UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 27, 2024

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 the 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 October 30, 2024, there were 14,124,865 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 84% of our consolidated revenue in fiscal year 2023;
- our reliance on work from our top ten clients, which accounted for 53% of our consolidated contract revenue for fiscal year 2023;
- 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 29, 2023, as such disclosures may be amended, supplemented or superseded from time to time by other reports we file with the Securities and Exchange Commission, including subsequent Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and public communications. You should evaluate all forward-looking statements made in this Quarterly Report on Form 10-Q and otherwise in the context of these risks and uncertainties.

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

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	September 27, 2024	December 29, 2023
Assets		
Current assets:		
Cash and cash equivalents	$ 53,106	$ 23,397
Restricted cash	—	—
Accounts receivable, net of allowance for doubtful accounts of $1,465 and $866 at September 27, 2024 and December 29, 2023, respectively	63,109	69,677
Contract assets	104,236	93,885
Other receivables	2,359	1,169
Prepaid expenses and other current assets	5,329	3,888
Total current assets	228,139	192,016
Equipment and leasehold improvements, net	28,955	27,097
Goodwill	131,144	131,144
Right-of-use assets	14,366	12,465
Other intangible assets, net	26,541	31,956
Other assets	3,447	4,949
Deferred income taxes, net	14,661	15,961
Total assets	$ 447,253	$ 415,588
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 38,007	$ 33,193
Accrued liabilities	58,521	54,129
Contract liabilities	15,202	13,183
Notes payable	10,137	8,452
Finance lease obligations	1,175	1,186
Lease liability	5,509	4,537
Total current liabilities	128,551	114,680
Notes payable, less current portion	81,757	88,979
Finance lease obligations, less current portion	1,453	1,184
Lease liability, less current portion	10,593	9,758
Other noncurrent liabilities	938	1,142
Total liabilities	223,292	215,743
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; 14,117 and 13,682 shares issued and outstanding at September 27, 2024 and December 29, 2023, respectively	141	137
Additional paid-in capital	195,168	185,795
Accumulated other comprehensive income (loss)	(807)	(664)
Retained earnings	29,459	14,577
Total stockholders' equity	223,961	199,845
Total liabilities and stockholders' equity	$ 447,253	$ 415,588

See accompanying notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended		Nine Months Ended	
	September 27, 2024	September 29, 2023	September 27, 2024	September 29, 2023
Contract revenue	$ 158,252	$ 132,738	$ 421,737	$ 354,418
Direct costs of contract revenue (inclusive of directly related depreciation and amortization):				
Salaries and wages	24,088	21,856	69,247	63,568
Subcontractor services and other direct costs	82,563	67,454	204,667	165,508
Total direct costs of contract revenue	106,651	89,310	273,914	229,076
Gross profit	51,601	43,428	147,823	125,342
General and administrative expenses:				
Salaries and wages, payroll taxes and employee benefits	25,876	23,805	78,449	68,606
Facilities and facility related	2,381	2,303	7,231	7,200
Stock-based compensation	2,020	1,244	5,355	4,064
Depreciation and amortization	3,716	4,190	10,937	12,518
Other	8,934	8,049	25,368	22,629
Total general and administrative expenses	42,927	39,591	127,340	115,017
Income (Loss) from operations	8,674	3,837	20,483	10,325
Other income (expense):				
Interest expense, net	(1,934)	(2,437)	(6,031)	(7,110)
Other, net	763	879	2,293	1,392
Total other expense, net	(1,171)	(1,558)	(3,738)	(5,718)
Income (Loss) before income taxes	7,503	2,279	16,745	4,607
Income tax (benefit) expense	157	713	1,863	1,712
Net income (loss)	7,346	1,566	14,882	2,895
Other comprehensive income (loss):				
Unrealized gain (loss) on derivative contracts, net of tax	(678)	—	(143)	—
Comprehensive income (loss)	$ 6,668	$ 1,566	$ 14,739	$ 2,895
Earnings (Loss) per share:				
Basic	$ 0.53	$ 0.12	$ 1.08	$ 0.22
Diluted	$ 0.51	$ 0.11	$ 1.05	$ 0.21
Weighted-average shares outstanding:				
Basic	13,930	13,462	13,753	13,357
Diluted	14,358	13,709	14,130	13,563

See accompanying notes to Condensed Consolidated Financial Statements.

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

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
Balance at December 29, 2023	13,682	$ 137	$185,795	$ (664)	$14,577	$ 199,845
Shares of common stock issued in connection with employee stock purchase plan	86	1	1,401	—	—	1,402
Shares of common stock issued in connection with incentive stock plan	19	—	281	—	—	281
Shares used to pay taxes on stock grants	(32)	(1)	(778)	—	—	(779)
Issuance of restricted stock award and units	62	1	(1)	—	—	—
Stock-based compensation expense	—	—	1,390	—	—	1,390
Net income (loss)	—	—	—	—	2,942	2,942
Net unrealized gain on derivative contracts	—	—	—	434	—	434
Balance at March 29, 2024	13,817	$ 138	$188,088	$ (230)	$17,519	$ 205,515
Shares of common stock issued in connection with incentive stock plan	86	1	855	—	—	856
Shares used to pay taxes on stock grants	—	—	(6)	—	—	(6)
Issuance of restricted stock award and units	13	—	—	—	—	—
Stock-based compensation expense	—	—	1,945	—	—	1,945
Net income (loss)	—	—	—	—	4,594	4,594
Net unrealized gain on derivative contracts	—	—	—	101	—	101
Balance at June 28, 2024	13,916	$ 139	$190,882	$ (129)	$22,113	$ 213,005
Shares of common stock issued in connection with employee stock purchase plan	78	1	1,435	—	—	1,436
Shares of common stock issued in connection with incentive stock plan	92	1	1,287	—	—	1,288
Shares used to pay taxes on stock grants	(12)	—	(456)	—	—	(456)
Issuance of restricted stock award and units	43	—	—	—	—	—
Stock-based compensation expense	—	—	2,020	—	—	2,020
Net income (loss)	—	—	—	—	7,346	7,346
Net unrealized gain on derivative contracts	—	—	—	(678)	—	(678)
Balance at September 27, 2024	14,117	$ 141	$195,168	$ (807)	$29,459	$ 223,961

See accompanying notes to Condensed Consolidated Financial Statements.

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
	Shares	Amount				
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
Shares of common stock issued in connection with employee stock purchase plan	91	1	1,386	—	—	1,387
Shares of common stock issued in connection with incentive stock plan	9	—	31	—	—	31
Shares used to pay taxes on stock grants	(1)	—	(17)	—	—	(17)
Issuance of restricted stock award and units	44	—	—	—	—	—
Stock-based compensation expense	—	—	1,244	—	—	1,244
Net income (loss)	—	—	—	—	1,566	1,566
Balance at September 29, 2023	13,647	$ 136	$184,391	$ —	$ 6,546	$ 191,073

See accompanying notes to Condensed Consolidated Financial Statements.

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

	Nine Months Ended	
	September 27, 2024	September 29, 2023
Cash flows from operating activities:		
Net income (loss)	$ 14,882	$ 2,895
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	10,937	12,518
Other non-cash items	459	511
Deferred income taxes, net	1,300	1,196
(Gain) loss on sale/disposal of equipment	(13)	(63)
Provision for doubtful accounts	806	194
Stock-based compensation	5,355	4,064
Changes in operating assets and liabilities, net of effects from business acquisitions:		
Accounts receivable	5,762	(6,335)
Contract assets	(10,351)	4,530
Other receivables	(1,190)	3,306
Prepaid expenses and other current assets	(1,441)	1,175
Other assets	1,456	(4,993)
Accounts payable	4,814	3,922
Accrued liabilities	3,910	(2,658)
Contract liabilities	2,019	2,821
Right-of-use assets	(94)	1,029
Net cash (used in) provided by operating activities	38,611	24,112
Cash flows from investing activities:		
Purchase of equipment, software, and leasehold improvements	(6,074)	(7,583)
Proceeds from sale of equipment	29	68
Cash paid for acquisitions, net of cash acquired	—	(1,600)
Net cash (used in) provided by investing activities	(6,045)	(9,115)
Cash flows from financing activities:		
Payments on contingent consideration	—	(4,000)
Payment on restricted cash	—	(10,679)
Payments on notes payable	(190)	(1,463)
Payments on debt issuance costs	—	(1,114)
Borrowings under term loan facility and line of credit	—	105,000
Repayments under term loan facility and line of credit	(5,625)	(111,000)
Principal payments on finance leases	(1,064)	(951)
Proceeds from stock option exercise	2,425	38
Proceeds from sales of common stock under employee stock purchase plan	2,838	2,779
Cash used to pay taxes on stock grants	(1,241)	(205)
Net cash (used in) provided by financing activities	(2,857)	(21,595)
Net increase (decrease) in cash, cash equivalents and restricted cash	29,709	(6,598)
Cash, cash equivalents and restricted cash at beginning of period	23,397	19,485
Cash, cash equivalents and restricted cash at end of period	$ 53,106	$ 12,887
Supplemental disclosures of cash flow information:		
Cash paid (received) during the period for:		
Interest	$ 5,301	$ 8,025
Income taxes	1,203	(3,154)
Supplemental disclosures of noncash investing and financing activities:		
Equipment acquired under finance leases	1,322	652

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 and government infrastructure. Through engineering, program management, policy advisory, and software and data management, the Company designs and delivers trusted, comprehensive, innovative, and proven solutions to improve efficiency, resiliency, and sustainability in energy and infrastructure.

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

The accounting policies followed by the Company are set forth in Part II, Item 8, Note 1, *Organization and Operations of the Company*, of the Notes to Consolidated Financial Statements included in the Company’s Annual Report on Form 10-K for the fiscal year ended December 29, 2023. 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 29, 2023. 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 2024, which ends on December 27, 2024, will be comprised of 52 weeks, with all quarters consisting of 13 weeks each. Fiscal year 2023, which ended on December 29, 2023, 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.

Reclassifications

Certain prior year amounts have been reclassified in the condensed consolidated financial statements to conform to the current year presentation.

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

2. RECENT ACCOUNTING PRONOUNCEMENTS

Accounting Pronouncements Recently Issued

In December 2023, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2023-09, "Income Taxes (Topic 740): Improvements to Income Tax Disclosures" ("ASU 2023-09"). ASU 2023-09 amends the rules on income tax disclosures to require entities to disclose specific categories in the rate reconciliation, the income or loss from continuing operations before income tax expense or benefit (separated between domestic and foreign) and income tax expense or benefit from continuing operations (separated by federal, state, and foreign). In addition, ASU 2023-09 requires entities to disclose their income tax payments to international, federal, state, and local jurisdictions, among other changes. The amendments can be applied on a prospective basis although retrospective application is permitted. The amendments are effective for the annual reporting periods beginning after December 15, 2024, with early adoption permitted. The Company is currently evaluating the impact this update will have on its Consolidated Financial Statements.

In November 2023, the FASB issued ASU No. 2023-07, "Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures" ("ASU 2023-07"). ASU 2023-07 expands segment disclosure requirements through enhanced disclosures related to significant segment expenses that are regularly provided to the chief operating decision maker ("CODM"), a description of other segment items by reportable segment, and any additional measures of a segment's profit or loss used by the CODM when deciding how to allocate resources. All disclosure requirements under ASU 2023-07 are also required for public entities with a single reportable segment. The amendments are effective for the fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024. The Company is currently evaluating the impact this update will have on its Consolidated Financial Statements.

In October 2023, the FASB issued ASU No. 2023-06, "Disclosure Improvements: Codification Amendments in Response to the SEC's Disclosure Update and Simplification Initiative" ("ASU 2023-06"). ASU 2023-06 amends U.S. GAAP to reflect updates and simplifications to certain disclosure and presentation requirements referred to FASB by the SEC. The targeted amendments incorporate 14 of the 27 disclosures referred by the SEC into codification. Each amendment in ASU 2023-06 is effective on either the date on which the SEC's removal of the related disclosure requirement from Regulation S-X or Regulation S-K becomes effective, or on June 30, 2027, if the SEC has not removed the requirements by that date. The Company does not believe the amendments in ASU 2023-06 will have a material impact in any of the Company's current disclosures.

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, usually, 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, which usually 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 condensed consolidated statements of comprehensive income since no allocation of these costs is made to direct costs of contract revenue. No allocation of facilities costs is made to direct costs of contract revenue. Other companies may classify as direct costs of contract revenue some of the costs that the Company classifies as general and administrative costs. The Company expenses direct costs of contract revenue when incurred.

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

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

Retainage, included in contract assets, represents amounts withheld from billings to the Company’s clients pursuant to provisions in the contracts and may not be paid to the Company until specific tasks are completed or the project is completed and, in some instances, for even longer periods. As of September 27, 2024 and December 29, 2023, contract assets included retainage of approximately $18.9 million and $14.3 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:

	September 27, 2024	December 29, 2023
	(in thousands)	
Cash and cash equivalents	$ 53,106	$ 23,397
Restricted cash	—	—
Total cash, cash equivalents, and restricted cash shown in the consolidated statement of cash flows	$ 53,106	$ 23,397

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 condensed 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

	September 27, 2024	December 29, 2023
	(in thousands)	
Furniture and fixtures	$ 4,501	$ 4,379
Computer hardware and software	50,070	44,594
Leasehold improvements	3,551	3,382
Equipment under finance leases	6,969	6,139
Automobiles, trucks, and field equipment	3,551	3,373
Subtotal	68,642	61,867
Accumulated depreciation and amortization	(39,687)	(34,770)
Equipment and leasehold improvements, net	$ 28,955	$ 27,097

Included in accumulated depreciation and amortization is $1.1 million and $1.3 million of amortization expense related to equipment held under finance leases for the nine months ended September 27, 2024 and for fiscal year 2023, respectively.

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

Accrued Liabilities

	September 27, 2024	December 29, 2023
	(in thousands)	
Accrued subcontractor costs	$ 32,122	$ 30,196
Accrued bonuses	13,331	14,423
Employee withholdings	4,079	3,123
Compensation and payroll taxes	4,705	3,125
Rebate and other	—	139
Accrued accounting costs and taxes	4,284	3,123
Total accrued liabilities	$ 58,521	$ 54,129

Goodwill

	December 29, 2023	Additional Purchase Cost	Additions / Adjustments	September 27, 2024
		(in thousands)		
Reporting Unit:				
Energy	$ 129,375	$ —	$ —	$ 129,375
Engineering and Consulting	1,769	—	—	1,769
	$ 131,144	$ —	$ —	$ 131,144

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. 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 September 27, 2024.

Intangible Assets

	September 27, 2024		December 29, 2023		
	Gross Amount	Accumulated Amortization	Gross Amount	Accumulated Amortization	Amortization Period
		(in thousands)			*(in years)*
Finite:					
Backlog	$ 8,306	$ 8,306	$ 8,306	$ 8,095	1.0
Tradename	15,936	13,074	15,936	12,695	2.5 - 6.0
Non-compete agreements	1,613	1,476	1,613	1,440	4.0 - 5.0
Developed technology	15,810	15,121	15,810	14,521	8.0
Customer relationships	58,149	35,296	58,149	31,107	5.0 - 8.0
Total intangible assets	$ 99,814	$ 73,273	$ 99,814	$ 67,858	

5. DERIVATIVE FINANCIAL INSTRUMENTS

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

The Company recognizes derivative instruments as either assets or liabilities on the accompanying condensed consolidated balance sheets at fair value. The Company records changes in the fair value (i.e., gains or losses) of the derivatives that have been designated as cash flow hedges in its consolidated balance sheets as accumulated other comprehensive income (loss), and in its consolidated statements of comprehensive income (loss) as unrealized gain or loss on derivative contracts. All related cash flows are reported in the operating activities section of the consolidated statements of cash flows.

On November 30, 2023, the Company entered into an interest rate swap agreement that the Company designated as cash flow hedge to fix the variable interest rate on a portion of the Company's term loan (see Note 6, *"Debt Obligations"* for information regarding our indebtedness). The interest rate swap agreement has a total notional amount of $50.0 million, has a fixed annual interest rate of 4.77%, and expires on September 29, 2026. As of September 27, 2024, the effective portion of the Company's interest rate swap agreement designated as a cash flow hedge before tax effects was $(0.8) million, of which no amounts were reclassified from accumulated other comprehensive income (loss) to interest expense in the three nor nine months ended September 27, 2024. The Company expects to reclassify $0.4 million from accumulated other comprehensive income (loss) to interest expense within the next twelve months.

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

		Fair Value of Derivative Instruments as of	
	Balance Sheet Location	**September 27, 2024**	**December 29, 2023**
		(in thousands)	
Interest rate swap agreement	Current assets	$ —	$ 46
Interest rate swap agreement	Accrued liabilities	(339)	—
Interest rate swap agreement	Other noncurrent liabilities	(683)	(887)

The impact of the effective portions of derivative instruments in cash flow hedging relationships and fair value relationships on other comprehensive income (loss) were $(0.7) million and $(0.1) million for the three and nine months ended September 27, 2024.

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

The accumulated balances and reporting period activities for the periods below related to reclassifications out of accumulated other comprehensive income (loss) are summarized as follows:

	Gain (Loss) on Derivative Instruments	Accumulated Other Comprehensive Income (Loss)
	(in thousands)	
Balances at December 29, 2023	$ (664)	$ (664)
Other comprehensive income (loss) before reclassifications	549	549
Amounts reclassified from accumulated other comprehensive income (loss):	—	—
Income tax benefit (expense) related to derivative instruments	(115)	(115)
Net current-period other comprehensive income (loss)	434	434
Balances at March 29, 2024	$ (230)	$ (230)
Other comprehensive income (loss) before reclassifications	127	127
Amounts reclassified from accumulated other comprehensive income (loss):	—	—
Income tax benefit (expense) related to derivative instruments	(26)	(26)
Net current-period other comprehensive income (loss)	101	101
Balances at June 28, 2024	$ (129)	$ (129)
Other comprehensive income (loss) before reclassifications	(858)	(858)
Amounts reclassified from accumulated other comprehensive income (loss):	—	—
Income tax benefit (expense) related to derivative instruments	180	180
Net current-period other comprehensive income (loss)	(678)	(678)
Balances at September 27, 2024	$ (807)	$ (807)

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

6. DEBT OBLIGATIONS

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

	September 27, 2024	December 29, 2023
	(in thousands)	
Outstanding borrowings on Term Loan	$ 92,500	$ 98,125
Outstanding borrowings on Revolving Credit Facility	—	—
Other debt agreements	137	327
Total debt	92,637	98,452
Issuance costs and debt discounts	(743)	(1,021)
Subtotal	91,894	97,431
Less current portion of long-term debt	10,137	8,452
Long-term debt portion	$ 81,757	$ 88,979

The credit agreement governing the Company's Term Loan and Revolving Credit Facility require the Company to comply with certain financial obligations, including a maximum Net Leverage Ratio and a minimum Fixed Charge Coverage Ratio (as defined in the credit agreement governing the Term Loan and Revolving Credit Facility). The credit agreement also contains customary restrictive covenants. As of September 27, 2024, the Company was in compliance with all these covenants.

In addition, as of September 27, 2024, the Company's composite interest rate, exclusive of the effects of upfront fees, undrawn fees and issuance cost amortization, was 7.2%.

7. LEASES

The Company leases certain office facilities under long-term, non-cancellable operating leases that expire at various dates through 2029. In addition, the Company is obligated under finance leases for certain furniture and office equipment that expire at various dates through 2029.

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 September 27, 2024, 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 the Company will exercise that option. Lease expense for minimum lease payments is recognized on a straight-line basis over the lease term.

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

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

	Three Months Ended		Nine Months Ended	
	September 27, 2024	September 29, 2023	September 27, 2024	September 29, 2023
	(in thousands)		*(in thousands)*	
Operating lease cost	$ 1,522	$ 1,464	$ 4,579	$ 4,621
Sublease Income	(14)	(30)	(42)	(30)
Finance lease cost:				
Amortization of assets	392	340	1,114	969
Interest on lease liabilities	46	28	112	74
Total net lease cost	$ 1,946	$ 1,802	$ 5,763	$ 5,634

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

	September 27, 2024	December 29, 2023
	(in thousands)	
Operating leases:		
Right-of-use assets	$ 14,366	$ 12,465
Lease liability	$ 5,509	$ 4,537
Lease liability, less current portion	10,593	9,758
Total lease liabilities	$ 16,102	$ 14,295
Finance leases (included in equipment and leasehold improvements, net):		
Equipment and leasehold improvements, net	$ 6,969	$ 6,139
Accumulated depreciation	(4,458)	(3,837)
Total equipment and leasehold improvements, net	$ 2,511	$ 2,302
Finance lease obligations	$ 1,175	$ 1,186
Finance lease obligations, less current portion	1,453	1,184
Total finance lease obligations	$ 2,628	$ 2,370
Weighted average remaining lease term (in years):		
Operating Leases	3.05	3.43
Finance Leases	2.49	2.31
Weighted average discount rate:		
Operating Leases	6.91 %	6.09 %
Finance Leases	6.68 %	5.19 %

Rent expense was $1.7 million and $5.2 million for the three and nine months ended September 27, 2024, respectively, as compared to $1.7 million and $5.1 million for the three and nine months ended September 29, 2023, respectively.

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

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

	Nine Months Ended	
	September 27, 2024	September 29, 2023
	(in thousands)	
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flow from operating leases	$ 4,707	$ 4,318
Operating cash flow from finance leases	112	74
Financing cash flow from finance leases	1,064	951
Right-of-use assets obtained in exchange for lease liabilities:		
Operating leases	$ 5,757	$ 4,316

The following is a summary of the maturities of lease liabilities as of September 27, 2024:

	Operating	Finance
	(in thousands)	
Fiscal year:		
Remainder of 2024	$ 1,588	$ 438
2025	6,278	1,158
2026	5,100	824
2027	2,667	313
2028	1,673	94
2029 and thereafter	750	27
Total lease payments	18,056	2,854
Less: Imputed interest	(1,954)	(226)
Total lease obligations	16,102	2,628
Less: Current obligations	5,509	1,175
Noncurrent lease obligations	$ 10,593	$ 1,453

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

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

8. COMMITMENTS AND VARIABLE INTEREST ENTITIES

Employee Benefit Plans

The Company has a qualified profit sharing plan pursuant to Code Section 401(a) and qualified cash or deferred arrangement pursuant to Code Section 401(k) covering all employees. 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 the nine months ended September 27, 2024 and September 29, 2023, the Company made matching contributions of $2.1 million and $1.9 million, respectively.

Variable Interest Entities

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

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

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

The Company manages Genesys and has the power to direct the activities that most significantly impact Genesys's performance, in addition to being obligated to absorb expected losses from Genesys. Accordingly, the Company is the primary beneficiary of Genesys and consolidates Genesys as a variable interest entity ("VIE"). In addition, the Company concluded there is no noncontrolling interest related to the consolidation of Genesys because the Company determined that (i) the shareholder of Genesys does not have more than a nominal amount of equity investment at risk, (ii) WES absorbs the expected losses of Genesys through its deferral of Genesys's service fees owed to WES and the Company has, since entering into the administrative services agreement, had to continuously defer service fees for Genesys, and (iii) the Company believes Genesys will continue to have a shortfall on payment of its service fees for the foreseeable future, leaving no expected residual returns for the shareholder. As of September 27, 2024, the Company had one VIE — Genesys.

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

9. SEGMENT AND GEOGRAPHICAL INFORMATION

Segment Information

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

There were no intersegment sales during the three and nine months ended September 27, 2024 and September 29, 2023. 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 September 27, 2024					
Contract revenue	$ 134,036	$ 24,216	$ -	$ -	$ 158,252
Depreciation and amortization	3,337	379	-	-	3,716
Interest expense, net	-	-	1,934	-	1,934
Segment profit (loss) before income tax expense	6,176	4,280	(2,953)	-	7,503
Income tax expense (benefit)	(25)	85	97	-	157
Net income (loss)	6,202	4,194	(3,050)	-	7,346
Segment assets (1)	348,617	29,523	92,243	(23,130)	447,253
Fiscal Three Months Ended September 29, 2023					
Contract revenue	$ 111,030	$ 21,708	$ -	$ -	$ 132,738
Depreciation and amortization	3,854	336	-	-	4,190
Interest expense, net	2	-	2,435	-	2,437
Segment profit (loss) before income tax expense	2,814	2,853	(3,388)	-	2,279
Income tax expense (benefit)	852	728	(867)	-	713
Net income (loss)	1,961	2,127	(2,522)	-	1,566
Segment assets (1)	340,422	26,901	57,427	(23,130)	401,620
Fiscal Nine Months Ended September 27, 2024					
Contract revenue	$ 352,634	$ 69,103	$ -	$ -	$ 421,737
Depreciation and amortization	9,800	1,137	-	-	10,937
Interest expense, net	-	-	6,031	-	6,031
Segment profit (loss) before income tax expense	15,886	9,608	(8,749)	-	16,745
Income tax expense (benefit)	1,767	1,069	(973)	-	1,863
Net income (loss)	14,119	8,539	(7,776)	-	14,882
Segment assets (1)	348,617	29,523	92,243	(23,130)	447,253
Fiscal Nine Months Ended September 29, 2023					
Contract revenue	$ 292,330	$ 62,088	$ -	$ -	$ 354,418
Depreciation and amortization	11,655	863	-	-	12,518
Interest expense, net	5	-	7,105	-	7,110
Segment profit (loss) before income tax expense	6,188	8,658	(10,239)	-	4,607
Income tax expense (benefit)	2,300	3,218	(3,806)	-	1,712
Net income (loss)	3,888	5,440	(6,433)	-	2,895
Segment assets (1)	340,422	26,901	57,427	(23,130)	401,620

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

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

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

	Three months ended September 27, 2024		
	Energy	**Engineering and Consulting**	**Total**
		(in thousands)	
Contract Type			
Time-and-materials	$ 7,953	$ 17,767	$ 25,720
Unit-based	52,487	4,993	57,480
Fixed price	73,596	1,456	75,052
Total [1]	$ 134,036	$ 24,216	$ 158,252
Client Type			
Commercial	$ 7,964	$ 1,968	$ 9,932
Government	61,115	22,155	83,270
Utilities [2]	64,957	93	65,050
Total [1]	$ 134,036	$ 24,216	$ 158,252
Geography [3]			
Domestic	$ 134,036	$ 24,216	$ 158,252

	Nine months ended September 27, 2024		
	Energy	**Engineering and Consulting**	**Total**
		(in thousands)	
Contract Type			
Time-and-materials	$ 25,190	$ 51,193	$ 76,383
Unit-based	147,022	14,375	161,397
Fixed price	180,422	3,535	183,957
Total [1]	$ 352,634	$ 69,103	$ 421,737
Client Type			
Commercial	$ 23,858	$ 5,281	$ 29,139
Government	148,403	63,614	212,017
Utilities [2]	180,373	208	180,581
Total [1]	$ 352,634	$ 69,103	$ 421,737
Geography [3]			
Domestic	$ 352,634	$ 69,103	$ 421,737

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

	Three months ended September 29, 2023		
	Energy	**Engineering and Consulting**	**Total**
		(in thousands)	
Contract Type			
Time-and-materials	$ 9,382	$ 16,629	$ 26,011
Unit-based	42,119	4,182	46,301
Fixed price	59,529	897	60,426
Total (1)	$ 111,030	$ 21,708	$ 132,738
Client Type			
Commercial	$ 7,448	$ 1,588	$ 9,036
Government	52,410	20,054	72,464
Utilities (2)	51,172	66	51,238
Total (1)	$ 111,030	$ 21,708	$ 132,738
Geography (3)			
Domestic	$ 111,030	$ 21,708	$ 132,738

	Nine months ended September 29, 2023		
	Energy	**Engineering and Consulting**	**Total**
		(in thousands)	
Contract Type			
Time-and-materials	$ 26,038	$ 47,626	$ 73,664
Unit-based	126,946	11,616	138,562
Fixed price	139,346	2,846	142,192
Total (1)	$ 292,330	$ 62,088	$ 354,418
Client Type			
Commercial	$ 21,607	$ 4,128	$ 25,735
Government	119,028	57,759	176,787
Utilities (2)	151,695	201	151,896
Total (1)	$ 292,330	$ 62,088	$ 354,418
Geography (3)			
Domestic	$ 292,330	$ 62,088	$ 354,418

(1) Amounts may not add to the totals due to rounding.
(2) Includes the portion of revenue related to small business programs paid by the end user/customer.
(3) Revenue from the Company's foreign operations were not material for the three and nine months ended September 27, 2024 and September 29, 2023.

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 nine months ended September 27, 2024, nor for the three and nine months ended September 29, 2023.

Customer Concentration

For the three and nine months ended September 27, 2024, the Company's top 10 customers accounted for 49.1%, and 49.5%, respectively, of the Company's consolidated contract revenue. For the three and nine months ended September 29, 2023, the Company's top 10 customers accounted for 52.9%, and 50.6%, respectively, of the Company's consolidated contract revenue.

For the three and nine months ended September 27, 2024 and September 29, 2023, the Company had no individual customers that accounted for more than 10% of its consolidated contract revenue.

On a segment basis, the Company reports customers that accounted for more than 10% of its segment contract revenues.

For the three months ended September 27, 2024, the Company derived 22.1% of its Energy segment revenues from two customers, Southern California Edison and Clark County School District. For the nine months ended September 27, 2024, no single customer accounted for 10% or more of the Company's Energy segment revenues. For the three and nine months ended September 27, 2024, no single customer accounted for 10% or more of the Company's Engineering and Consulting segment revenues.

For the three months ended September 29, 2023, the Company derived 21.7% of its Energy segment revenues from two customers, Pueblo County School District and Dormitory Authority State of New York ("DASNY"). For the nine months ended September 29, 2023, the Company derived 22.7% of its Energy Segment revenues from two customers, the Los Angeles Department of Water and Power ("LADWP") and DASNY. For the three and nine months ended September 29, 2023, no single customer accounted for 10% or more of the Company's 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 nine months ended September 27, 2024, services provided to clients in California accounted for 42.2% and 43.3%, respectively, of the Company's consolidated contract revenue, and services provided to clients in New York accounted for 21.0% and 23.7%, respectively, of the Company's consolidated contract revenue. For the three and nine months ended September 29, 2023, services provided to clients in California accounted for 42.8% and 42.2%, respectively, of the Company's contract revenue and services provided to clients in New York accounted for 23.6% and 24.7%, respectively, of the Company's contract revenue.

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

10. INCOME TAXES

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences of temporary differences between the financial reporting basis and tax basis of the Company's assets and liabilities, subject to a judgmental assessment of the recoverability of deferred tax assets. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is recorded when it is more likely than not that some of the deferred tax assets may not be realized. Significant judgment is applied when assessing the need for valuation allowances and includes the evaluation of historical income (loss) adjusted for the effects of non-recurring items and the impact of recent business combinations. Areas of estimation include 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 2023, the Company's total valuation allowance was $1.2 million, remaining unchanged from the end of fiscal year 2022. As of September 27, 2024, the Company assessed all available positive and negative evidence available to determine whether, based on the weight of that evidence, there was a change in judgment related to the utilization of deferred tax assets in future years. The Company concluded that as of September 27, 2024, the valuation allowance for the Company's deferred tax assets was appropriate in accordance with ASC 740. Consequently, there was no change to the valuation allowance during the three and nine months ended September 27, 2024.

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

The Company recognizes the tax benefit from uncertain tax positions if it is more likely than not that the tax positions will be sustained on examination by the tax authorities, based on the technical merits of the position. The tax benefit is measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The Company recognizes interest and penalties related to unrecognized tax benefits in income tax expense. During the three and nine months ended September 27, 2024, and the three and nine months ended September 29, 2023, 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 $1.9 million for the three and nine months ended September 27, 2024, respectively, compared to an income tax expense of $0.7 million and $1.7 million for the three and nine months ended September 29, 2023, respectively. During the three and nine months ended September 27, 2024, the difference between the effective tax rate and the federal statutory rate was primarily attributable to state taxes, nondeductible executive compensation, deductions related to stock option exercises, research and development tax credits, and the energy-efficiency building deduction. During the three and nine months ended September 29, 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 energy-efficiency building deduction.

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

11. EARNINGS PER SHARE ("EPS")

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

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

	Three months ended		Nine months ended	
	September 27, 2024	September 29, 2023	September 27, 2024	September 29, 2023
	(in thousands, except per share amounts)			
Net income (loss)	$ 7,346	$ 1,566	$ 14,882	$ 2,895
Weighted-average common shares outstanding	13,930	13,462	13,753	13,357
Effect of dilutive stock options and restricted stock awards	428	247	377	206
Weighted-average common shares outstanding-diluted	14,358	13,709	14,130	13,563
Earnings (Loss) per share:				
Basic	$ 0.53	$ 0.12	$ 1.08	$ 0.22
Diluted	$ 0.51	$ 0.11	$ 1.05	$ 0.21

For the three months ended September 27, 2024, the Company did not exclude any shares subject to outstanding equity awards from the calculation of diluted shares. For the nine months ended September 27, 2024, the Company excluded 269,000 common shares subject to outstanding equity awards from the calculation of diluted shares because their impact would have been anti-dilutive. For the three and nine months ended September 29, 2023, the Company excluded 363,000 and 389,000 common shares subject to outstanding equity awards, respectively, from the calculation of diluted shares because their impact would have been anti-dilutive.

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

12. CONTINGENCIES

Claims and Lawsuits

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

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

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

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

13. SUBSEQUENT EVENTS

In accordance with ASC Topic 855, Subsequent Events, the Company evaluates subsequent events up until the date the Condensed Consolidated Financial Statements are issued.

On October 23, 2024 (the "Enica Closing Date"), the Company, through its wholly owned subsidiary, WES, acquired substantially all of the assets of Enica Engineering, PLLC. ("Enica"), pursuant to the terms of the Asset Purchase Agreement, dated as of October 23, 2024 (the "Enica Agreement"), by and among the Company, WES, Genesys, Enica, and Reed Berinato ("Berinato") and Mark Prewett ("Prewett" and, together with Berinato, the "Enica Members").

Pursuant to the terms of the Enica Agreement, the purchase price consists of (i) $12.0 million to be paid in cash on the Enica Closing Date (subject to holdbacks and adjustments) and (ii) up to $6.0 million in cash if Enica exceeds certain financial targets during the two years after the Enica Closing Date; for a potential maximum purchase price of $18.0 million.

The Enica Agreement contains customary representations and warranties regarding the Company, WES, Genesys, Enica, and the Enica members, indemnification provisions and other provisions customary for transactions of this nature. Pursuant to the terms of the Agreement, the Company, WES, and Genesys provided guarantees to the Enica Members which guarantee certain of Enica's obligations under the Enica Agreement.

The Company used cash on hand to fund the initial purchase price.

Enica is an energy efficiency company that provides an array of services around energy projects, metering, and consulting services to help its customers drive energy efficiency, decarbonization, and energy reduction. Enica's financial information will be included within the Company's Energy segment beginning in the fourth quarter of fiscal year 2024 and the Company expects to finalize the purchase price allocation related to this transaction by the end of the second quarter of fiscal year 2025.

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.

Results of Operations

Third Quarter and Nine Months Overview

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

	Three Months Ended					
	September 27, 2024		September 29, 2023		$ Change	% Change
	(in thousands, except percentages)					
Contract revenue	$ 158,252	100.0 %	$ 132,738	100.0 %	$ 25,514	19.2 %
Direct costs of contract revenue:						
Salaries and wages	24,088	15.2	21,856	16.5	2,232	10.2
Subcontractor services and other direct costs	82,563	52.2	67,454	50.8	15,109	22.4
Total direct costs of contract revenue	106,651	67.4	89,310	67.3	17,341	19.4
Gross profit	51,601	32.6	43,428	32.7	8,173	18.8
General and administrative expenses:						
Salaries and wages, payroll taxes and employee benefits	25,876	16.4	23,805	17.9	2,071	8.7
Facilities and facilities related	2,381	1.5	2,303	1.7	78	3.4
Stock-based compensation	2,020	1.3	1,244	0.9	776	62.4
Depreciation and amortization	3,716	2.3	4,190	3.2	(474)	(11.3)
Other	8,934	5.6	8,049	6.1	885	11.0
Total general and administrative expenses	42,927	27.1	39,591	29.8	3,336	8.4
Income (loss) from operations	8,674	5.5	3,837	2.9	4,837	126.1
Other income (expense):						
Interest expense	(1,934)	(1.2)	(2,437)	(1.8)	503	(20.6)
Other, net	763	0.5	879	0.7	(116)	(13.2)
Total other income (expense)	(1,171)	(0.7)	(1,558)	(1.2)	387	(24.8)
Income (Loss) before income tax expense	7,503	4.7	2,279	1.7	5,224	229.2
Income tax expense (benefit)	157	0.1	713	0.5	(556)	(78.0)
Net income (loss)	$ 7,346	4.6	$ 1,566	1.2	$ 5,780	369.1

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

	Nine Months Ended					
	September 27, 2024		September 29, 2023		$ Change	% Change
	(in thousands, except percentages)					
Contract revenue	$ 421,737	100.0 %	$ 354,418	100.0 %	$ 67,319	19.0 %
Direct costs of contract revenue:						
Salaries and wages	69,247	16.4	63,568	17.9	5,679	8.9
Subcontractor services and other direct costs	204,667	48.5	165,508	46.7	39,159	23.7
Total direct costs of contract revenue	273,914	64.9	229,076	64.6	44,838	19.6
Gross profit	147,823	35.1	125,342	35.4	22,481	17.9
General and administrative expenses:						
Salaries and wages, payroll taxes and employee benefits	78,449	18.6	68,606	19.4	9,843	14.3
Facilities and facilities related	7,231	1.7	7,200	2.0	31	0.4
Stock-based compensation	5,355	1.3	4,064	1.1	1,291	31.8
Depreciation and amortization	10,937	2.6	12,518	3.5	(1,581)	(12.6)
Other	25,368	6.0	22,629	6.4	2,739	12.1
Total general and administrative expenses	127,340	30.2	115,017	32.5	12,323	10.7
Income (loss) from operations	20,483	4.9	10,325	2.9	10,158	98.4
Other income (expense):						
Interest expense	(6,031)	(1.4)	(7,110)	(2.0)	1,079	(15.2)
Other, net	2,293	0.5	1,392	0.4	901	64.7
Total other income (expense)	(3,738)	(0.9)	(5,718)	(1.6)	1,980	(34.6)
Income (Loss) before income tax expense	16,745	4.0	4,607	1.3	12,138	263.5
Income tax expense (benefit)	1,863	0.4	1,712	0.5	151	8.8
Net income (loss)	$ 14,882	3.5	$ 2,895	0.8	$ 11,987	414.1

(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 September 27, 2024		
	Energy	Engineering and Consulting	Total
		(in thousands)	
Contract Type			
Time-and-materials	$ 7,953	$ 17,767	$ 25,720
Unit-based	52,487	4,993	57,480
Fixed price	73,596	1,456	75,052
Total [1]	$ 134,036	$ 24,216	$ 158,252
Client Type			
Commercial	$ 7,964	$ 1,968	$ 9,932
Government	61,115	22,155	83,270
Utilities [2]	64,957	93	65,050
Total [1]	$ 134,036	$ 24,216	$ 158,252
Geography [3]			
Domestic	$ 134,036	$ 24,216	$ 158,252

	Nine months ended September 27, 2024		
	Energy	Engineering and Consulting	Total
		(in thousands)	
Contract Type			
Time-and-materials	$ 25,190	$ 51,193	$ 76,383
Unit-based	147,022	14,375	161,397
Fixed price	180,422	3,535	183,957
Total [1]	$ 352,634	$ 69,103	$ 421,737
Client Type			
Commercial	$ 23,858	$ 5,281	$ 29,139
Government	148,403	63,614	212,017
Utilities [2]	180,373	208	180,581
Total [1]	$ 352,634	$ 69,103	$ 421,737
Geography [3]			
Domestic	$ 352,634	$ 69,103	$ 421,737

	Three months ended September 29, 2023		
	Energy	Engineering and Consulting	Total
		(in thousands)	
Contract Type			
Time-and-materials	$ 9,382	$ 16,629	$ 26,011
Unit-based	42,119	4,182	46,301
Fixed price	59,529	897	60,426
Total (1)	$ 111,030	$ 21,708	$ 132,738
Client Type			
Commercial	$ 7,448	$ 1,588	$ 9,036
Government	52,410	20,054	72,464
Utilities (2)	51,172	66	51,238
Total (1)	$ 111,030	$ 21,708	$ 132,738
Geography (3)			
Domestic	$ 111,030	$ 21,708	$ 132,738

	Nine months ended September 29, 2023		
	Energy	Engineering and Consulting	Total
		(in thousands)	
Contract Type			
Time-and-materials	$ 26,038	$ 47,626	$ 73,664
Unit-based	126,946	11,616	138,562
Fixed price	139,346	2,846	142,192
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Client Type			
Commercial	$ 21,607	$ 4,128	$ 25,735
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Utilities (2)	151,695	201	151,896
Total (1)	$ 292,330	$ 62,088	$ 354,418
Geography (3)			
Domestic	$ 292,330	$ 62,088	$ 354,418

(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 not material for the three and nine months ended September 27, 2024 and September 29, 2023.*

Three Months Ended September 27, 2024 Compared to Three Months Ended September 29, 2023

Contract revenue. Consolidated contract revenue increased $25.5 million, or 19.2%, in the three months ended September 27, 2024, compared to the three months ended September 29, 2023, due to incremental revenues in both our Energy segment and our Engineering and Consulting segment.

Contract revenue in our Energy segment increased $23.0 million, or 20.7%, in the three months ended September 27, 2024, compared to the three months ended September 29, 2023, primarily as a result of increased demand for energy efficiency and electrification services under utility programs and higher construction management revenues.

Contract revenue in our Engineering and Consulting segment increased $2.5 million, or 11.6%, in the three months ended September 27, 2024, compared to the three months ended September 29, 2023, primarily due to increased demand for services provided to our clients.

Direct costs of contract revenue. Direct costs of consolidated contract revenue increased $17.3 million, or 19.4%, for the three months ended September 27, 2024, compared to the three months ended September 29, 2023, primarily 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 to 15.2% in the three months ended September 27, 2024 from 16.5% in the three months ended September 29, 2023, while subcontractor services and other direct costs increased to 52.2% in the three months ended September 27, 2024 from 50.8% in the three months ended September 29, 2023.

Direct costs of contract revenue in our Energy segment increased $17.1 million, or 21.6%, for the three months ended September 27, 2024, compared to the three months ended September 29, 2023. Direct costs of contract revenue for the Engineering and Consulting segment increased $0.2 million, or 2.7%, in the three months ended September 27, 2024, compared to the three months ended September 29, 2023.

Subcontractor services and other direct costs increased by $15.1 million, or 22.4%, in the three months ended September 27, 2024, compared to the three months ended September 29, 2023, primarily due to the increase in utility program revenues and construction management revenues, which utilize a higher percentage of material cost and installation subcontracting. Salaries and wages increased by $2.2 million, or 10.2%, in the three months ended September 27, 2024, compared to the three months ended September 29, 2023, primarily as a result of the increases in contract revenue as described above.

Gross Profit. Gross profit increased 18.8% to $51.6 million, or 32.6% gross margin, for the three months ended September 27, 2024, compared to gross profit of $43.4 million, or 32.7% gross margin, for the three months ended September 29, 2023. The decrease in our gross margin was primarily driven by changes in the mix of revenues as described above.

General and administrative expenses. General and administrative ("G&A") expenses increased $3.3 million, or 8.4%, in the three months ended September 27, 2024, compared to the three months ended September 29, 2023. G&A expenses consisted of an increase of $2.0 million in the Energy segment combined with an increase of $0.8 million in the Engineering and Consulting segment, and an increase of $0.5 million in unallocated corporate expenses.

Within G&A expenses, the increase of $2.1 million in salaries and wages, payroll taxes and employee benefits, combined with the increase of $0.9 million in other general and administrative expenses, and the increase of $0.8 million in stock-based compensation was partially offset by 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 operating profit, and higher fringe benefit costs. The increase in other general and administrative expenses was primarily due to increased professional service fees and computer-related expenses. The increase in stock-based compensation expenses was primarily related to new stock grants to current employees and executives. The decrease in depreciation and amortization was primarily related to lower amortization of intangible assets from prior acquisitions.

Income (loss) from operations. Operating income increased to $8.7 million for the three months ended September 27, 2024, compared to an operating income of $3.8 million for the three months ended September 29, 2023, as a result of the factors noted above.

Total other expense, net. Total other expense, net, decreased $0.4 million, or 24.8%, for the three months ended September 27, 2024, compared to the three months ended September 29, 2023, primarily due to lower interest expense resulting from the reduced interest rate spread derived from lower debt leverage levels under our credit facilities.

Income tax expense (benefit). We recorded an income tax expense of $0.2 million for the three months ended September 27, 2024, an effective tax rate of 2.1% on income before income tax expense, compared to an income tax expense of $0.7 million for the three months ended September 29, 2023, an effective tax rate of 31.3% on income before tax expense. The reduction in the effective tax rate resulted from increases in discrete items related to stock compensation deductions and additional energy-efficiency building deductions.

Net income (loss). Our net income was $7.3 million for the three months ended September 27, 2024, as compared to a net income of $1.6 million for the three months ended September 29, 2023. The increase in net income was primarily attributable to the increase in income from operations combined with the decrease in total other expense, net and the lower effective tax rate.

Nine Months Ended September 27, 2024 Compared to Nine Months Ended September 29, 2023

Contract revenue. Consolidated contract revenue increased $67.3 million, or 19.0%, in the nine months ended September 27, 2024, compared to the nine months ended September 29, 2023, due to incremental revenues in both our Energy segment and our Engineering and Consulting segment.

Contract revenue in our Energy segment increased $60.3 million, or 20.6%, in the nine months ended September 27, 2024, compared to the nine months ended September 29, 2023, primarily as a result of higher construction management revenues and increased demand for energy and electrification services under utility programs.

Contract revenue in our Engineering and Consulting segment increased $7.0 million, or 11.3%, in the nine months ended September 27, 2024, compared to the nine months ended September 29, 2023, primarily due to increased demand for services provided to our clients.

Direct costs of contract revenue. Direct costs of consolidated contract revenue increased $44.8 million, or 19.6%, for the nine months ended September 27, 2024, compared to the nine months ended September 29, 2023, primarily 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 to 16.4% in the nine months ended September 27, 2024 from 17.9% in the nine months ended September 29, 2023, while subcontractor services and other direct costs increased to 48.5% in the nine months ended September 27, 2024 from 46.7% in the nine months ended September 29, 2023.

Direct costs of contract revenue in our Energy segment increased $42.9 million, or 21.5%, for the nine months ended September 27, 2024, compared to the nine months ended September 29, 2023. Direct costs of contract revenue for the Engineering and Consulting segment increased $1.9 million, or 6.5%, in the nine months ended September 27, 2024, compared to the nine months ended September 29, 2023.

Subcontractor services and other direct costs increased by $39.2 million, or 23.7%, in the nine months ended September 27, 2024, compared to the nine months ended September 29, 2023, primarily due to the increase in construction management revenues and utility program revenues, which utilize a higher percentage of material cost and installation subcontracting. Salaries and wages increased by $5.7 million, or 8.9%, in the nine months ended September 27, 2024, compared to the nine months ended September 29, 2023, primarily as a result of the increases in contract revenue as described above.

Gross Profit. Gross profit increased 17.9% to $147.8 million, or 35.1% gross margin, for the nine months ended September 27, 2024, compared to gross profit of $125.3 million, or 35.4% gross margin, for the nine months ended September 29, 2023. The decrease in our gross margin was primarily driven by changes in the mix of revenues as described above.

General and administrative expenses. G&A expenses increased $12.3 million, or 10.7%, in the nine months ended September 27, 2024, compared to the nine months ended September 29, 2023. G&A expenses consisted of an increase of $7.4 million in the Energy segment combined with an increase of $4.1 million in the Engineering and Consulting segment, and an increase of $0.8 million in unallocated corporate expenses.

Within G&A expenses, the increase of $9.8 million in salaries and wages, payroll taxes and employee benefits, combined with the increase of $2.7 million in other general and administrative expenses, and the increase of $1.3 million in stock-based compensation was partially offset by a decrease of $1.6 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 operating profit, and higher fringe benefit costs. The increase in other general and administrative expenses was primarily due to increased professional service fees and computer-related expenses. The increase in stock-based compensation expenses was primarily related to new stock grants to current employees and executives. The decrease in depreciation and amortization was primarily related to lower amortization of intangible assets from prior acquisitions.

Income (loss) from operations. Operating income increased 98.4% to $20.5 million for the nine months ended September 27, 2024, compared to an operating income of $10.3 million for the nine months ended September 29, 2023, as a result of the factors noted above.

Total other expense, net. Total other expense, net, decreased $2.0 million, or 34.6%, for the nine months ended September 27, 2024, compared to the nine months ended September 29, 2023, primarily due to lower interest expense resulting from the reduced interest rate spread derived from lower debt leverage levels under our credit facilities, combined with increased interest income related to our higher cash balances.

Income tax expense (benefit). We recorded an income tax expense of $1.9 million for the nine months ended September 27, 2024, an effective tax rate of 11.1% on income before income tax expense, compared to an income tax expense of $1.7 million for the nine months ended September 29, 2023, an effective tax rate of 37.2% on income before tax expense. The reduction in the effective tax rate resulted from increases in discrete items related to stock compensation deductions and additional energy-efficiency building deductions.

Net income (loss). Our net income was $14.9 million for the nine months ended September 27, 2024, as compared to a net income of $2.9 million for the nine months ended September 29, 2023. The increase in net income was primarily attributable to the increase in income from operations combined with the decrease in total other expense, net and the lower effective tax rate.

Liquidity and Capital Resources

	Nine Months Ended	
	September 27, 2024	September 29, 2023
	(in thousands)	
Net cash provided by (used in):		
Operating activities	$ 38,611	$ 24,112
Investing activities	(6,045)	(9,115)
Financing activities	(2,857)	(21,595)
Net increase (decrease) in cash and cash equivalents	$ 29,709	$ (6,598)

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 available borrowings under our revolving credit facility under the Credit Agreement (the “Revolving Credit Facility”). We believe that our cash and cash equivalents, cash generated by operating activities, and available borrowings under our Revolving Credit Facility will be sufficient to finance our operating activities for at least the next 12 months.

As of September 27, 2024, we had a fully drawn $100 million term loan with $92.5 million outstanding (the “Term Loan”, and collectively with the Revolving Credit Facility, the “Credit Facilities”), and a $50.0 million Revolving Credit Facility with no borrowed amounts and $1.6 million in letters of credit issued, each scheduled to mature on September 29, 2026. In addition, as of September 27, 2024, we had $53.1 million of unrestricted cash and cash equivalents.

As of September 27, 2024, unhedged 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 7.2%. See Part I, Item 1, Note 6, "*Debt Obligations",* of the Notes to Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q, and Part II, Item 8, Note 6, "*Debt Obligations*", of the Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended December 29, 2023, 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 $38.6 million for the nine months ended September 27, 2024, as compared to cash flows provided by operating activities of $24.1 million for the nine months ended September 29, 2023. 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 nine months ended September 27, 2024, resulted primarily from the increase in earnings and lower working capital requirements. Cash flows provided by operating activities for the nine months ended September 29, 2023, resulted primarily from the increase in earnings, combined with lower working capital requirements.

Cash Flows from Investing Activities

Cash flows used in investing activities were $6.0 million for the nine months ended September 27, 2024, as compared to cash flows used in investing activities of $9.1 million for the nine months ended September 29, 2023. Cash flows used in investing activities for the nine months ended September 27, 2024 and for the nine months ended September 29, 2023, 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 $2.9 million for the nine months ended September 27, 2024, as compared to cash flows used in financing activities of $21.6 million for the nine months ended September 29, 2023. Cash flows used in financing activities for the nine months ended September 27, 2024 were primarily attributable to the repayments of $5.6 million under our Term Loan, $1.2 million cash used to pay withholding taxes on stock grants, and $1.0 million principal payments on finance leases, partially offset by $2.8 million of proceeds from sales of common stock under employee stock purchase plan and $2.4 million in proceeds from stock option exercises. Cash flows used in financing activities for the nine months ended September 29, 2023 were primarily attributable to the disbursement of $10.7 million in restricted cash for utility rebate incentives, payments of $4.0 million for contingent consideration related to prior acquisitions, combined with repayments and borrowings of $111.0 million and $105.0 million, respectively, under our term loan facility and line of credit, which resulted primarily from refinancing our Prior Credit Facility.

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

Short and Long-term Uses of Cash

General

Our principal uses of cash are to fund operating expenses, 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 invoice and 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 September 27, 2024:

Contractual Obligations	**Total**	**Less than 1 Year**	**1 - 3 Years**	**3 - 5 Years**	**More than 5 Years**
			(in thousands)		
Debt [1]	$ 91,894	$ 10,137	$ 81,757	$ —	$ —
Interest payments on debt outstanding [2]	11,821	6,206	5,615	—	—
Operating leases	16,102	5,509	7,809	2,108	676
Finance leases	2,628	1,175	1,266	162	25
Total contractual cash obligations	$ 122,445	$ 23,027	$ 96,447	$ 2,270	$ 701

(1) Debt includes $92.5 million outstanding on our Term Loan, net of issuance costs, and no borrowed amounts outstanding on our Revolving Credit Facility as of September 27, 2024. We have assumed no future borrowings or repayments (other than at maturity) for purposes of this table. Our Term Loan is scheduled to mature on September 29, 2026.

(2) Borrowings under our Term Loan and Revolving Credit Facility bear interest at a variable rate. Future interest payments on our Credit Facility are estimated using floating rates in effect as of September 27, 2024.

Outstanding Indebtedness

See Part I, Item 1, Note 6, "*Debt Obligations*", of the Notes to Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q, and Part II, Item 8, Note 6, "*Debt Obligations*", of the Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended December 29, 2023, for information regarding our indebtedness, including information about new borrowings and repayments, principal repayment terms, interest rates, covenants, and other key terms of our outstanding indebtedness.

Interest Rate Swap

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

Impact of Inflation

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

While not material to our results of operations and financial condition, we have experienced higher cost of materials and delays in our supply chain for equipment. 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 September 27, 2024, 18% of our contracts are time-and-materials contracts, 38% are unit-based contracts, and 44% are fixed price contracts, compared to 21% are time-and-materials contracts, 39% are unit-based contracts, and 40% are fixed price contracts, as of September 29, 2023.

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 29, 2023. Please refer to Part II, Item 7 of our Annual Report on Form 10-K for the fiscal year ended December 29, 2023 for a discussion of our critical accounting policies and estimates.

Recent Accounting Standards

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

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk

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

As of September 27, 2024, we had cash and cash equivalents of $53.1 million. This amount represents cash on hand in business checking accounts with BMO 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 Loan and borrowings, if any, under our Revolving Credit Facility, each of which bears interest at variable rates. As of September 27, 2024, $92.5 million was outstanding under our Term Loan, and we had no borrowed amounts outstanding and $1.6 million in letters of credit were issued under our Revolving Credit Facility. Each of our Term Loan and Revolving Credit Facility mature on September 29, 2026 and are governed by our Credit Agreement.

Pursuant to the Credit Agreement, (as described in Part II, Item 8, Note 6, "Debt Obligations", of the Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended December 29, 2023), borrowings under the Credit Agreement bear interest at either a Base Rate (as defined in the Credit Agreement) or the adjusted Secured Overnight Financing Rate ("SOFR"), at the Company's option, and in each case, plus an applicable margin, which applicable margin ranges from 0.75% to 2.00% with respect to Base Rate borrowings and 1.75% to 3.00% with respect to SOFR borrowings, depending on the Company's Total Net Leverage Ratio (as defined in the Credit Agreement); provided, that SOFR and the Base Rate 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, which ranges from 0.20% to 0.40% per annum depending on the Company's Total Net Leverage Ratio, and fees on the face amount of any letters of credit outstanding under the Revolving Credit Facility, which range from 1.3125% to 2.25% per annum, in each case, depending on the Company's Total Net Leverage Ratio, as well as customary fronting fees payable to BMO as letter of credit issuer.

The Term Loan will amortize quarterly in an amount equal to (i) 7.5% per annum for the first year ending after the Closing Date and (ii) 10.0% per annum for the second and third years ending after the Closing Date, with a final payment of all then remaining principal and interest due on the maturity date of September 29, 2026. The amounts outstanding under the Credit Facilities may be prepaid in whole or in part at any time without penalty (other than customary breakage costs).

On November 30, 2023, we entered into an interest rate swap agreement for $50.0 million notional amount. The interest swap agreement was designated as a cash flow hedge to fix the variable interest rate on a portion of the outstanding principal amount under our Term Loan. The interest rate swap fixed rate is 4.77% and expires on September 29, 2026.

Based upon the amount of our outstanding indebtedness as of September 27, 2024, a one percentage point increase in the effective interest rate, inclusive of our interest rate swap agreement, would change our annual interest expense by approximately $1.1 million in fiscal year 2024.

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 including our President and Chief Executive Officer, Michael A. Bieber, and our Chief Financial Officer and Executive Vice President, Creighton K. Early, as appropriate to allow timely decisions regarding required disclosure.

In connection with the preparation of this Quarterly Report, an evaluation was performed under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures as of September 27, 2024. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective, at a reasonable assurance level, as of September 27, 2024.

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 29, 2023.

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

During the fiscal quarter ended September 27, 2024, 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
June 29, 2024 – July 26, 2024	—	—	—	—
July 27, 2024 – August 23, 2024	12,204	$37.36	—	—
August 24, 2024 – September 27, 2024	—	—	—	—
TOTAL	**12,204**	**$37.36**	—	—

ITEM 3. Defaults upon Senior Securities

None.

ITEM 4. Mine Safety Disclosures

Not applicable.

ITEM 5. Other Information

Rule 10b5-1

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.
31.1*	Certification of Chief Executive 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.
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 Executive Vice President
(Principal Financial Officer, Principal Accounting Officer and duly authorized officer)
October 31, 2024

Exhibit 31.1

SECTION 302 CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Michael A. Bieber, 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: October 31, 2024

By: /s/ MICHAEL A. BIEBER

Michael A. Bieber

President and 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: October 31, 2024

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

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

In connection with the Quarterly Report on Form 10-Q of Willdan Group, Inc. (the "Company") for the quarterly period ended September 27, 2024, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Michael A. Bieber, as President and Chief Executive Officer of the Company, and Creighton K. Early, as Chief Financial Officer and Executive Vice President 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/ MICHAEL A. BIEBER
Michael A. Bieber
President and Chief Executive Officer
(Principal Executive Officer)
October 31, 2024

By: /s/ CREIGHTON K. EARLY
Creighton K. Early
Chief Financial Officer and Executive Vice President
(Principal Financial Officer)
October 31, 2024

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.