, 2023 and December 30, 2022, contract assets included retainage of approximately $12.5 million and $8.5 million, respectively.

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

4. SUPPLEMENTAL FINANCIAL STATEMENT DATA

Restricted Cash

The following table provides a reconciliation of cash and cash equivalents, and restricted cash reported within the condensed consolidated balance sheets to the total cash, cash equivalents, and restricted cash shown in the consolidated statements of cash flows:

	June 30, 2023	December 30, 2022
	(in thousands)	
Cash and cash equivalents	$ 13,649	$ 8,806
Restricted cash	—	10,679
Total cash, cash equivalents, and restricted cash shown in the consolidated statement of cash flows	$ 13,649	$ 19,485

Under certain utility contracts, the Company periodically receives cash deposits to be held in trust for the payment of energy incentive rebates to be sent directly to the utility's end-customer on behalf of the utility. The Company acts solely as the utility's agent to distribute these funds to the end-customer and, accordingly, the Company classifies these contractually restricted funds as restricted cash. Because these funds are held in trust for pass through to the utility's customers and have no impact on the Company's working capital or operating cash flows, these cash receipts are presented in the consolidated statement of cash flows as financing cash inflows, "Receipt of restricted cash", with the subsequent payments classified as financing cash outflows, "Payment of restricted cash."

Equipment and Leasehold Improvements

	June 30, 2023	December 30, 2022
	(in thousands)	
Furniture and fixtures	$ 4,188	$ 4,062
Computer hardware and software	40,434	35,635
Leasehold improvements	3,832	3,097
Equipment under finance leases	5,588	5,503
Automobiles, trucks, and field equipment	3,135	3,134
Subtotal	57,177	51,431
Accumulated depreciation and amortization	(31,683)	(28,894)
Equipment and leasehold improvements, net	$ 25,494	$ 22,537

Included in accumulated depreciation and amortization is $0.6 million and $1.1 million of amortization expense related to equipment held under finance leases for the six months ended June 30, 2023 and for fiscal year 2022, respectively.

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

Accrued Liabilities

	June 30, 2023	December 30, 2022
	(in thousands)	
Accrued subcontractor costs	$ 21,927	$ 28,374
Accrued bonuses	6,758	8,470
Employee withholdings	2,795	2,571
Compensation and payroll taxes	2,690	2,340
Rebate and other	303	14,643
Accrued accounting and taxes	2,481	2,712
Total accrued liabilities	$ 36,954	$ 59,110

Goodwill

	December 30, 2022	Additional Purchase Cost	Additions / Adjustments	June 30, 2023
		(in thousands)		
Reporting Unit:				
Energy	$ 129,375	$ —	$ —	$ 129,375
Engineering and Consulting	749	—	—	749
	$ 130,124	$ —	$ —	$ 130,124

The Company tests its goodwill at least annually for possible impairment. The Company completes its annual testing of goodwill as of the last day of the first month of its fourth fiscal quarter each year to determine whether there is a potential impairment. In addition to the Company's annual test, it regularly evaluates whether events and circumstances have occurred that may indicate a potential impairment of goodwill. During the quarter ended June 30, 2023, 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. The Company evaluated the current economic environment and noted that it does not believe it is more likely than not that goodwill was impaired as of June 30, 2023.

Intangible Assets

	June 30, 2023		December 30, 2022		
	Gross Amount	Accumulated Amortization	Gross Amount	Accumulated Amortization	Amortization Period
		(in thousands)			*(in years)*
Finite:					
Tradename	$ 15,911	$ 11,986	$ 15,911	$ 10,990	2.5 - 6.0
Developed technology	15,810	13,332	15,810	11,871	8.0
Customer relationships	58,149	28,315	58,149	25,523	5.0 - 8.0
Total intangible assets	$ 89,870	$ 53,633	$ 89,870	$ 48,384	

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

5. DEBT OBLIGATIONS

Debt obligations, excluding obligations under finance leases (see Note 6, *Leases*, below), consisted of the following:

	June 30, 2023	December 30, 2022
	(in thousands)	
Outstanding borrowings on Term A Loan	$ 60,000	$ 65,000
Outstanding borrowings on Revolving Credit Facility	5,000	—
Outstanding borrowings on Delayed Draw Term Loan	37,000	41,000
Other debt agreements	988	1,958
Total debt	102,988	107,958
Issuance costs and debt discounts	(350)	(511)
Subtotal	102,638	107,447
Less current portion of long-term debt	102,619	16,903
Long-term debt portion	$ 19	$ 90,544

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, the Fifth Amendment, dated March 8, 2022, the Sixth Amendment, dated August 2, 2022, and the Seventh Amendment, dated November 1, 2022, the "Credit Agreement") with a syndicate of financial institutions as lenders and BMO Harris Bank, N.A., as administrative agent (the "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.

Pursuant to the terms of the Seventh Amendment to the Credit Agreement (the "Seventh Amendment"), among other things, (A) aggregate borrowings under the Revolving Credit Facility were restricted 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 were received by the Administrative Agent for the fiscal quarter ending March 31, 2023, and (B) access to the accordion feature of the Credit Agreement was limited to periods when the Company's Total Leverage Ratio (as defined in the Credit Agreement) was less than 3.0.

On April 28, 2023, the Company delivered to the Administrative Agent the required financial statements and compliance documents for the fiscal quarter ending March 31, 2023, reflecting full compliance with the restrictive covenants under the Credit Agreement, and thus effectively terminating the limitations on borrowing capacity and other restrictions imposed under the terms set by the Seventh Amendment.

Effective April 28, 2023, borrowings under the Credit Agreement bear interest at either a Base Rate (as defined in the Credit Agreement) or the Secured Overnight Financing Rate ("SOFR"), at the Company's option, and in each case, plus an applicable margin, which applicable margin ranges 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%, with the specific pricing reset on each date on which the Administrative Agent receives the required financial statements under the Credit Agreement for the fiscal quarter then ended. The Company must also pay a commitment fee for the unused portion of the Revolving Credit Facility and the Delayed Draw Term Loan under the Credit Agreement, which ranges 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 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.

The Credit Agreement requires the Company to comply with certain financial covenants, including requiring that the Company maintain a (i) Total Leverage Ratio of at least 3.25 to 1.00, and (ii) Fixed Charge Coverage Ratio (as defined in the Credit Agreement) of not less than 1.20 to 1.00, in each case tested quarterly. The Credit Agreement also contains customary events of default and contains other customary restrictive covenants.

As of June 30, 2023, the Company was in compliance with all covenants contained in the Credit Agreement.

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)

6. LEASES

The Company leases certain office facilities under long-term, non-cancellable operating leases that expire at various dates through the year 2028. 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 typically have remaining terms ranging from one to eight years, some of which may include options to extend the leases for up to five years, and some of which may include options to terminate the leases within one year. Currently, all of the Company's leases contain fixed payment terms. The Company may decide to cancel or terminate a lease before the end of its term, in which case 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 June 30, 2023, the Company had no leases with residual value guarantees. Typically, the Company has purchase options on the equipment underlying its long-term leases. The Company may exercise some of these purchase options when the need for equipment is on-going and the purchase option price is attractive. Nonperformance-related default covenants, cross-default provisions, subjective default provisions and material adverse change clauses contained in material lease agreements, if any, are also evaluated to determine whether those clauses affect lease classification in accordance with ASC Topic 842-10-25. Leases are accounted for as operating or financing leases, depending on the terms of the lease.

Financing Leases

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

Right-of-use assets

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

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

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

	Three Months Ended		Six Months Ended	
	June 30, 2023	July 1, 2022	June 30, 2023	July 1, 2022
	(in thousands)		*(in thousands)*	
Operating lease cost	$ 1,664	$ 1,534	$ 3,157	$ 3,112
Finance lease cost:				
Amortization of assets	318	255	629	488
Interest on lease liabilities	24	15	46	29
Total net lease cost	$ 2,006	$ 1,804	$ 3,832	$ 3,629

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

	June 30, 2023	December 30, 2022
	(in thousands)	
Operating leases:		
Right-of-use assets	$ 13,894	$ 12,390
Lease liability	$ 4,877	$ 4,625
Lease liability, less current portion	10,731	8,599
Total lease liabilities	$ 15,608	$ 13,224
Finance leases (included in equipment and leasehold improvements, net):		
Equipment and leasehold improvements, net	$ 5,588	$ 5,503
Accumulated depreciation	(3,266)	(2,830)
Total equipment and leasehold improvements, net	$ 2,322	$ 2,673
Finance lease obligations	$ 1,143	$ 1,113
Finance lease obligations, less current portion	1,251	1,601
Total finance lease obligations	$ 2,394	$ 2,714
Weighted average remaining lease term (in years):		
Operating Leases	3.60	3.35
Finance Leases	2.42	2.66
Weighted average discount rate:		
Operating Leases	5.74 %	4.25 %
Finance Leases	4.06 %	3.47 %

Rent expense was $1.8 million and $3.4 million for the three and six months ended June 30, 2023, respectively, as compared to $1.7 million and $3.3 million for the three and six months ended July 1, 2022, respectively.

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

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

	Six Months Ended	
	June 30, 2023	July 1, 2022
	(in thousands)	
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flow from operating leases	$ 3,003	$ 3,273
Operating cash flow from finance leases	46	29
Financing cash flow from finance leases	599	444
Right-of-use assets obtained in exchange for lease liabilities:		
Operating leases	$ 4,264	$ 1,002

The following is a summary of the maturities of lease liabilities as of June 30, 2023:

	Operating	Finance
	(in thousands)	
Fiscal year:		
Remainder of 2023	$ 2,793	$ 681
2024	4,968	1,071
2025	3,988	472
2026	3,369	211
2027	1,519	80
2028 and thereafter	816	7
Total lease payments	17,453	2,522
Less: Imputed interest	(1,845)	(128)
Total lease obligations	15,608	2,394
Less: Current obligations	4,877	1,143
Noncurrent lease obligations	$ 10,731	$ 1,251

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)

7. COMMITMENTS AND VARIABLE INTEREST ENTITIES

Employee Benefit Plans

The Company has a qualified profit sharing plan pursuant to Code Section 401(a) and qualified cash or deferred arrangement pursuant to Code Section 401(k) covering all employees. Employees may elect to contribute up to 50% of their compensation limited to the amount allowed by tax laws. Company contributions are made solely at the discretion of the Company's board of directors.

The Company's defined contribution plan (the "Plan") covers employees who have completed three months of service and who have attained 21 years of age. 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 may make discretionary contributions to employee accounts.

During each of the six months ended June 30, 2023 and July 1, 2022, the Company made matching contributions of $1.6 million.

Variable Interest Entities

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

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

The Company manages Genesys and has the power to direct the activities that most significantly impact Genesys's performance, in addition to being obligated to absorb expected losses from Genesys. Accordingly, the Company is the primary beneficiary of Genesys and consolidates Genesys as a VIE. In addition, the Company concluded there is no noncontrolling interest related to the consolidation of Genesys because the Company determined that (i) the shareholder of Genesys does not have more than a nominal amount of equity investment at risk, (ii) WES absorbs the expected losses of Genesys through its deferral of Genesys's service fees owed to WES and the Company has, since entering into the administrative services agreement, had to continuously defer service fees for Genesys, and (iii) the Company believes Genesys will continue to have a shortfall on payment of its service fees for the foreseeable future, leaving no expected residual returns for the shareholder. As of June 30, 2023, the Company had one VIE — Genesys.

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

8. SEGMENT AND GEOGRAPHICAL INFORMATION

Segment Information

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

There were no intersegment sales during the three and six months ended June 30, 2023 and July 1, 2022. 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 and reconciliation to the amounts reported in the Company’s Condensed Consolidated Financial Statements is as follows:

	Energy	Engineering & Consulting	Unallocated Corporate	Intersegment	Consolidated Total
			(in thousands)		
Fiscal Three Months Ended June 30, 2023					
Contract revenue	$ 98,015	$ 21,062	$ -	$ -	$ 119,077
Depreciation and amortization	3,877	251	-	-	4,128
Interest expense, net	1	-	2,206	-	2,207
Segment profit (loss) before income tax expense	603	3,218	(3,181)	-	640
Income tax expense (benefit)	207	1,332	(1,296)	-	243
Net income (loss)	397	1,885	(1,885)	-	397
Segment assets [1]	333,136	23,851	60,963	(23,130)	394,820
Fiscal Three Months Ended July 1, 2022					
Contract revenue	$ 84,675	$ 17,970	$ -	$ -	$ 102,645
Depreciation and amortization	4,183	243	-	-	4,426
Interest expense, net	1	-	1,029	-	1,030
Segment profit (loss) before income tax expense	(6,357)	2,531	(2,173)	-	(5,999)
Income tax expense (benefit)	(1,891)	732	(514)	-	(1,673)
Net income (loss)	(4,467)	1,798	(1,657)	-	(4,326)
Segment assets [1]	323,070	23,293	58,650	(23,130)	381,883
Fiscal Six Months Ended June 30, 2023					
Contract revenue	$ 181,300	$ 40,380	$ -	$ -	$ 221,680
Depreciation and amortization	7,801	527	-	-	8,328
Interest expense, net	3	-	4,670	-	4,673
Segment profit (loss) before income tax expense	3,374	5,805	(6,851)	-	2,328
Income tax expense (benefit)	1,448	2,490	(2,939)	-	999
Net income (loss)	1,927	3,313	(3,911)	-	1,329
Segment assets [1]	333,136	23,851	60,963	(23,130)	394,820
Fiscal Six Months Ended July 1, 2022					
Contract revenue	$ 159,561	$ 34,922	$ -	$ -	$ 194,483
Depreciation and amortization	8,340	495	-	-	8,835
Interest expense, net	5	-	1,776	-	1,781
Segment profit (loss) before income tax expense	(10,710)	4,638	(6,089)	-	(12,161)
Income tax expense (benefit)	(3,578)	1,549	(2,033)	-	(4,062)
Net income (loss)	(7,132)	3,088	(4,055)	-	(8,099)
Segment assets [1]	323,070	23,293	58,650	(23,130)	381,883

(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 June 30, 2023		
	Energy	Engineering and Consulting	Total
		(in thousands)	
Contract Type			
Time-and-materials	$ 8,947	$ 16,443	$ 25,390
Unit-based	39,900	3,818	43,718
Fixed price	49,168	801	49,969
Total (1)	$ 98,015	$ 21,062	$ 119,077
Client Type			
Commercial	$ 7,440	$ 1,376	$ 8,816
Government	40,543	19,610	60,153
Utilities (2)	50,032	76	50,108
Total (1)	$ 98,015	$ 21,062	$ 119,077
Geography (3)			
Domestic	$ 98,015	$ 21,062	$ 119,077

	Six months ended June 30, 2023		
	Energy	Engineering and Consulting	Total
		(in thousands)	
Contract Type			
Time-and-materials	$ 16,656	$ 30,997	$ 47,653
Unit-based	84,827	7,434	92,261
Fixed price	79,817	1,949	81,766
Total (1)	$ 181,300	$ 40,380	$ 221,680
Client Type			
Commercial	$ 14,159	$ 2,540	$ 16,699
Government	66,618	37,705	104,323
Utilities (2)	100,523	135	100,658
Total (1)	$ 181,300	$ 40,380	$ 221,680
Geography (3)			
Domestic	$ 181,300	$ 40,380	$ 221,680

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

	Three months ended July 1, 2022		
	Energy	Engineering and Consulting	Total
		(in thousands)	
Contract Type			
Time-and-materials	$ 7,587	$ 13,340	$ 20,927
Unit-based	42,544	3,755	46,299
Fixed price	34,545	874	35,419
Total [1]	$ 84,675	$ 17,970	$ 102,645
Client Type			
Commercial	$ 6,701	$ 1,476	$ 8,177
Government	29,861	16,338	46,199
Utilities [2]	48,114	156	48,270
Total [1]	$ 84,675	$ 17,970	$ 102,645
Geography [3]			
Domestic	$ 84,675	$ 17,970	$ 102,645

	Six months ended July 1, 2022		
	Energy	Engineering and Consulting	Total
		(in thousands)	
Contract Type			
Time-and-materials	$ 16,405	$ 26,341	$ 42,746
Unit-based	85,501	6,739	92,240
Fixed price	57,655	1,842	59,497
Total [1]	$ 159,561	$ 34,922	$ 194,483
Client Type			
Commercial	$ 14,790	$ 2,954	$ 17,744
Government	48,220	31,791	80,011
Utilities [2]	96,551	177	96,728
Total [1]	$ 159,561	$ 34,922	$ 194,483
Geography [3]			
Domestic	$ 159,561	$ 34,922	$ 194,483

(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 six months ended June 30, 2023 and July 1, 2022.

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 22 U.S. states, the District of Columbia, the Commonwealth of Puerto Rico, and Canada. Revenues from the Company's Puerto Rican and Canadian operations were not material for the three and six months ended June 30, 2023 nor the three and six months ended July 1, 2022.

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

Customer Concentration

For the three and six months ended June 30, 2023, the Company’s top 10 customers accounted for 51.7%, and 51.4%, respectively, of the Company’s consolidated contract revenue. For the three and six months ended July 1, 2022, the Company’s top 10 customers accounted for 55.4%, and 54.4%, respectively, of the Company’s consolidated contract revenue.

For the three months ended June 30, 2023, the Company had two customers, Dormitory Authority-State New York (“DASNY”) and the Los Angeles Department of Water and Power (“LADWP”), that accounted for 10.7% and 10.3% of its consolidated contract revenues, respectively. For the six months ended June 30, 2023, the Company had one customer, LADWP, that accounted for 10.6% of its consolidated contract revenues. For the three and six months ended July 1, 2022, the Company had one customer, LADWP, that accounted for 14.6% and 15.8%, respectively, of its consolidated contract revenues.

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 June 30, 2023, the Company had two customers, DASNY and LADWP, that accounted for 13.0% and 12.5% of its Energy segment revenues, respectively. For the six months ended June 30, 2023, the Company had two customers, LADWP and DASNY, that accounted for 13.0% and 11.6% of its Energy segment revenues, respectively. For the three and six months ended June 30, 2023, no single customer accounted for 10% or more of its Engineering and Consulting segment revenues. For the three and six months ended July 1, 2022, the Company derived 17.6% and 19.2%, respectively, of its Energy segment revenues from one customer, LADWP. For the three and six months ended July 1, 2022, no single customer accounted for 10% or more of its Engineering and Consulting segment revenues.

On a geographical basis, the Company’s largest clients are based in California and New York. For the three and six months ended June 30, 2023, services provided to clients in California accounted for 41.4% and 41.9%, respectively, of the Company’s contract revenue and services provided to clients in New York accounted for 26.1% and 25.3%, respectively, of the Company’s contract revenue. For the three and six months ended July 1, 2022, services provided to clients in California accounted for 40.9% and 42.2%, respectively, of the Company’s contract revenue and services provided to clients in New York accounted for 19.6% and 20.2%, respectively, of the Company’s contract revenue.

9. 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.

At the end of fiscal year 2022, the Company’s total valuation allowance was $1.2 million, remaining unchanged from the end of fiscal year 2021. As of June 30, 2023, 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 June 30, 2023, the valuation allowance for the Company’s deferred tax assets was appropriate in accordance with ASC 740. Consequently, there was no change to the valuation allowance during the three and six months ended June 30, 2023.

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

The Company recognizes the tax benefit from uncertain tax positions if it is more likely than not that the tax positions will be sustained on examination by the tax authorities, based on the technical merits of the position. The tax benefit is measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The Company recognizes interest and penalties related to unrecognized tax benefits in income tax expense. During the three and six months ended June 30, 2023, and three and six months ended July 1, 2022, the Company did not record a liability for uncertain tax positions.

Based on the Company’s estimates and determination of an effective tax rate for the year, the Company recorded an income tax expense of $0.2 million and $1.0 million for the three and six months ended June 30, 2023, respectively, as compared to an income tax benefit of $1.7 million and $4.1 million for the three and six months ended April 1, 2022, respectively. During the three and six months ended June 30, 2023, the difference between the effective tax rate and the federal statutory rate was primarily attributable to state taxes, non-deductible stock compensation, nondeductible executive compensation, research and development tax credits, and the commercial building energy efficiency deduction. During the three and six months ended July 1, 2022, the difference between the effective tax rate and the federal statutory rate was primarily attributable to state taxes, non-deductible stock compensation, nondeductible executive compensation, research and development tax credits, and the commercial building energy efficiency deduction.

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

10. EARNINGS PER SHARE ("EPS")

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

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

	Three months ended		Six months ended	
	June 30, 2023	July 1, 2022	June 30, 2023	July 1, 2022
	(in thousands, except per share amounts)			
Net income (loss)	$ 397	$ (4,326)	$ 1,329	$ (8,099)
Weighted-average common shares outstanding	13,344	13,016	13,305	12,901
Effect of dilutive stock options and restricted stock awards	143	—	176	—
Weighted-average common shares outstanding-diluted	13,487	13,016	13,481	12,901
Earnings (Loss) per share:				
Basic	$ 0.03	$ (0.33)	$ 0.10	$ (0.63)
Diluted	$ 0.03	$ (0.33)	$ 0.10	$ (0.63)

For the three and six months ended June 30, 2023, the Company excluded 451,000 and 433,000 common shares, respectively, subject to outstanding equity awards from the calculation of diluted shares because their impact would have been anti-dilutive. For the three and six months ended July 1, 2022, 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)

11. 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)

12. SUBSEQUENT EVENTS

In accordance with ASC Topic 855, Subsequent Events, the Company evaluates subsequent events up until the date the Condensed Consolidated Financial Statements are issued. As of August 3, 2023, there were no subsequent events required to be reported.

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

Our Company

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

Our broad portfolio of services operates within two financial 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 and services 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 for long-term planning.

Our Engineering and Consulting segment provides civil engineering-related construction management, building and safety, city engineering office management, city planning, civil design, geotechnical, material testing and other engineering consulting services to our clients. Our engineering services include traffic, bridges, rail, port, water, mining and other civil engineering projects. We also provide economic and financial consulting to public agencies. 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.

Key Developments

Credit Agreement Refinancing

As described in Part I, Item 1, Note 5, "*Debt Obligations*", and Part I, Item 3, "*Quantitative and Qualitative Disclosures About Market Risk*", our current Credit Agreement (as defined below) matures on June 26, 2024. Pursuant to the terms of the Credit Agreement, our Term A Loan (as defined below) 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. In addition, each borrowing under our Delayed Draw Term Loan (as defined below) amortizes 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.

In accordance with ASC Topic 205, when preparing financial statements for each reporting period, we evaluate whether there are conditions or events that, when considered in the aggregate, raise substantial doubt about our ability to continue as a going concern within one year after the date that the financial statements are issued. We considered our Credit Agreement's principal and interest payment due on June 26, 2024 and assessed our current financial condition and liquidity sources, including current funds available, forecasted future cash flows, and conditional and unconditional obligations due over the next twelve months. Based on this analysis, only as a result of our obligation under the Credit Agreement to make final payment of all then remaining principal and interest on June 26, 2024, does an event arise which raises substantial doubt with respect to our ability to continue as a going concern within one year after the date that the condensed consolidated financial statements are issued.

We intend to refinance our Credit Agreement and have entered into an engagement to secure a new three-year financing facility with a syndicate of financial institutions as lenders, which, among other things, will repay 100% of the obligations under the existing Credit Agreement and extend the due date of the maturity payment by more than two years from the current maturity date. We expect to finalize our refinancing efforts and enter into a new credit agreement during the second half of fiscal year 2023. Accordingly, we believe that our refinancing plan alleviates any substantial doubt about our ability to continue as a going concern within one year after the date that the consolidated financial statements are issued because we expect to fully refinance the Credit Agreement with a new credit facility prior to June 26, 2024, the date on which final payment of all then remaining principal and interest under the current Credit Agreement is due.

Results of Operations

Second Quarter and First Half Overview

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

	Three Months Ended					
	June 30, 2023		July 1, 2022		$ Change	% Change
	(in thousands, except percentages)					
Contract revenue	$ 119,077	100.0 %	$ 102,645	100.0 %	$ 16,432	16.0 %
Direct costs of contract revenue:						
Salaries and wages	21,302	17.9	21,284	20.7	18	0.1
Subcontractor services and other direct costs	57,142	48.0	49,771	48.5	7,371	14.8
Total direct costs of contract revenue	78,444	65.9	71,055	69.2	7,389	10.4
Gross profit	40,633	34.1	31,590	30.8	9,043	28.6
General and administrative expenses:						
Salaries and wages, payroll taxes and employee benefits	22,416	18.8	20,439	19.9	1,977	9.7
Facilities and facilities related	2,619	2.2	2,373	2.3	246	10.4
Stock-based compensation	1,287	1.1	1,714	1.7	(427)	(24.9)
Depreciation and amortization	4,128	3.5	4,426	4.3	(298)	(6.7)
Other	7,709	6.5	7,936	7.7	(227)	(2.9)
Total general and administrative expenses	38,159	32.0	36,888	35.9	1,271	3.4
Income (loss) from operations	2,474	2.1	(5,298)	(5.2)	7,772	146.7
Other income (expense):						
Interest expense	(2,207)	(1.9)	(1,030)	(1.0)	(1,177)	114.3
Other, net	373	0.3	329	0.3	44	13.4
Total other income (expense)	(1,834)	(1.5)	(701)	(0.7)	(1,133)	161.6
Income (Loss) before income tax expense	640	0.5	(5,999)	(5.8)	6,639	110.7
Income tax expense (benefit)	243	0.2	(1,673)	(1.6)	1,916	(114.5)
Net income (loss)	$ 397	0.3	$ (4,326)	(4.2)	$ 4,723	109.2

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

	Six Months Ended					
	June 30, 2023		July 1, 2022		$ Change	% Change
	(in thousands, except percentages)					
Contract revenue	$ 221,680	100.0 %	$ 194,483	100.0 %	$ 27,197	14.0 %
Direct costs of contract revenue:						
Salaries and wages	41,712	18.8	40,094	20.6	1,618	4.0
Subcontractor services and other direct costs	98,054	44.2	91,439	47.0	6,615	7.2
Total direct costs of contract revenue	139,766	63.0	131,533	67.6	8,233	6.3
Gross profit	81,914	37.0	62,950	32.4	18,964	30.1
General and administrative expenses:						
Salaries and wages, payroll taxes and employee benefits	44,801	20.2	39,796	20.5	5,005	12.6
Facilities and facilities related	4,897	2.2	4,771	2.5	126	2.6
Stock-based compensation	2,820	1.3	5,019	2.6	(2,199)	(43.8)
Depreciation and amortization	8,328	3.8	8,835	4.5	(507)	(5.7)
Other	14,580	6.6	15,435	7.9	(855)	(5.5)
Total general and administrative expenses	75,426	34.0	73,856	38.0	1,570	2.1
Income (loss) from operations	6,488	2.9	(10,906)	(5.6)	17,394	159.5
Other income (expense):						
Interest expense	(4,673)	(2.1)	(1,781)	(0.9)	(2,892)	162.4
Other, net	513	0.2	526	0.3	(13)	(2.5)
Total other income (expense)	(4,160)	(1.9)	(1,255)	(0.6)	(2,905)	231.5
Income (Loss) before income tax expense	2,328	1.1	(12,161)	(6.3)	14,489	119.1
Income tax expense (benefit)	999	0.5	(4,062)	(2.1)	5,061	(124.6)
Net income (loss)	$ 1,329	0.6	$ (8,099)	(4.2)	$ 9,428	116.4

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

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

	Three months ended June 30, 2023		
	Energy	Engineering and Consulting	Total
		(in thousands)	
Contract Type			
Time-and-materials	$ 8,947	$ 16,443	$ 25,390
Unit-based	39,900	3,818	43,718
Fixed price	49,168	801	49,969
Total (1)	$ 98,015	$ 21,062	$ 119,077
Client Type			
Commercial	$ 7,440	$ 1,376	$ 8,816
Government	40,543	19,610	60,153
Utilities (2)	50,032	76	50,108
Total (1)	$ 98,015	$ 21,062	$ 119,077
Geography (3)			
Domestic	$ 98,015	$ 21,062	$ 119,077

	Six months ended June 30, 2023		
	Energy	Engineering and Consulting	Total
		(in thousands)	
Contract Type			
Time-and-materials	$ 16,656	$ 30,997	$ 47,653
Unit-based	84,827	7,434	92,261
Fixed price	79,817	1,949	81,766
Total (1)	$ 181,300	$ 40,380	$ 221,680
Client Type			
Commercial	$ 14,159	$ 2,540	$ 16,699
Government	66,618	37,705	104,323
Utilities (2)	100,523	135	100,658
Total (1)	$ 181,300	$ 40,380	$ 221,680
Geography (3)			
Domestic	$ 181,300	$ 40,380	$ 221,680

	Three months ended July 1, 2022		
	Energy	Engineering and Consulting	Total
		(in thousands)	
Contract Type			
Time-and-materials	$ 7,587	$ 13,340	$ 20,927
Unit-based	42,544	3,755	46,299
Fixed price	34,545	874	35,419
Total (1)	$ 84,675	$ 17,970	$ 102,645
Client Type			
Commercial	$ 6,701	$ 1,476	$ 8,177
Government	29,861	16,338	46,199
Utilities (2)	48,114	156	48,270
Total (1)	$ 84,675	$ 17,970	$ 102,645
Geography (3)			
Domestic	$ 84,675	$ 17,970	$ 102,645

	Six months ended July 1, 2022		
	Energy	Engineering and Consulting	Total
		(in thousands)	
Contract Type			
Time-and-materials	$ 16,405	$ 26,341	$ 42,746
Unit-based	85,501	6,739	92,240
Fixed price	57,655	1,842	59,497
Total (1)	$ 159,561	$ 34,922	$ 194,483
Client Type			
Commercial	$ 14,790	$ 2,954	$ 17,744
Government	48,220	31,791	80,011
Utilities (2)	96,551	177	96,728
Total (1)	$ 159,561	$ 34,922	$ 194,483
Geography (3)			
Domestic	$ 159,561	$ 34,922	$ 194,483

(1) *Amounts may not add to the totals due to rounding.*
(2) *Includes the portion of revenue related to small business programs paid by the end user/customer.*
(3) *Revenue from our foreign operations were immaterial for the three and six months ended June 30, 2023 and July 1, 2022.*

Three Months Ended June 30, 2023 Compared to Three Months Ended July 1, 2022

Contract revenue. Consolidated contract revenue increased $16.4 million, or 16.0%, in the three months ended June 30, 2023, compared to the three months ended July 1, 2022, primarily due to incremental revenues in both our Energy segment and our Engineering and Consulting segment.

Contract revenue in our Energy segment increased $13.3 million, or 15.8%, in the three months ended June 30, 2023, compared to the three months ended July 1, 2022, primarily as a result of increases in construction management revenues, software licensing, and planning and advisory consulting revenues. Contract revenue in our Engineering and Consulting segment increased $3.1 million, or 17.2%, in the three months ended June 30, 2023, compared to the three months ended July 1, 2022, primarily due to increased demand for services provided to our clients.

Direct costs of contract revenue. Direct costs of consolidated contract revenue increased $7.4 million, or 10.4% for the three months ended June 30, 2023, compared to the three months ended July 1, 2022, as a result of the increase, and change of mix, in contract revenues as described above. As a percentage of contract revenue, direct salaries and wages decreased from 20.7% in the three months ended July 1, 2022 to 17.9% in the three months ended June 30, 2023, while subcontractor services and other direct costs decreased from 48.5% in the three months ended July 1, 2022 to 48.0% in the three months ended June 30, 2023.

Direct costs of contract revenue in our Energy segment increased $5.9 million, or 9.2% for the three months ended June 30, 2023, compared to the three months ended July 1, 2022. Direct costs of contract revenue for the Engineering and Consulting segment increased $1.5 million, or 18.2%, in the three months ended June 30, 2023, compared to the three months ended July 1, 2022.

Subcontractor services and other direct costs increased by $7.4 million, or 14.8%, while salaries and wages remained relatively flat in the three months ended June 30, 2023, compared to the three months ended July 1, 2022. The increase in subcontractor services and other direct costs was primarily due to the increase in construction management revenue.

Gross Profit. Gross profit increased 28.6% to $40.6 million, or 34.1% gross margin, for the three months ended June 30, 2023, compared to gross profit of $31.6 million, or 30.8% gross margin, for the three months ended July 1, 2022. The increase in our gross margin was primarily driven by changes in the mix of revenues as described above combined with the absence of project startup costs for new utility programs that were incurred during the second quarter of fiscal year 2022 but did not recur in the second quarter of fiscal year 2023.

General and administrative expenses. General and administrative ("G&A") expenses increased $1.3 million, or 3.4%, in the three months ended June 30, 2023, compared to the three months ended July 1, 2022. G&A expenses consisted of an increase of $0.5 million in the Energy segment combined with an increase of $0.9 million in the Engineering and Consulting segment, partially offset by a decrease of $0.1 million in unallocated corporate expenses.

Within G&A expenses, the increase of $2.0 million in salaries and wages, payroll taxes and employee benefits was partially offset by a decrease of $0.4 million in stock-based compensation combined with a decrease of $0.3 million in depreciation and amortization. The increase in salaries and wages, payroll taxes and employee benefits was primarily due to an increase in incentive compensation, consistent with the improvement in gross profit. The decrease in stock-based compensation expenses was primarily related to previously awarded stock grants reaching the end of their corresponding vesting periods, partially offset by new equity awards being issued at lower stock prices. The decrease in depreciation and amortization was primarily related to lower amortization of intangible assets from prior acquisitions.

Income (loss) from operations. Operating income was $2.5 million for the three months ended June 30, 2023, compared to an operating loss of $5.3 million for the three months ended July 1, 2022, as a result of the factors noted above.

Total other expense, net. Total other expense, net, increased $1.1 million, or 161.6%, for the three months ended June 30, 2023, compared to the three months ended July 1, 2022, primarily due to higher interest expense as a result of the increase in market interest rates which directly affected our variable interest rates under our Credit Facilities.

Income tax expense (benefit). We recorded an income tax expense of $0.2 million for the three months ended June 30, 2023, compared to a tax benefit of $1.7 million for the three months ended July 1, 2022. The tax expense is primarily attributable to the income before income tax combined with various tax deductions and credits.

Net income (loss). Our net income was $0.4 million for the three months ended June 30, 2023, as compared to a net loss of $4.3 million for the three months ended July 1, 2022. The increase in net income was primarily attributable to the increase in revenue and gross profit, partially offset by higher interest expense and income tax expense.

Six Months Ended June 30, 2023 Compared to Six Months Ended July 1, 2022

Contract revenue. Consolidated contract revenue increased $27.2 million, or 14.0%, in the six months ended June 30, 2023, compared to the six months ended July 1, 2022, primarily due to incremental revenues in both our Energy segment and in our Engineering and Consulting segment.

Contract revenue in our Energy segment increased $21.7 million, or 11.9%, in the six months ended June 30, 2023, compared to the six months ended July 1, 2022, primarily as a result of increases in construction management revenues, software licensing, and planning and advisory consulting revenues. Contract revenue in our Engineering and Consulting segment increased $5.5 million, or 13.5%, in the six months ended June 30, 2023, compared to the six months ended July 1, 2022, primarily due to increased demand for services provided to our clients.

Direct costs of contract revenue. Direct costs of consolidated contract revenue increased $8.2 million, or 6.3% for the six months ended June 30, 2023, compared to the six months ended July 1, 2022, as a result of the increase, and change of mix, in contract revenues as described above. As a percentage of contract revenue, direct salaries and wages decreased from 20.6% in the six months ended July 1, 2022 to 18.8% in the six months ended June 30, 2023, while subcontractors services and other direct costs decreased from 47.0% in the six months ended July 1, 2022 to 44.2% in the six months ended June 30, 2023.

Direct costs of contract revenue in our Energy segment increased $5.8 million, or 4.8% for the six months ended June 30, 2023, compared to the six months ended July 1, 2022. Direct costs of contract revenue for the Engineering and Consulting segment increased $2.4 million, or 12.8%, in the six months ended June 30, 2023, compared to the six months ended July 1, 2022.

Subcontractor services and other direct costs increased by $6.6 million, or 7.2%, while salaries and wages increased by $1.6 million, or 4.0%, in the six months ended June 30, 2023, compared to the six months ended July 1, 2022, primarily as a result of the increases in contract revenue.

Gross Profit. Gross profit increased 30.1% to $81.9 million, or 37.0% gross margin, for the six months ended June 30, 2023, compared to gross profit of $63.0 million, or 32.4% gross margin, for the six months ended July 1, 2022. The increase in our gross margin was primarily driven by changes in the mix of revenues as described above combined with the absence of project startup costs for new utility programs that were incurred during the first half of fiscal year 2022 but did not recur in the first half of fiscal year 2023.

General and administrative expenses. G&A expenses increased $1.6 million, or 2.1%, in the six months ended June 30, 2023, compared to the six months ended July 1, 2022. G&A expenses consisted of an increase of $1.7 million in the Energy segment combined with an increase of $1.9 million in the Engineering and Consulting segment, partially offset by a decrease of $2.0 million in unallocated corporate expenses.

Within G&A expenses, the increase of $5.0 million in salaries and wages, payroll taxes and employee benefits was partially offset by a decrease of $2.2 million in stock-based compensation, a decrease of $0.9 million in other general and administrative expenses, and a decrease of $0.5 million in depreciation and amortization. The increase in salaries and wages, payroll taxes and employee benefits was primarily due to an increase in incentive compensation, consistent with the improvement in gross profit. The decrease in stock-based compensation expenses was primarily related to previously awarded stock grants reaching the end of their corresponding vesting periods, partially offset by new equity awards being issued at lower stock prices. The decrease in depreciation and amortization was primarily related to lower amortization of intangible assets from prior acquisitions.

Income (loss) from operations. Operating income was $6.5 million for the six months ended June 30, 2023, compared to an operating loss of $10.9 million for the six months ended July 1, 2022, as a result of the factors noted above.

Total other expense, net. Total other expense, net, increased $2.9 million, or 231.5%, for the six months ended June 30, 2023, compared to the six months ended July 1, 2022, primarily due to higher interest expense as a result of the increase in market interest rates which directly affected our variable interest rates under our Credit Facility.

Income tax expense (benefit). We recorded an income tax expense of $1.0 million for the six months ended June 30, 2023, compared to a tax benefit of $4.1 million for the six months ended July 1, 2022. The tax expense is primarily attributable to the income before income tax combined with various tax deductions and credits, and the non-recurrence of a one-time tax benefit recognized during the same period last year related to additional energy efficiency building deductions.

Net income (loss). Our net income was $1.3 million for the six months ended June 30, 2023, as compared to a net loss of $8.1 million for the six months ended July 1, 2022. The increase in net income was primarily attributable to the increase in revenue and gross profit, partially offset by higher interest expense and income tax expense.

Liquidity and Capital Resources

	Six Months Ended	
	June 30, 2023	**July 1, 2022**
	(in thousands)	
Net cash provided by (used in):		
Operating activities	$ 18,909	$ (3,569)
Investing activities	(5,707)	(4,271)
Financing activities	(19,038)	2,430
Net increase (decrease) in cash and cash equivalents	$ (5,836)	$ (5,410)

Sources of Cash

Our primary sources of liquidity for the next 12 months and beyond are cash generated from operations, cash and cash equivalents, and borrowings under our revolving credit facility under the Credit Agreement (the “Revolving Credit Facility”). As described in Part I, Item 1, Note 1 “*Organization and Operations of the Company*”, of the Notes to Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q, our Credit Agreement matures on June 26, 2024, and in accordance with the terms of the Credit Agreement, we have an obligation to make a final payment of all then remaining principal and interest due on June 26, 2024. Only as a result of the remaining principal and interest payment due on June 26, 2024, are our cash and cash equivalents, cash generated by operating activities, and future available borrowings not sufficient to finance our operating activities for at least the next 12 months. However, we intend to refinance our Credit Agreement and have entered into a refinancing engagement to secure a new three-year financing facility with a syndicate of financial institutions as lenders, which, among other things, will replace 100% of the existing Credit Agreement and extend the due date of the maturity payment by more than two years from its current due date. For more information on our current Credit Agreement, see Part I, Item 1, Note 5, “*Debt Obligations*”, of the Notes to Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q.

As of June 30, 2023, we had a fully drawn $100 million Term A Loan with $60.0 million outstanding (the “Term A Loan”), a $50.0 million Revolving Credit Facility with $5.0 million outstanding and $4.1 million in letters of credit issued, and a fully drawn $50.0 million Delayed Draw Term Loan with $37.0 million outstanding (the “Delayed Draw Term Loan” and, collectively with the Term A Loan and the Revolving Credit Facility, the “Credit Facilities”), each scheduled to mature on June 26, 2024. In addition, as of June 30, 2023, we had $13.6 million of unrestricted cash and cash equivalents.

As of June 30, 2023, borrowings under our Credit Facilities, exclusive of the effects of upfront fees, undrawn fees and issuance cost amortization, bore interest at an annual rate of 7.25%. See Part I, Item 1, Note 5, "*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 30, 2022, for information regarding our indebtedness, including information about 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 $18.9 million for the six months ended June 30, 2023, as compared to cash flows used in operating activities of $3.6 million for the six months ended July 1, 2022. Cash flows from operating activities primarily consists of net income, adjusted for non-cash charges, such as depreciation and amortization and stock-based compensation, plus or minus changes in current operating assets and liabilities. Cash flows provided by operating activities for the six months ended June 30, 2023, resulted primarily from the increase in earnings, combined with lower working capital requirements. Cash flows used in operating activities for the six months ended July 1, 2022, resulted primarily from the changing mix of revenues, combined with the increased demand for working capital related to the resumption of our utility programs that were suspended in 2021 and start-up costs associated with certain new contract awards.

Cash Flows from Investing Activities

Cash flows used in investing activities were $5.7 million for the six months ended June 30, 2023, as compared to cash flows used in investing activities of $4.3 million for the six months ended July 1, 2022. Cash flows used in investing activities for the six months ended June 30, 2023 and for the six months ended July 1, 2022, were primarily due to cash paid for the development of software and the purchase of computers and equipment.

Cash Flows from Financing Activities

Cash flows used in financing activities were $19.0 million for the six months ended June 30, 2023, as compared to cash flows provided by financing activities of $2.4 million for the six months ended July 1, 2022. Cash flows used in financing activities for the six months ended June 30, 2023 were primarily attributable to the disbursement of $10.7 million in restricted cash for utility rebate incentives, repayments of $9.0 million under our term loan facility and revolving line of credit, and payments of $4.0 million for contingent consideration related to prior acquisitions, partially offset by borrowings of $5.0 million under our revolving line of credit. Cash flows provided by financing activities for the six months ended July 1, 2022, were primarily attributable to borrowings of $20.0 million under our Delayed Draw Term Loan, partially offset by payments of $10.2 million for contingent consideration related to prior acquisitions combined with repayments of $6.5 million under our term loan facility and revolving line of credit.

Under certain utility contracts, we periodically receive cash deposits to be held in trust for the payment of energy incentive rebates to be sent directly to the utility's end-customer on behalf of the utility. We act solely as the utility's agent to distribute these funds to the end-customer and, accordingly, we classify these contractually restricted funds as restricted cash. Because these funds are held in trust for pass through to the utility's customers and have no impact on our working capital or operating cash flows, these cash receipts are presented in the consolidated statement of cash flows as financing cash inflows, "Receipt of restricted cash", with the subsequent payments classified as financing cash outflows, "Payment of restricted cash."

Off-Balance Sheet Arrangements

We do not have any off-balance sheet financing arrangements or liabilities. In addition, 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, support working capital requirements, finance capital expenditures, 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 are paid by our customers for services rendered and 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 June 30, 2023:

Contractual Obligations	Total	Less than 1 Year	1 - 3 Years	3 - 5 Years	More than 5 Years
			(in thousands)		
Debt [1]	$ 102,638	$ 102,619	$ 19	$ —	$ —
Interest payments on debt outstanding [2]	7,114	7,114	—	—	—
Operating leases	15,608	4,877	7,190	2,823	718
Finance leases	2,394	1,143	1,066	178	7
Total contractual cash obligations	$ 127,754	$ 115,753	$ 8,275	$ 3,001	$ 725

(1) Debt includes $60.0 million outstanding on our Term A Loan, $5.0 million outstanding on our Revolving Credit Facility, and $37.0 million outstanding on our Delayed Draw Term Loan as of June 30, 2023. 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 Term A Loan and 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 June 30, 2023.

As of June 30, 2023, we did not have any remaining contingent consideration payable related to any prior acquisitions. In addition, as of June 30, 2023, we did not have any arrangements involving the potential incurrence of future contingent consideration.

Outstanding Indebtedness

See Part I, Item 1, Note 5, "*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 30, 2022, 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.

Impact of Inflation

Due to the average duration of our projects and our ability to negotiate prices as contracts end and new contracts begin, historically, our operations have not been materially impacted by inflation.

While immaterial to our results of operations and financial condition, we experienced higher cost of materials and delays in our supply chain for equipment during fiscal year 2022, and we expect these higher costs and delays in our supply chain to persist through fiscal year 2023. The prices of finished products from manufacturers are subject to fluctuation and increases. It is difficult to accurately measure the impact of inflation, tariffs, price escalation, raw material costs, and other factors that impact the cost of finished goods due to the imprecise nature of the estimates required.

We are often able to mitigate the impact of future price increases by entering into fixed price purchase orders for materials and equipment, and subcontracts on our projects, as well as, when appropriate, including cost escalation factors into our proposals. Despite our best mitigation efforts, significant price increases in equipment and disruptions to our supply chain could materially impact our results of operations and financial condition. In addition, 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 impact 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 June 30, 2023, 21% of our contracts are time-and-materials contracts 42% are unit-based contracts, and 37% are fixed price contracts, compared to 22% for time-and-materials contracts, 47% for unit-based contracts, and 31% for fixed price contracts, as of July 1, 2022.

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, the New York City Housing Authority, 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 staff, 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 30, 2022. Please refer to Part II, Item 7 of our Annual Report on Form 10-K for the fiscal year ended December 30, 2022 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 June 30, 2023, we had cash and cash equivalents of $13.6 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 June 30, 2023, $60.0 million was outstanding under our Term A Loan, $37.0 million was outstanding under our Delayed Draw Term Loan, $5.0 million was 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.

Pursuant to the Credit Agreement, (as described in Part I, Item 1, Note 5, “Debt Obligations”, of the Notes to Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q), borrowings under the Credit Agreement bear interest at either a Base Rate (as defined in the Credit Agreement) or SOFR, 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%, with the specific pricing reset on each date on which the Administrative Agent receives the required financial statements under the Credit Agreement for the fiscal quarter then ended. The Company must also pay a commitment fee for the unused portion of the Revolving Credit Facility and the Delayed Draw Term Loan under the Credit Agreement, which ranges 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 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. Based upon the amount of our outstanding indebtedness as of June 30, 2023, a one percentage point increase in the effective interest rate would change our annual interest expense by approximately $1.0 million in fiscal year 2023.

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 June 30, 2023. 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 June 30, 2023.

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 30, 2022.

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

During the fiscal quarter ended June 30, 2023, 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**
April 1, 2023 – April 28, 2023	194	$17.23	—	—
April 29, 2023 – May 26, 2023	1,849	$14.35	—	—
May 27, 2023 – June 30, 2023	1,969	$17.47	—	—
TOTAL	**4,012**	**$16.02**	**—**	**—**

ITEM 3. Defaults upon Senior Securities

None.

ITEM 4. Mine Safety Disclosures

Not applicable.

ITEM 5. Other Information

None.

ITEM 6. Exhibits

Exhibit Number	Exhibit Description
3.1	First Amended and Restated Certificate of Incorporation of Willdan Group, Inc. (incorporated by reference to Willdan Group, Inc.'s Registration Statement on Form S-1, filed with the SEC on August 9, 2006, as amended (File No. 333-136444)).
3.2	Second 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 July 12, 2023).
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†	Willdan Group, Inc. Amended and Restated 2008 Performance Incentive Plan (incorporated by reference to Exhibit 10.1 to Willdan Group, Inc.'s Current Report on Form 8-K, filed with the SEC on June 9, 2023).
10.2†	Willdan Group, Inc. Amended and Restated 2006 Employee Stock Purchase Plan (incorporated by reference to Exhibit 10.2 to Willdan Group, Inc.'s Current Report on Form 8-K, filed with the SEC on June 9, 2023).
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)
August 3, 2023

Exhibit 31.1

SECTION 302 CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Thomas D. Brisbin, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: August 3, 2023

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: August 3, 2023

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

Exhibit 32.1

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

In connection with the Quarterly Report on Form 10-Q of Willdan Group, Inc. (the “Company”) for the quarterly period ended June 30, 2023, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), Thomas D. Brisbin, as Chief Executive Officer of the Company, and Creighton K. Early, as Chief Financial Officer of the Company, each hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his or her knowledge:

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

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

By: /s/ THOMAS D. BRISBIN
Thomas D. Brisbin
Chief Executive Officer
(Principal Executive Officer)
August 3, 2023

By: /s/ CREIGHTON K. EARLY
Creighton K. Early
Chief Financial Officer and Vice President
(Principal Financial Officer)
August 3, 2023

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.