
**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, 2019

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)

14-195112

(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:

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

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

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

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

As of October 30, 2019, there were 11,316,457 shares of common stock, \$0.01 par value per share, of Willdan Group, Inc. issued and outstanding.

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

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

This Quarterly Report on Form 10-Q (this “10-Q”) contains statements that constitute forward-looking statements as that term is defined by the Private Securities Litigation Reform Act of 1995, as amended. These statements concern our business, operations and financial performance and condition as well as our plans, objectives and expectations for our business operations and financial performance and condition, which are subject to risks and uncertainties. All statements other than statements of historical fact included in this 10-Q are forward-looking statements. These statements may include words such as “aim,” “anticipate,” “assume,” “believe,” “can have,” “could,” “due,” “estimate,” “expect,” “goal,” “intend,” “likely,” “may,” “objective,” “plan,” “potential,” “positioned,” “predict,” “should,” “target,” “will,” “would” and other words and terms of similar meaning in connection with any discussion of the timing or nature of future operating or financial performance or other events or trends. For example, all statements we make relating to our plans and objectives for future operations, growth or initiatives and strategies are forward-looking statements.

These forward-looking statements are based on current expectations, estimates, forecasts and projections about our business and the industry in which we operate and our management’s beliefs and assumptions. We derive many of our forward-looking statements from our own operating budgets and forecasts, which are based upon many detailed assumptions. While we believe that our assumptions are reasonable, we caution that predicting the impact of known factors is very difficult, and we cannot anticipate all factors that could affect our actual results.

All of our forward-looking statements are subject to risks and uncertainties that may cause our actual results to differ materially from our expectations. Important factors that could cause actual results to differ materially from our expectations include, but are not limited to:

- our ability to adequately complete projects in a timely manner,
- our ability to compete successfully in the highly competitive energy services market,
- changes in state, local and regional economies and government budgets,
- our ability to win new contracts, to renew existing contracts (including with our three primary customers and the two primary customers of Lime Energy Co. (“Lime Energy”)) and to compete effectively for contracts awarded through bidding processes,
- our ability to successfully integrate our acquisitions, including our acquisitions of Lime Energy, The Weidt Group Inc., Onsite Energy Corporation, and Energy and Environmental Economics, Inc. (“E3, Inc.”) and execute on our growth strategy,
- our current expectations with respect to preliminary estimated adjustments to record our assets and liabilities at their respective estimates of fair values under acquisition accounting,
- our ability to make principal and interest payments on our outstanding debt as they come due and comply with financial and other covenants in our Credit Agreement (as defined herein), and
- our ability to obtain financing and to refinance our outstanding debt as it matures.

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 and risk factors disclosed in this 10-Q and under “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 28, 2018, 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 and 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 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, 2019	December 28, 2018
Assets		
Current assets:		
Cash and cash equivalents	\$ —	\$ 15,259
Accounts receivable, net of allowance for doubtful accounts of \$555 and \$442 at September 27, 2019 and December 28, 2018, respectively	51,960	61,346
Contract assets	86,676	51,851
Other receivables	4,934	1,893
Prepaid expenses and other current assets	4,817	5,745
Total current assets	148,387	136,094
Equipment and leasehold improvements, net	11,690	7,998
Goodwill	103,090	97,748
Right-of-use assets	12,767	—
Other intangible assets, net	68,808	44,364
Other assets	9,771	2,386
Deferred income taxes, net	8,099	12,321
Total assets	<u>\$ 362,612</u>	<u>\$ 300,911</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 34,254	\$ 36,829
Accrued liabilities	45,937	37,401
Contingent consideration payable	1,573	3,113
Contract liabilities	5,938	5,075
Notes payable	8,220	8,572
Finance lease obligations	529	320
Lease liability	4,194	—
Total current liabilities	100,645	91,310
Contingent consideration payable	1,235	1,616
Notes payable	95,062	62,214
Finance lease obligations, less current portion	230	224
Lease liability, less current portion	9,726	—
Deferred lease obligations	—	724
Other noncurrent liabilities	683	534
Total liabilities	<u>207,581</u>	<u>156,622</u>
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; 11,317 and 10,968 shares issued and outstanding at September 27, 2019 and December 28, 2018, respectively	113	110
Additional paid-in capital	123,588	114,008
Accumulated other comprehensive loss	(480)	—
Retained earnings	31,810	30,171
Total stockholders' equity	155,031	144,289
Total liabilities and stockholders' equity	<u>\$ 362,612</u>	<u>\$ 300,911</u>

See accompanying notes to the unaudited 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, 2019	September 28, 2018	September 27, 2019	September 28, 2018
Contract revenue	\$ 117,494	\$ 71,386	\$ 313,683	\$ 185,814
Direct costs of contract revenue (inclusive of directly related depreciation and amortization):				
Salaries and wages	16,145	11,233	46,679	33,358
Subcontractor services and other direct costs	66,677	36,840	175,248	86,453
Total direct costs of contract revenue	82,822	48,073	221,927	119,811
General and administrative expenses:				
Salaries and wages, payroll taxes and employee benefits	15,761	11,125	46,167	31,875
Facilities and facility related	2,250	1,492	6,069	4,087
Stock-based compensation	4,107	1,705	8,148	4,431
Depreciation and amortization	5,788	1,117	11,308	3,292
Other	5,471	2,961	16,230	11,226
Total general and administrative expenses	33,377	18,400	87,922	54,911
Income from operations	1,295	4,913	3,834	11,092
Other income (expense):				
Interest expense, net	(1,257)	(22)	(3,599)	(75)
Other, net	2	17	31	36
Total other expense, net	(1,255)	(5)	(3,568)	(39)
Income before income taxes	40	4,908	266	11,053
Income tax (benefit) expense	(376)	1,597	(1,373)	2,224
Net income	\$ 416	\$ 3,311	\$ 1,639	\$ 8,829
Other comprehensive income:				
Net unrealized loss on derivative contracts	\$ (42)	\$ —	\$ (480)	\$ —
Comprehensive income	\$ 374	\$ 3,311	\$ 1,159	\$ 8,829
Earnings per share:				
Basic	\$ 0.04	\$ 0.37	\$ 0.15	\$ 1.00
Diluted	\$ 0.04	\$ 0.35	\$ 0.14	\$ 0.95
Weighted-average shares outstanding:				
Basic	11,217	8,844	11,097	8,798
Diluted	11,789	9,343	11,714	9,283

See accompanying notes to the unaudited condensed consolidated financial statements.

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

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive (Loss)/Gain	Retained Earnings	Total
	Shares	Amount				
Balances at December 29, 2017	8,799	\$ 88	\$ 50,976	\$ —	\$ 20,141	\$ 71,205
Shares of common stock issued in connection with employee stock purchase plan	30	—	617	—	—	617
Shares of common stock issued in connection with incentive stock plan	32	1	278	—	—	279
Stock-based compensation expense	—	—	1,064	—	—	1,064
Net income	—	—	—	—	2,203	2,203
						\$
Balance at March 30, 2018	8,861	\$ 89	\$ 52,935	\$ —	\$ 22,344	\$ 75,368
Shares of common stock issued in connection with incentive stock plan	11	—	61	—	—	61
Shares used to pay taxes on stock grants	(15)	—	(442)	—	—	(442)
Stock-based compensation expense	—	—	1,662	—	—	1,662
Net income	—	—	—	—	3,315	3,315
						\$
Balance at June 29, 2018	8,857	\$ 89	\$ 54,216	\$ —	\$ 25,659	\$ 79,964
Shares of common stock issued in connection with employee stock purchase plan	35	—	682	—	—	682
Shares of common stock issued in connection with incentive stock plan	8	—	136	—	—	136
Restricted Stock Awards	21	—	—	—	—	—
Stock-based compensation expense	—	—	1,705	—	—	1,705
Net income	—	—	—	—	3,311	3,311
						\$
Balance at September 28, 2018	8,921	\$ 89	\$ 56,739	\$ —	\$ 28,970	\$ 85,798
						\$
	Common Stock Shares	Amount	Additional Paid-in Capital	Accumulated Other Comprehensive (Loss)/Gain	Retained Earnings	Total
Balance at December 28, 2018	10,968	\$ 110	\$ 114,008	\$ —	\$ 30,171	\$ 144,289
Shares of common stock issued in connection with employee stock purchase plan	28	—	749	—	—	749
Shares of common stock issued in connection with incentive stock plan	21	—	291	—	—	291
Unregistered sales of equity securities and use of proceeds	(66)	(1)	(2,515)	—	—	(2,516)
Issuance of restricted stock award and units	175	2	(2)	—	—	—
Stock-based compensation expense	—	—	1,817	—	—	1,817
Net loss	—	—	—	—	(417)	(417)
Net unrealized loss on derivative contracts	—	—	—	(219)	—	(219)
						\$
Balance at March 29, 2019	11,126	\$ 111	\$ 114,348	\$ (219)	\$ 29,754	\$ 143,994
Shares of common stock issued in connection with incentive stock plan	77	1	231	—	—	232
Shares used to pay taxes on stock grants	(9)	—	(346)	—	—	(346)
Stock-based compensation expense	—	—	2,224	—	—	2,224
Net income	—	—	—	—	1,640	1,640
Net unrealized loss on derivative contracts	—	—	—	(219)	—	(219)
						\$
Balance at June 28, 2019	11,194	\$ 112	\$ 116,457	\$ (438)	\$ 31,394	\$ 147,525
Shares of common stock issued in connection with employee stock purchase plan	34	—	991	—	—	991
Shares of common stock issued in connection with incentive stock plan	14	—	334	—	—	334
Issuance of restricted stock award and units	22	—	—	—	—	—
Unregistered sales of stock	53	1	1,699	—	—	1,700
Stock-based compensation expense	—	—	4,107	—	—	4,107
Net income	—	—	—	—	416	416
Net unrealized loss on derivative contracts	—	—	—	(42)	—	(42)
						\$
Balance at September 27, 2019	11,317	\$ 113	\$ 123,588	\$ (480)	\$ 31,810	\$ 155,031

See accompanying notes to the unaudited condensed consolidated financial statements

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

	Nine Months Ended	
	September 27, 2019	September 28, 2018
Cash flows from operating activities:		
Net income	\$ 1,639	\$ 8,829
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	11,624	3,391
Deferred income taxes, net	(285)	(1,460)
Gain on sale/disposal of equipment	(5)	(17)
Provision for doubtful accounts	256	317
Stock-based compensation	8,148	4,431
Accretion and fair value adjustments of contingent consideration	(540)	(713)
Changes in operating assets and liabilities, net of effects from business acquisitions:		
Accounts receivable	13,491	19,492
Contract assets	(20,221)	(18,252)
Other receivables	(3,004)	1,518
Prepaid expenses and other current assets	1,060	78
Other assets	(336)	(78)
Accounts payable	(5,836)	(1,960)
Accrued liabilities	1,164	(1,672)
Contract liabilities	705	(2,320)
Deferred lease obligations	—	(15)
Right-of-use assets	429	—
Net cash provided by operating activities	<u>8,289</u>	<u>11,569</u>
Cash flows from investing activities:		
Purchase of equipment and leasehold improvements	(5,636)	(720)
Proceeds from sale of equipment	45	41
Cash paid for acquisitions, net of cash acquired	(46,539)	(2,994)
Net cash used in investing activities	<u>(52,130)</u>	<u>(3,673)</u>
Cash flows from financing activities:		
Change in excess of outstanding checks over bank balance	(1,514)	—
Payments on contingent consideration	(1,381)	(3,768)
Payments on notes payable	(1,371)	(383)
Payments on debt issuance costs	(749)	—
Borrowings under term loan facility and line of credit	105,000	—
Repayments under term loan facility and line of credit	(72,500)	(2,500)
Principal payments on finance leases	(338)	(321)
Proceeds from stock option exercise	858	476
Proceeds from sales of common stock under employee stock purchase plan	1,740	1,299
Shares used to pay taxes on stock grants	(2,862)	(442)
Proceeds from unregistered sales of equity	1,699	—
Net cash provided by (used in) financing activities	<u>28,582</u>	<u>(5,639)</u>
Net increase (decrease) in cash and cash equivalents	(15,259)	2,257
Cash and cash equivalents at beginning of period	15,259	14,424
Cash and cash equivalents at end of period	<u>\$ —</u>	<u>\$ 16,681</u>
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	\$ 3,314	\$ 75
Income taxes	2,247	2,061
Supplemental disclosures of noncash investing and financing activities:		
Loss on cash flow hedge valuations, net of tax	(480)	—
Contingent consideration related to business acquisitions	—	943
Other payable for working capital adjustment	—	698
Equipment acquired under finance leases	—	281

See accompanying notes to the unaudited condensed consolidated financial statements.

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

1. BASIS OF PRESENTATION, ORGANIZATION AND OPERATIONS OF THE COMPANY

Basis of Presentation

The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) and pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”) and reflect all adjustments, which consist of only normal recurring adjustments, which are, in the opinion of management, necessary for a fair presentation of the consolidated results for the interim periods presented. Willdan Group, Inc. and its subsidiaries (the “Company”) operates and reports its quarterly financial results based on the 13-week period ending on the Friday closest to March 31, June 30 and September 30 and the 13 or 14-week period ending on the Friday closest to December 31, as applicable, with consideration of business days. Results for the interim periods are not necessarily indicative of results for the full year. Certain information and footnote disclosures normally included in annual consolidated financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. The condensed consolidated financial statements should be read in conjunction with the Company’s Annual Report on Form 10-K for the fiscal year ended December 28, 2018.

The condensed consolidated statement of stockholders' equity includes repurchases of shares of our common stock from employees to satisfy tax withholding obligations incurred in connection with the vesting of restricted stock or performance stock units, which amount is presented as a reduction of additional paid-in capital and common stock.

Nature of Business

The Company is a provider of professional technical and consulting services to utilities, private industry, and public agencies at all levels of government. The Company enables its clients to realize cost and energy savings by providing a wide range of specialized services without having to incur and maintain the overhead necessary to develop staffing in-house. Such services include energy and sustainability, engineering, construction management and planning and economic and financial consulting. The Company operates its business through a nationwide network of offices spread across 24 states and the District of Columbia. Its clients primarily consist of public and governmental agencies, including cities, counties, public utilities, redevelopment agencies, water districts, school districts and universities, state agencies, federal agencies, a variety of other special districts and agencies, private utilities and industry and tribal governments. The Company’s business with public and private utilities is concentrated primarily in California, New York and North Carolina and its business with public agencies is concentrated in California, New York and Arizona.

Principles of Consolidation

The condensed consolidated financial statements include the accounts of Willdan Group, Inc. (“WGI”) and its wholly-owned subsidiaries, Willdan Energy Solutions (“WES”), Willdan Engineering, Willdan Infrastructure, Public Agency Resources and Willdan Financial Services and their respective subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

The Company accounts for variable interest entities in accordance with Accounting Standards Codification (“ASC”) 810, Consolidation. Under ASC 810, a variable interest entity (“VIE”) is created when any of the following criteria are present: (a) the equity investment at risk in the entity is not sufficient to permit the entity to finance its activities without additional subordinated financial support provided by other parties, including the equity holders; (b) the entity’s equity holders as a group either (i) lack the direct or indirect ability to make decisions about the entity, (ii) are not obligated to absorb expected losses of the entity or (iii) do not have the right to receive expected residual returns of the entity; or (c) the entity’s equity holders have voting rights that are not proportionate to their economic interests, and the activities of the entity involve or are conducted on behalf of the equity holder with disproportionately few voting

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

rights. If an entity is deemed to be a VIE pursuant to ASC 810, the enterprise that has both (i) the power to direct the activities of a VIE that most significantly impact the entity's economic performance and (ii) the obligation to absorb the expected losses of the entity or right to receive benefits from the entity that could be potentially significant to the VIE is considered the primary beneficiary and must consolidate the VIE. In accordance with ASC 810, the Company performs ongoing reassessments of whether an enterprise is the primary beneficiary of a VIE.

As of September 27, 2019, the Company had one VIE—Genesys Engineering, P.C. ("Genesys"). Pursuant to New York law, the Company does not own capital stock of Genesys and does not have control over the professional decision making of Genesys' engineering services. The Company, however, has entered into an administrative services agreement with Genesys pursuant to which WES, the Company's wholly-owned subsidiary, will provide Genesys with ongoing administrative, operational and other non-professional support services. The Company manages Genesys and has the power to direct the activities that most significantly impact Genesys' performance, in addition to being obligated to absorb expected losses from Genesys. Accordingly, the Company is the primary beneficiary of Genesys and consolidates Genesys as a VIE.

Management also concluded there is no noncontrolling interest related to the consolidation of Genesys because management 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' service fees owed to WES, and the Company has, since entering into the administrative services agreement, had to continuously defer the 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.

Segment Information

WGI is a holding company with five wholly-owned subsidiaries. The Company presents segment information externally consistent with the manner in which the Company's chief operating decision maker reviews information to assess performance and allocate resources. WGI performs administrative functions on behalf of its subsidiaries, such as treasury, legal, accounting, information systems, human resources and certain business development activities, and earns revenue that is only incidental to the activities of the enterprise. As a result, WGI does not meet the definition of an operating segment. The Company's two segments are Energy and Engineering and Consulting. The Company's principal segment, Energy, consists of the business of its subsidiary, WES, which offers energy and sustainability consulting services to utilities, public agencies and private industry. The Company's Engineering and Consulting segment includes the operation of the Company's remaining direct subsidiaries, Willdan Engineering, Willdan Infrastructure, Public Agency Resources and Willdan Financial Services. Willdan Engineering provides civil engineering-related construction management, building and safety, city engineering, city planning, geotechnical, material testing and other engineering consulting services to its clients. Willdan Infrastructure, which was launched in fiscal year 2013, provides engineering services to larger rail, port, water, mining and other civil engineering projects. Public Agency Resources primarily provides staffing to Willdan Engineering. Willdan Financial Services provides economic and financial consulting to public agencies. See Note 11 "—Segment Information" for segment information for the current and prior period.

Contract Assets and Liabilities

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. Contract assets include unbilled amounts typically resulting from revenue under long-term contracts when the percentage-of-completion method of revenue recognition is utilized and revenue recognized exceeds the amount billed to the customer and right to payment is not unconditional. In addition, contract assets include retainage amounts withheld from billings to the Company's clients pursuant to provisions in the contracts. Contract liabilities consist of advance payments and billings in excess of revenue recognized and deferred revenue.

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

The increase in contract assets and contract liabilities for the nine months ended September 27, 2019 were primarily attributable to our recent acquisitions and normal business operations.

Off-Balance Sheet Arrangements

The Company does not have any off-balance sheet financing arrangements or liabilities. In addition, the Company does not have any majority-owned subsidiaries or any interests in, or relationships with, any special-purpose entities that are not included in the condensed consolidated financial statements. The Company has, however, entered into an administrative services agreement with Genesys pursuant to which WES, the Company's wholly-owned subsidiary, will provide Genesys with ongoing administrative, operational and other non-professional support services. The Company manages Genesys and has the power to direct the activities that most significantly impact Genesys' 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.

Contract Accounting

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

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

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

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

Many of the Company's fixed price contracts involve a high degree of subcontracted fixed price effort and are relatively short in duration, thereby lowering the risks of not properly estimating the percent complete. Revenue on time-and-materials and unit-based contracts is recognized as the work is performed in accordance with the specific rates and terms of the contract. The Company recognizes revenues for time-and-materials contracts based upon the actual hours incurred during a reporting period at contractually agreed upon rates per hour and also includes in revenue all reimbursable costs incurred during a reporting period. Certain of the Company's time-and-materials contracts are subject to maximum contract values and, accordingly, when revenue is expected to meet 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

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

the production product is delivered during a period. Revenue recognition for software licenses issued by the Energy segment is generally recognized at a point in time, utilizing the unit-based revenue recognition method, upon acceptance of the software by the customer and in recognition of the fulfillment of the performance obligation. Certain additional performance obligations beyond the base software license may be separated from the gross license fee and recognized on a straight-line basis over time. Revenue for amounts that have been billed but not earned is deferred, and such deferred revenue is referred to as contract liabilities in the accompanying condensed consolidated balance sheets.

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

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

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's estimates of variable consideration and determination of whether to include estimated amounts in the

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

transaction price are based largely on assessments of legal enforceability, the Company's performance, and all information (historical, current and forecasted) that is reasonably available to the Company.

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

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

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

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

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

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

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

Direct costs of contract revenue exclude that portion of technical and nontechnical salaries and wages related to marketing efforts, vacations, holidays and other time not spent directly generating revenue under existing contracts. Such

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

costs are included in general and administrative expenses in the accompanying condensed consolidated statements of comprehensive income. 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. At September 27, 2019 and December 28, 2018, contract assets included retainage of \$5.2 million and \$6.7 million, respectively.

Disaggregation of Revenue

The following tables provides information about disaggregated revenue of the Company's two segments Energy and Engineering and Consulting, by contract type, client type and geographical region for the nine months ended September 27, 2019:

	Energy	Engineering and Consulting	Total
	<i>(in thousands)</i>		
Contract Type			
Time-and-materials	\$ 10,154	\$ 42,624	\$ 52,778
Unit-based	188,388	10,719	199,107
Fixed price	59,420	2,378	61,798
Total	\$ 257,962	\$ 55,721	\$ 313,683
Client Type			
Commercial	\$ 28,063	\$ 4,176	\$ 32,239
Government	41,400	51,251	92,651
Utilities	188,499	294	188,793
Total	\$ 257,962	\$ 55,721	\$ 313,683
Geography			
Domestic	\$ 257,962	\$ 55,721	\$ 313,683

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

Goodwill

Goodwill represents the excess of costs over fair value of the assets acquired. 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 impairment. Goodwill, which has an indefinite useful life, is not amortized, but instead tested for impairment at least annually or more frequently if events and circumstances indicate that the asset might be impaired. Impairment losses for reporting units are recognized to the extent that a reporting unit's carrying amount exceeds its fair value. The reporting units for purposes of testing goodwill impairment coincide with the Company's reportable segments used for segment reporting purposes.

Fair Value of Financial Instruments

The Company uses the three-tier hierarchy of fair value measurement, which prioritizes the inputs. These tiers include: Level 1 (the highest priority), defined as observable inputs, such as quoted prices in active markets, Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3 (the lowest priority), defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

The Company's financial instruments consist primarily of cash, cash equivalents, accounts receivable, contract assets, other receivables, prepaid expenses and other current assets, accounts payable, accrued liabilities and contract liabilities, and approximate their fair values because of the relatively short period of time between the origination of these instruments and their expected realization or payment.

The carrying amounts of certain other assets and contingent consideration are discounted to their present value because the time between the origination of these instruments and their expected realization or payment is greater than one year.

The carrying amounts of the derivative financial instrument is valued based on Level 2 inputs.

The carrying amounts of debt obligations approximate their fair values since the terms are comparable to terms currently offered by local lending institutions for loans of similar terms to companies with comparable credit risk.

On January 31, 2019, the Company entered into an interest rate swap agreement that the Company designated as cash flow hedge to fix the variable interest rate on a portion of the Company's 2018 Term Loan Facility (as defined in Note 7 "—Debt Obligations"). The interest rate swap agreement has a total notional amount of \$35.0 million, a fixed annual interest rate of 2.47% and expires on January 31, 2022. For further discussion of this derivative contract, see Note 13 "—Derivative Financial Instruments" below.

Use of Estimates

The preparation of condensed consolidated financial statements in conformity with 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 condensed consolidated financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Liquidity

The Company's primary source of liquidity is cash generated from operations. As of September 27, 2019, as a result of the timing of payments where checks outstanding were in excess of the Company's cash balance, the Company had \$0.0 of cash and cash equivalents. In addition, as of September 27, 2019, the Company had \$97.5 million outstanding on its Term A Loan (as defined in Note 7 "—Debt Obligations"), a \$50.0 million Revolving Credit Facility

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

(as defined in Note 7 “—Debt Obligations”) with \$5.0 million outstanding and \$2.7 million in letters of credit issued, and a \$50.0 million Delayed Draw Term Loan (as defined in Note 7 “—Debt Obligations”) with no amounts outstanding, each with a syndicate of financial institutions as lenders and BMO Harris Bank, N.A. (“BMO”), as administrative agent, and scheduled to mature on June 26, 2024 (see Note 7 “—Debt Obligations” below). Subsequent to September 27, 2019, the Company borrowed \$27.0 million under its Delayed Draw Term Loan to finance the purchase of its acquisition of Energy and Environmental Economics, Inc. (“E3, Inc.”), which reduced the future borrowing capacity under the Delayed Draw Term Loan to \$23.0 million (see Note 14 “—Subsequent Events”). The Company believes that cash generated by operating activities and funds available under its Credit Facilities (as defined in Note 7 “—Debt Obligations”) will be sufficient to finance its operating activities for at least the next 12 months.

Reclassifications

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

Adoption of New Accounting Standards

Stock Compensation

In June 2018, the FASB issued ASU 2018-07, Compensation – Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting, which expands the scope of current stock compensation recognition standards to include share-based payment transactions for acquiring goods and services from nonemployees. ASU 2018-07 became effective for fiscal years beginning after December 15, 2018, including interim periods within that fiscal year. Effective December 29, 2018, the Company adopted ASU 2018-07 and the impact did not have a material effect on the Company’s condensed consolidated financial statements.

Recent Accounting Pronouncements

Intangibles-Goodwill and Other

In January 2017, the FASB issued ASU No. 2017-04, Intangibles-Goodwill and Other (Topic 350), which eliminates the requirement to compare the implied fair value of reporting unit goodwill with the carrying amount of that goodwill (commonly referred to as Step 2) from the goodwill impairment test. The new standard does not change how a goodwill impairment is identified. The Company will continue to perform its quantitative and qualitative goodwill impairment test by comparing the fair value of each reporting unit to its carrying amount, but if the Company were required to recognize a goodwill impairment charge, under the new standard the amount of the charge would be calculated by subtracting the reporting unit’s fair value from its carrying amount. Under the prior standard, if the Company were required to recognize a goodwill impairment charge, Step 2 required us to calculate the implied value of goodwill by assigning the fair value of a reporting unit to all of its assets and liabilities as if that reporting unit had been acquired in a business combination and the amount of the charge was calculated by subtracting the reporting unit’s implied fair value of goodwill from its actual goodwill balance. The new standard is effective for interim and annual reporting periods beginning after December 15, 2019, with early adoption permitted, and should be applied prospectively from the date of adoption. The Company adopted the new standard for future goodwill impairment tests at the beginning of the fourth quarter of 2019 because it significantly simplifies the evaluation of goodwill for impairment. The adoption of ASU 2017-04 did not have a material impact on the Company’s condensed consolidated financial statements.

Proposed Accounting Standards

A variety of proposed or otherwise potential accounting standards are currently being studied by standard-setting organizations and certain regulatory agencies. Because of the tentative and preliminary nature of such proposed standards, the Company has not yet determined the effect, if any, that the implementation of such proposed standards would have on its condensed consolidated financial statements.

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

2. BUSINESS COMBINATIONS

Acquisition of Onsite Energy Corporation

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

The acquisition was accounted for as a business combination in accordance with ASC 805. Under ASC 805, the Company recorded the acquired assets and assumed liabilities at their estimated fair value with the excess allocated to goodwill. Goodwill represents the value the Company expects to achieve through the operational synergies, the expansion into new markets and the acquired company’s assembled work force. The Company estimates that the entire \$5.3 million of goodwill resulting from the acquisition will be tax deductible.

Consideration for the acquisition includes the following:

	<u>Onsite Energy</u> <i>(in thousands)</i>
Cash paid	\$ 24,273
Other working capital adjustment	-
Total consideration	\$ 24,273

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

	<u>Onsite Energy</u> <i>(in thousands)</i>
Current assets	\$ 22,493
Non-current assets ¹	10
Equipment and leasehold improvements, net	39
Right-of-use assets	828
Current lease liability	(168)
Non-current lease liability	(660)
Liabilities	(12,222)
Backlog	800
Customer relationships	7,374
Tradename	500
Goodwill	5,279
Net assets acquired	\$ 24,273

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

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The following unaudited pro forma financial information for the three and nine months ended September 27, 2019 and September 28, 2018 assumes that the acquisitions of substantially all of the assets and liabilities of Onsite Energy and The Weidt Group and that the acquisition of all the outstanding shares of Lime Energy each occurred on the first day of the year prior to the year of acquisition:

	Three Months Ended		Nine Months Ended	
	September 27, 2019	September 28, 2018	September 27, 2019	September 28, 2018
	<i>(in thousands, except per share data)</i>			
Pro forma revenue	\$ 117,494	\$ 119,354	\$ 328,731	\$ 318,248
Pro forma income from operations	\$ 1,295	\$ 6,173	\$ 6,258	\$ 12,426
Pro forma net income ¹	\$ 416	\$ 3,317	\$ 3,284	\$ 6,299
Earnings per share:				
Basic	\$ 0.04	\$ 0.31	\$ 0.30	\$ 0.58
Diluted	\$ 0.04	\$ 0.29	\$ 0.28	\$ 0.56
Weighted average shares outstanding:				
Basic	11,217	10,857	11,097	10,810
Diluted	11,789	11,356	11,714	11,285

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

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

There were \$0.1 million in acquisition related costs associated with Onsite Energy that were included in other general and administrative expenses in the condensed consolidated statements of comprehensive income for the three and nine months ended September 27, 2019.

During the three and nine months ended September 27, 2019, the acquisition of Onsite Energy contributed \$4.8 million in revenue and \$1.0 million in income from operations, respectively.

Acquisition of The Weidt Group

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

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

Consideration for the acquisition includes the following:

	<u>The Weidt Group</u> <i>(in thousands)</i>
Cash paid	\$ 22,136
Other working capital adjustment	-
Total consideration	\$ 22,136

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

	<u>The Weidt Group</u> <i>(in thousands)</i>
Current assets	\$ 2,317
Non-current assets ¹	25
Equipment and leasehold improvements, net	198
Right-of-use assets	1,730
Current lease liability	(245)
Non-current lease liability	(1,533)
Liabilities	(612)
Backlog	750
Customer relationships	4,330
Tradename	550
Developed technology	3,170
Goodwill	11,456
Net assets acquired	\$ 22,136

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

During the three months ended September 27, 2019, the Company made adjustments to the preliminary purchase price allocation related to The Weidt Group which resulted in an aggregate increase of \$1.0 million in the carrying value of backlog, customer relationships, tradename, and developed technology and an offsetting \$1.0 million decrease to the carrying value of goodwill. The increase in the fair value of intangible assets resulted in an additional amortization expense charge of \$0.2 million for the three months ended September 27, 2019.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The following unaudited pro forma financial information for the three and nine months ended September 27, 2019 and September 28, 2018 assumes that the acquisitions of substantially all of the assets and liabilities of Onsite Energy and The Weidt Group and that the acquisition of all the outstanding shares of Lime Energy each occurred on the first day of the year prior to the year of acquisition:

	Three Months Ended		Nine Months Ended	
	September 27,	September 28,	September 27,	September 28,
	2019	2018	2019	2018
	<i>(in thousands, except per share data)</i>			
Pro forma revenue	\$ 117,494	\$ 119,354	\$ 328,731	\$ 318,248
Pro forma income from operations	\$ 1,295	\$ 6,173	\$ 6,258	\$ 12,426
Pro forma net income ¹	\$ 416	\$ 3,317	\$ 3,284	\$ 6,299
Earnings per share:				
Basic	\$ 0.04	\$ 0.31	\$ 0.30	\$ 0.58
Diluted	\$ 0.04	\$ 0.29	\$ 0.28	\$ 0.56
Weighted average shares outstanding:				
Basic	11,217	10,857	11,097	10,810
Diluted	11,789	11,356	11,714	11,285

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

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

There were \$0.1 million and \$0.4 million in acquisition related costs associated with The Weidt Group that were included in other general and administrative expenses in the condensed consolidated statements of comprehensive income for the three and nine months ended September 27, 2019, respectively.

During the three and nine months ended September 27, 2019, the acquisition of The Weidt Group contributed \$3.5 million and \$7.6 million in revenue and \$0.6 million and \$1.1 million in income from operations, respectively.

Acquisition of Lime Energy

On October 1, 2018, the Company, through two of its wholly-owned subsidiaries, WES and Luna Fruit, Inc., a Delaware corporation and wholly-owned subsidiary of WES ("Merger Sub"), entered into an agreement to acquire all of the outstanding shares of capital stock of Lime Energy Co. ("Lime Energy"), pursuant to an agreement and plan of merger dated October 1, 2018 (the "Merger Agreement"), by and among WES, Merger Sub, Lime Energy, and Luna Stockholder Representative, LLC, as representative of the participating securityholders of Lime Energy. The Company believes the addition of Lime Energy's capabilities will significantly expand and diversify its client base within the energy efficiency services market and geographic presence across the United States. Lime Energy's financial information is included within the Energy segment. The Company expects to finalize the purchase price allocation with respect to this transaction during the fourth quarter of 2019.

On November 9, 2018, the Company completed the acquisition and, pursuant to the Merger Agreement, Merger Sub was merged with and into Lime Energy, with Lime Energy surviving as a wholly-owned indirect subsidiary of the Company. The aggregate purchase price paid in the acquisition was \$122.4 million, inclusive of closing holdbacks and

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

adjustments. A portion of the purchase price was deposited into escrow accounts to secure certain potential post-closing obligations of the participating securityholders. The Company paid the purchase price for the acquisition using a combination of cash on hand (including \$50.0 million of the \$56.4 million in net proceeds received from the Company's equity offering in October 2018) and proceeds from the Company's borrowings under a term loan under its 2018 Credit Facilities (see Note 7 "—Debt Obligations" below).

The acquisition was accounted for as a business combination in accordance with ASC 805. Under ASC 805, the Company recorded the acquired assets and assumed liabilities at their estimated fair value with the excess allocated to goodwill. Goodwill represents the value the Company expects to achieve through the operational synergies, the expansion into new markets and the acquired company's assembled work force. The Company estimates that the entire \$46.1 million of goodwill resulting from the acquisition will not be tax deductible. Consideration for the acquisition includes the following:

	<u>Lime Energy</u> <i>(in thousands)</i>
Cash paid	\$ 122,439
Other working capital adjustment	-
Total consideration	<u>\$ 122,439</u>

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

	<u>Lime Energy</u> <i>(in thousands)</i>
Current assets ¹	\$ 45,401
Non-current assets ²	13,847
Cash	1,090
Equipment and leasehold improvements, net	1,892
Liabilities	(38,110)
Customer relationships	34,400
Tradename	5,970
Developed technology	10,600
Backlog	1,230
Goodwill	46,119
Net assets acquired	<u>\$ 122,439</u>

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

During the three months ended September 27, 2019, the Company made adjustments to the preliminary purchase price allocation related to Lime Energy which resulted in an aggregate increase of \$11.4 million in the carrying value of liabilities, customer relationships, developed technology, and backlog and an offsetting \$11.4 million decrease to the carrying value of goodwill. The increase in the fair value of intangible assets resulted in an additional amortization expense charge of \$1.9 million for the three months ended September 27, 2019.

There were no acquisition related costs associated with Lime Energy for the three months ended September 27, 2019. There were \$0.2 million in acquisition related costs associated with Lime Energy included in other general and administrative expenses in the condensed consolidated statements of comprehensive income for nine months ended September 27, 2019.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The following unaudited pro forma financial information for the three and nine months ended September 27, 2019 and September 28, 2018 assumes that the acquisition of all the outstanding shares of Lime Energy and that the acquisitions of substantially all of the assets and liabilities of Onsite Energy and The Weidt Group each occurred on the first day of the year prior to the year of acquisition:

	<u>Three Months Ended</u>		<u>Nine Months Ended</u>	
	<u>September 27,</u>	<u>September 28,</u>	<u>September 27,</u>	<u>September 28,</u>
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
	<i>(in thousands, except per share data)</i>			
Pro forma revenue	\$ 117,494	\$ 119,354	\$ 328,731	\$ 318,248
Pro forma income from operations	\$ 1,295	\$ 6,173	\$ 6,258	\$ 12,426
Pro forma net income ¹	\$ 416	\$ 3,317	\$ 3,284	\$ 6,299
Earnings per share:				
Basic	\$ 0.04	\$ 0.31	\$ 0.30	\$ 0.58
Diluted	\$ 0.04	\$ 0.29	\$ 0.28	\$ 0.56
Weighted average shares outstanding:				
Basic	11,217	10,857	11,097	10,810
Diluted	11,789	11,356	11,714	11,285

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

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

During the three and nine months ended September 27, 2019, the acquisition of Lime Energy contributed \$40.8 million and \$116.2 million in revenue and \$1.3 million and \$2.5 million in income from operations, respectively.

Acquisition of Newcomb Anderson McCormick

On April 30, 2018, the Company, through its wholly-owned subsidiary, WES, acquired all of the outstanding equity interests of Newcomb Anderson McCormick, Inc. ("NAM"). NAM is an energy engineering and consulting company with offices in San Francisco and Los Angeles that provides clients with mechanical engineering expertise and comprehensive energy efficiency programs and services. Pursuant to the terms of the Stock Purchase Agreement, dated April 30, 2018, by and among the Company, WES and NAM, WES paid NAM shareholders a cash purchase price of \$4.0 million, inclusive of earn-out payments and working capital adjustments. The Company finalized the purchase price allocation with respect to this transaction during the second quarter of 2019. NAM's financial information is included within the Energy segment.

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3. GOODWILL AND OTHER INTANGIBLE ASSETS

As of September 27, 2019, the Company had \$103.1 million of goodwill, which primarily relates to the Energy segment and the acquisitions within this segment of Lime Energy, NAM, Integral Analytics and Abacus Resource Management Company (“Abacus”) and substantially all of the assets of Onsite Energy, The Weidt Group, Genesys and 360 Energy Engineers, LLC (“360 Energy”). The remaining goodwill relates to the Engineering and Consulting segment and the acquisition within this segment of Economists.com, LLC. The changes in the carrying value of goodwill by reporting unit for the nine months ended September 27, 2019 were as follows:

	December 28, 2018	Additional Purchase Cost	Additions / Adjustments	September 27, 2019
	<i>(in thousands)</i>			
Reporting Unit:				
Energy	\$ 96,999	\$ 16,735	\$ (11,393)	\$ 102,341
Engineering and Consulting	749	—	—	749
	<u>\$ 97,748</u>	<u>\$ 16,735</u>	<u>\$ (11,393)</u>	<u>\$ 103,090</u>

The gross amounts and accumulated amortization of the Company’s acquired identifiable intangible assets with finite useful lives as of September 27, 2019 included in other intangible assets, net in the accompanying condensed consolidated balance sheets, were as follows:

	September 27, 2019		December 28, 2018		Amortization Period
	Gross Amount	Accumulated Amortization	Gross Amount	Accumulated Amortization	
	<i>(in thousands)</i>				<i>(in years)</i>
Finite:					
Backlog	\$ 4,564	\$ 3,214	\$ 2,514	\$ 2,155	0.2 - 5.0
Tradename	11,351	4,400	10,301	3,118	3.0 - 6.0
Non-compete agreements	1,420	1,270	1,420	1,042	4.0 - 5.0
Developed technology	18,180	3,286	12,920	944	5.0 - 8.0
Customer relationships	51,923	6,460	25,219	2,441	5.0 - 10.0
Total finite intangible assets	<u>87,438</u>	<u>\$ 18,630</u>	<u>52,374</u>	<u>\$ 9,700</u>	
In-process research and technology ¹	—	—	1,690	—	
Total intangible assets	<u>\$ 87,438</u>	<u>\$ 18,630</u>	<u>\$ 54,064</u>	<u>\$ 9,700</u>	

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

As part of prior acquisitions, the Company recorded at the time of the acquisition acquired in-process research and development (“IPR&D”) for projects in progress that had not yet reached technological feasibility. IPR&D is initially accounted for as an indefinite-lived intangible asset. Once a project reaches technological feasibility, the Company reclassifies the balance to developed technology and begins to amortize the intangible asset over its estimated useful life. During the three and nine months ended September 27, 2019, the Company reclassified \$1.7 million of acquired IPR&D to developed technology and commenced amortization over its estimated useful life of 7 years.

The Company’s amortization expense for acquired identifiable intangible assets with finite useful lives was \$4.9 million and \$8.9 million for the fiscal three and nine months ended September 27, 2019 as compared to \$0.7 million and \$2.1 million for the fiscal three and nine months ended September 28, 2018, respectively. Estimated amortization

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

expense for acquired identifiable intangible assets for the remainder of fiscal year 2019 and the succeeding years are as follows:

Fiscal year:	Future Intangible Asset Amortization expense
	<i>(in thousands)</i>
Remainder of 2019	\$ 3,040
2020	11,589
2021	10,186
2022	9,936
2023	9,278
2024	5,781
Thereafter	18,998
	<u>\$ 68,808</u>

At the time of acquisition, the Company estimates the fair value of the acquired identifiable intangible assets based upon the facts and circumstances related to the particular intangible asset. Inherent in such estimates are judgments and estimates of future revenue, profitability, cash flows and appropriate discount rates for any present value calculations. The Company preliminarily estimates the value of the acquired identifiable intangible assets and then finalizes the estimated fair values during the purchase allocation period, which does not extend beyond 12 months from the date of acquisition.

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 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. No impairment was recorded during the nine months ended September 27, 2019.

4. 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.

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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, 2019	September 28, 2018	September 27, 2019	September 28, 2018
	<i>(in thousands, except per share amounts)</i>			
Net income	\$ 416	\$ 3,311	\$ 1,639	\$ 8,829
Weighted-average common shares outstanding	11,217	8,844	11,097	8,798
Effect of dilutive stock options and restricted stock awards	572	499	617	485
Weighted-average common shares outstanding-diluted	11,789	9,343	11,714	9,283
Earnings per share:				
Basic	\$ 0.04	\$ 0.37	\$ 0.15	\$ 1.00
Diluted	\$ 0.04	\$ 0.35	\$ 0.14	\$ 0.95

For the three and nine months ended September 27, 2019, 155,000 options were excluded from the calculation of dilutive potential common shares, as compared to 241,000 and 215,000 options for the three and nine months ended September 28, 2018, respectively. These options were not included in the computation of dilutive potential common shares because the assumed proceeds per share exceeded the average market price per share for the 2019 and 2018 periods, respectively. Accordingly, the inclusion of these options would have been anti-dilutive.

5. EQUIPMENT AND LEASEHOLD IMPROVEMENTS, NET

Equipment and leasehold improvements consisted of the following at September 27, 2019 and December 28, 2018:

	September 27, 2019	December 28, 2018
	<i>(in thousands)</i>	
Furniture and fixtures	\$ 4,264	\$ 3,551
Computer hardware and software	13,975	10,874
Leasehold improvements	2,282	1,419
Equipment under finance leases	1,850	1,304
Automobiles, trucks, and field equipment	3,533	2,635
	25,904	19,783
Accumulated depreciation and amortization	(14,214)	(11,785)
Equipment and leasehold improvements, net	\$ 11,690	\$ 7,998

Included in accumulated depreciation and amortization is \$366,000 and \$374,000 of amortization expense related to equipment held under finance leases in the nine months ended September 27, 2019 and fiscal year 2018, respectively.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

6. ACCRUED LIABILITIES

Accrued liabilities consist of the following:

	September 27, 2019	December 28, 2018
	<i>(in thousands)</i>	
Accrued bonuses	\$ 1,803	\$ 5,273
Accrued interest	35	127
Paid leave bank	4,259	3,512
Compensation and payroll taxes	1,529	2,544
Accrued legal	18	153
Accrued workers' compensation insurance	188	273
Accrued rent	—	233
Employee withholdings	1,452	2,137
Client deposits	234	280
Accrued subcontractor costs	34,164	21,446
Other	2,255	1,423
Total accrued liabilities	<u>\$ 45,937</u>	<u>\$ 37,401</u>

7. DEBT OBLIGATIONS

Debt obligations, excluding obligations under finance leases (see Note 8 “—Leases” below), consist of the following at September 27, 2019 and December 28, 2018:

	September 27, 2019	December 28, 2018
	<i>(in thousands)</i>	
Outstanding borrowings on Term A Loan	\$ 97,500	\$ 70,000
Outstanding borrowings on Revolving Credit Facility	5,000	—
Other debt agreements	1,531	1,711
Total debt	<u>104,031</u>	<u>71,711</u>
Issuance costs and debt discounts	(749)	(925)
Subtotal	<u>103,282</u>	<u>70,786</u>
Less current portion of long-term debt	8,220	8,572
Long-term debt portion	<u>\$ 95,062</u>	<u>\$ 62,214</u>

New Credit Facilities

On June 26, 2019, the Company and certain of its subsidiaries entered into an Amended and Restated Credit Agreement (the “Credit Agreement”) with a syndicate of financial institutions as lenders and BMO Harris Bank, N.A. (“BMO”), as administrative agent. The Credit Agreement amends and restates the Company’s prior credit agreement, which was entered into on October 1, 2018 with a syndicate of financial institutions as lenders and BMO and was scheduled to mature on October 1, 2023.

The Credit Agreement provides for (i) a \$100.0 million term loan (the “Term A Loan”), (ii) up to \$50.0 million in delayed draw term loans (the “Delayed Draw Term Loan”), and (iii) a \$50.0 million revolving credit facility (the “Revolving Credit Facility” and, collectively with the Term A Loan and the Delayed Draw Term Loan, the “Credit Facilities”), each maturing on June 26, 2024. The Company may borrow under the Delayed Draw Term Loan any time and from time to time until June 26, 2022; provided that each borrowing under the Delayed Draw Term Loan must be a minimum of \$10.0 million, the Company may not make more than five borrowings under the Delayed Draw Term Loan and any borrowings made under the Delayed Draw Term Loan will permanently reduce future borrowing capacity under the Delayed Draw Term Loan. In addition, the Company must satisfy certain conditions prior to borrowing under the Delayed Draw Term Loan, including, but not limited to, that upon giving effect to such borrowing under the Delayed

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

Draw Term Loan and any Credit Event (as defined in the Credit Agreement) in connection therewith, the Company will be in compliance with all financial covenants on a pro forma basis and the Company's consolidated total leverage ratio will be no greater than 0.25x less than the consolidated total leverage ratio covenant compliance level in effect at the time of such borrowing. On October 28, 2019, the Company borrowed \$27.0 million under the Delayed Draw Term Loan to finance the purchase of its acquisition of E3, Inc., which reduced the future borrowing capacity under the Delayed Draw Term Loan to \$23.0 million.

The Company may also request lenders to add incremental term loans or increase the aggregate commitment under the Revolving Credit Facility by an aggregate amount of up to \$100.0 million, subject to meeting certain conditions, and only if the existing or new lenders agree to provide the additional term or revolving commitments.

Borrowings under the Credit Facilities bear interest at a rate equal to either, at the Company's option, (i) the highest of the prime rate, the Federal Funds Rate plus 0.50% or one-month LIBOR plus 1.00% (the "Base Rate") or (ii) LIBOR, in each case plus an applicable margin ranging from 0.125% to 1.00% with respect to Base Rate borrowings and 1.125% to 2.00% with respect to LIBOR borrowings. The applicable margin varies based upon the Company's consolidated total leverage ratio. The Company will also pay commitment fees for the unused portion of the Revolving Credit Facility and the Delayed Draw Term Loan, which ranges from 0.15% to 0.35% per annum depending on the Company's consolidated total leverage ratio, and fees on the face amount of any letters of credit outstanding under the Revolving Credit Facility, which range from 0.84% to 2.00% per annum, in each case, depending on whether such letter of credit is a performance or financial letter of credit and the Company's consolidated total leverage ratio. The Term A Loan issuance costs are amortized to interest expense over the term of the loan, and as of September 27, 2019, issuance costs of \$0.7 million remained unamortized. The Delayed Draw Term Loan and Revolving Credit Facility issuance cost of \$0.8 million are included in assets in the accompanying condensed consolidated balance sheets.

The Term A Loan amortizes quarterly in installments of \$2.5 million beginning with the fiscal quarter ending September 27, 2019, with a final payment of all then remaining principal and interest due on the maturity date of June 26, 2024. Any Delayed Draw Term Loan will amortize quarterly in an amount equal to 2.5% of the aggregate outstanding borrowings under the Delayed Draw Term Loan, beginning with the first full fiscal quarter ending after the initial borrowing date, with a final payment of all then remaining principal and interest due on the maturity date of June 26, 2024. The amounts outstanding under the Credit Facilities may be prepaid in whole or in part at any time without penalty.

Willdan Group, Inc. is the borrower under the Credit Agreement and its obligations under the Credit Agreement are guaranteed by its present and future domestic subsidiaries (other than inactive subsidiaries). In addition, subject to certain exceptions, all such obligations are secured by substantially all of the assets of Willdan Group, Inc. and the subsidiary guarantors.

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

The Company believes that, as of September 27, 2019, it was in compliance with all covenants contained in the Credit Agreement.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

On January 31, 2019, the Company entered into an interest swap agreement for \$35.0 million notional amount. The interest swap agreement was designated as a cash flow hedge to fix the variable interest rate on a portion of the outstanding principal amount under the Company's 2018 Term Loan Facility. The interest swap fixed annual rate is 2.47% and the amortization is quarterly in an amount equal to 10% annually. The interest swap agreement expires on January 31, 2022. As of September 27, 2019, the Company's composite interest rate, exclusive of the effects of upfront fees, undrawn fees and issuance cost amortization, was 4.40%.

Prior Credit Facilities

2018 Credit Facility

On October 1, 2018, in connection with the acquisition of Lime Energy, the Company entered into a credit agreement (the "2018 Credit Agreement") with a syndicate of financial institutions as lenders, and BMO Harris Bank, N.A., as administrative agent. The 2018 Credit Agreement initially provided for up to a \$90.0 million delayed draw term loan facility (the "2018 Term Loan Facility") and a \$30.0 million revolving credit facility (collectively, the "2018 Credit Facilities"), each maturing on October 1, 2023. On October 10, 2018, as a result of the Company's completed equity offering, the amount available for borrowing under the 2018 Term Loan Facility was reduced to \$70.0 million. On November 9, 2018, in connection with the closing of the acquisition of Lime Energy, the Company borrowed \$70.0 million (the "2018 Term Loan") under the 2018 Term Loan Facility. The proceeds of such borrowing were used to pay part of the consideration owed in connection with the acquisition along with related fees and expenses. On June 26, 2019, in connection with the Company entering into the Credit Agreement, the 2018 Credit Agreement was amended and restated.

The 2018 Credit Facilities bore interest at a rate equal to either, at the Company's option, (i) the highest of the prime rate, the Federal Funds Rate plus 0.50% or one-month LIBOR plus 1.00% ("Base Rate") or (ii) LIBOR, in each case plus an applicable margin ranging from 0.25% to 3.00% with respect to Base Rate borrowings and 1.25% to 4.00% with respect to LIBOR borrowings. The applicable margin was based upon the Company's consolidated total leverage ratio. The Company was also required to pay a commitment fee for the unused portion of the revolving credit facility, which ranged from 0.20% to 0.40% per annum depending on the Company's consolidated total leverage ratio, and fees on the face amount of any letters of credit outstanding under the revolving credit facility, which ranged from 0.94% to 4.00% per annum, in each case, depending on whether such letter of credit was a performance or financial letter of credit and the Company's consolidated total leverage ratio.

Borrowings under the 2018 Credit Agreement were guaranteed by all of the Company's direct and indirect domestic subsidiaries (other than inactive subsidiaries). In addition, subject to certain exceptions, all such obligations were secured by substantially all of the assets of Willdan Group, Inc. and the subsidiary guarantors.

2017 Credit Facility

On January 20, 2017, the Company and each of its subsidiaries, as guarantors, entered into an Amended and Restated Credit Agreement (the "2017 Credit Agreement") with BMO, as lender. The 2017 Credit Agreement amended and extended the Company's prior credit agreement. The 2017 Credit Agreement provided for a \$35.0 million revolving line of credit, including a \$10.0 million standby letter of credit sub-facility, and was scheduled to mature on January 20, 2020. Borrowings under the 2017 Credit Agreement bore interest at a rate equal to either, at the Company's option, (i) the highest of the prime rate, the Federal Funds Rate plus 0.5% or one-month London Interbank Offered Rate ("LIBOR") plus 1% (the "Base Rate") or (ii) LIBOR, in each case plus an applicable margin ranging from 0.25% to 1.00% with respect to Base Rate borrowings and 1.25% to 2.00% with respect to LIBOR borrowings. The applicable margin was based upon the consolidated leverage ratio of the Company. The Company was also required to pay a commitment fee for the unused portion of the revolving line of credit, which ranged from 0.20% to 0.35% per annum, and fees on any letters of credit drawn under the facility, which ranged from 0.94% to 1.50%, in each case, depending on the Company's consolidated leverage ratio.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Borrowings under the 2017 Credit Agreement were guaranteed by all of the Company's direct and indirect subsidiaries and secured by substantially all of the Company's and the Guarantors' assets. On October 1, 2018, in connection with the Company entering into the 2018 Credit Agreement, the 2017 Credit Agreement was terminated.

Other Debt Agreements

Insurance Premiums

The Company has also financed, from time to time, insurance premiums by entering into unsecured notes payable with insurance companies. During the Company's annual insurance renewals in the fourth quarter of its fiscal year ended December 28, 2018, the Company elected to finance its insurance premiums for the 2019 fiscal year with a note payable bearing interest at an annual rate of 4.3%, payable in monthly principal and interest installments of \$149,881 through October 2019. Included in the Company's insurance renewal terms are individual stop loss amount of \$100,000 and an aggregate of 125%. As of September 27, 2019 and December 28, 2018, the unpaid balance of the financed premiums totaled \$0.3 million and \$1.5 million, respectively.

Software Agreements

The Company has also financed, from time to time, software costs by entering into unsecured notes payable with software providers. During the fiscal year ended December 28, 2018, the Company elected to finance its IBM software costs of \$0.2 million with a note payable bearing interest at an annual rate of 4.656%, payable in monthly principal and interest installments of \$6,315 through November 2021. As of September 27, 2019 and December 28, 2018, the unpaid balance related to the IBM software agreement totaled \$150,000 and \$211,000, respectively.

Utility Customer Agreement

In connection with the acquisition of substantially all of the assets of Onsite Energy, the Company assumed a contract dispute settlement agreement between Onsite Energy and one of its utility customers dated December 20, 2018 (the "Utility Customer Agreement") where Onsite Energy agreed to pay \$1.7 million, bearing interest at an imputed annual rate of 4.332%, payable in quarterly principal and interest installments through June 2021. The unpaid balance of the Utility Customer Agreement totaled \$1.1 million as of September 27, 2019.

8. LEASES

The Company is obligated under finance leases for certain furniture and office equipment that expire at various dates through the year 2022.

The Company also leases certain office facilities under non-cancelable operating leases that expire at various dates through the year 2027.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). The FASB issued this update to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The updated guidance was effective for annual periods beginning after December 15, 2018, including interim periods within those fiscal years.

Change in Accounting Policy

On January 1, 2019, the Company adopted ASU No. 2016-02, *Leases (Topic 842)* using the modified retrospective method. Under this guidance, the net present value of future lease payments is recorded as right-of-use assets and lease liabilities. In addition, the Company elected the 'package of practical expedients' permitted under the transition guidance within the new standard, which among other things, allowed the Company to carry forward the

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historical lease classification. In addition, the Company elected not to utilize the hindsight practical expedient to determine the lease term for existing leases. The Company elected the short-term lease recognition exemption for all leases that qualify. This means, for those leases that qualify, the Company did not recognize right-of-use assets or lease liabilities, including not recognizing right-of-use assets or lease liabilities for existing short-term leases of those assets in transition. The Company also elected the practical expedient to not separate lease and non-lease components for our facilities leases. Adoption of the new standard resulted in the recording of additional right-of-use assets and operating lease liabilities of approximately \$10.9 million and \$11.9 million, respectively, as of January 1, 2019. The adoption of Topic 842 did not impact the Company's retained earnings, consolidated net earnings or cash flows.

From time to time, the Company enters into non-cancelable leases for some of our facility and equipment needs. These leases allow the Company to conserve cash by paying a monthly lease rental fee for the use of facilities and equipment rather than purchasing them. The Company's leases have remaining terms ranging from one to eight years, some of which may include options to extend the leases for up to five years, and some of which may include options to terminate the leases within one year. Currently, all of the Company's leases contain fixed payment terms. The Company may decide to cancel or terminate a lease before the end of its term, in which case we are typically liable to the lessor for the remaining lease payments under the term of the lease. Additionally, all of our month-to-month leases are cancelable by the Company or the lessor, at any time and are not included in our right-of-use asset or lease liability. As of September 27, 2019, the Company had no leases with residual value guarantees. Typically, the Company has purchase options on the equipment underlying its long-term leases. The Company may exercise some of these purchase options when the need for equipment is on-going and the purchase option price is attractive. Nonperformance-related default covenants, cross-default provisions, subjective default provisions and material adverse change clauses contained in material lease agreements, if any, are also evaluated to determine whether those clauses affect lease classification in accordance with "ASC" Topic 842-10-25. Leases are accounted for as operating or financing leases, depending on the terms of the lease.

Financing Leases

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

Right-of-use assets

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

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The following is a summary of the lease expense recorded for the three and nine months ended September 27, 2019:

	<u>Three Months Ended</u> <u>September 27, 2019</u>	<u>Nine Months Ended</u> <u>September 27, 2019</u>
	<i>(in thousands)</i>	
Operating lease cost	\$ 1,288	\$ 3,558
Finance lease cost:		
Amortization of assets	242	366
Interest on lease liabilities	19	28
Total net lease cost	<u>\$ 1,549</u>	<u>\$ 3,952</u>

The following is a summary of lease information presented on the Company's condensed consolidated balance sheet as of September 27, 2019 and for the nine months then ended:

	<u>September 27, 2019</u>
	<i>(in thousands)</i>
Operating leases:	
Right-of-use assets	<u>\$ 12,767</u>
Lease liability	\$ 4,194
Lease liability, less current portion	9,726
Total lease liabilities	<u>\$ 13,920</u>
Finance leases (included in equipment and leasehold improvements, net):	
Equipment and leasehold improvements, net	\$ 1,850
Accumulated depreciation	(1,148)
Total equipment and leasehold improvements, net	<u>\$ 702</u>
Finance lease obligations	\$ 529
Finance lease obligations, less current portion	230
Total finance lease obligations	<u>\$ 759</u>
Weighted average remaining lease term (in years):	
Operating Leases	3.74
Finance Leases	1.56
Weighted average discount rate:	
Operating Leases	5.15 %
Finance Leases	4.91 %

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The following is a summary of other information and supplemental cash flow information related to finance and operating leases for nine months ended September 27, 2019:

	Nine Months Ended September 27, 2019
	<i>(in thousands)</i>
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flow from operating leases	\$ 3,645
Operating cash flow from finance leases	98
Financing cash flow from finance leases	338
Right-of-use assets obtained in exchange for lease liabilities:	
Operating leases	3,029

The following is a summary of the maturities of lease liabilities as of September 27, 2019:

	Operating	Finance
	<i>(in thousands)</i>	
Fiscal year:		
Remainder of 2019	\$ 1,276	\$ 177
2020	4,355	464
2021	3,520	137
2022	2,778	8
2023	1,641	—
2024 and thereafter	1,963	—
Total lease payments	\$ 15,533	\$ 786
Less: Imputed interest	(1,613)	(27)
Total lease obligations	13,920	759
Less: Current obligations	4,194	529
Noncurrent lease obligations	\$ 9,726	\$ 230

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.

Capital Leases

Prior to the adoption of ASU No. 2016-02, *Leases (Topic 842)*, the Company leased certain equipment under capital leases. The economic substance of these leases was a financing transaction for purchase of the equipment and leasehold improvements, accordingly, the leases were included in the balance sheets in equipment and leasehold improvement, net of accumulated depreciation, with a corresponding amount recorded in current portion of lease obligations or noncurrent portion of lease obligations, as appropriate. The capital lease assets were amortized on a straight-line basis over the life of the lease or, if shorter, the life of the leased asset, and were included in depreciation expense in the statements of operations. The interest associated with capital leases was included in interest expense in the statements of operations.

As of December 28, 2018, the Company had \$0.5 million of capital lease obligations outstanding, \$0.3 million of which was classified as a current liability.

As of December 28, 2018, \$0.5 million of leased assets were capitalized in equipment and leasehold improvements, net of accumulated depreciation.

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9. COMMITMENTS

Employee Benefit Plans

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

The Company also has a defined contribution plan (the "Plan") covering employees who have completed three months of service and who have attained 21 years of age. During the nine months ended September 27, 2019, the Company elected to make matching contributions equal to 50% of the participants' contributions to the Plan up to 6% of the individual participant's compensation. Under the defined contribution plan, the Company may make discretionary matching contributions to employee accounts.

The Company made matching contributions of approximately \$1.6 million during the nine months ended September 27, 2019.

The Company has a discretionary bonus plan for regional managers, division managers and others as determined by the president and chief executive officer of the Company. Bonuses are awarded if certain financial goals are achieved. The financial goals are not stated in the plan; rather they are judgmentally determined each year. In addition, the board of directors may declare discretionary bonuses to key employees and all employees are eligible for bonuses for outstanding performance. The Company's compensation committee of the board of directors determines the compensation of the president and chief executive officer and other executive officers.

Post-Employment Health Benefits

In May 2006, the Company's board of directors approved providing lifetime health insurance coverage for Win Westfall, the Company's former chief executive officer and former member of the board of directors, and his spouse and for Linda Heil, the widow of the Company's former chief executive officer, Dan Heil. These benefits relate to past services provided to the Company. Accordingly, there is no unamortized compensation cost for the benefits.

10. INCOME TAXES

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

During each fiscal year, management assesses the available positive and negative evidence to estimate if sufficient future taxable income will be generated to utilize existing deferred tax assets. Beginning in fiscal year 2017, the Company determined that it was more-likely-than-not that the entire California net operating loss will not be utilized

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prior to expiration. Significant pieces of objective evidence evaluated included the Company's history of utilization of California net operating losses in prior years for each of its subsidiaries, as well as the Company's forecasted amount of net operating loss utilization for certain members of the combined group. As a result, the Company recorded a valuation allowance in the amount of \$86,000 at the end of fiscal year 2018 related to California net operating losses. There was no change to the valuation allowance during the nine month period ended September 27, 2019.

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

The Company recognizes the tax benefit from uncertain tax positions if it is more likely than not that the tax positions will be sustained on examination by the tax authorities, based on the technical merits of the position. The tax benefit is measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The Company recognizes interest and penalties related to unrecognized tax benefits in income tax expense. As of September 27, 2019, the Company recorded a liability of \$0.1 million for uncertain tax positions related to miscellaneous tax deductions taken in open tax years. Included in this amount are \$0.1 million of tax benefits that, if recognized, would affect the effective tax rate. Interest and penalties of \$0.03 million have been recorded related to unrecognized tax benefits as of September 27, 2019.

Based on management's estimates and determination of an effective tax rate for the year, the Company recorded an income tax benefit of \$0.44 million and \$1.4 million for the three and nine months ended September 27, 2019, as compared to an income tax expense of \$1.6 million and \$2.2 million for the three and nine months ended September 28, 2018, respectively. During the three and nine months ended September 27, 2019, the difference between the effective tax rate and the federal statutory rate is primarily attributable to the recognition of tax deductions related to the vesting of performance-based restricted stock units, exercise of non-qualified stock options, disqualifying dispositions arising from the sale of employee stock purchase and incentive stock options, and the reduction of the Company's uncertain tax position. The income tax benefit related to these deductions has been included as an increase of 1,649.65% to the Company's effective tax rate for the nine months ended September 27, 2019. The effective tax rate also varies from the federal statutory rate due to the impact of state income tax expense and certain expenses that are non-deductible for tax purposes, including meals and entertainment, excess compensation for covered employees and compensation expense related to employee stock purchase and incentive stock options.

During the nine months ended September 27, 2019, the Internal Revenue Service continued its audit of the Company's tax return for the fiscal year ended December 30, 2016. The Company is unable to determine the impact of this examination due to the audit process having not been completed.

11. SEGMENT INFORMATION

The Company's two segments are Energy and Engineering and Consulting. The Company's chief operating decision maker, which continues to be its chief executive officer, receives and reviews financial information in this format. The Company's principal segment, Energy, consists of the business of its subsidiary WES. WES provides energy efficiency consulting services to utilities, public agencies, municipalities, private industry and non-profit organizations. The Engineering and Consulting segment includes the operation of the Company's remaining subsidiaries, Willdan Engineering, Willdan Infrastructure, Public Agency Resources and Willdan Financial Services. The Engineering and Consulting segment offers a broad range of engineering and planning services to the Company's public and private sector clients, expertise and support for the various financing techniques employed by public agencies to finance their operations and infrastructure along with the mandated reporting and other requirements associated with these financing services to cities, related municipal service agencies and other entities.

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The accounting policies applied to determine the segment information are the same as those described in the summary of significant accounting policies included in the Company's Annual Report on Form 10-K for the year ended December 28, 2018. There were no intersegment sales in the three month periods ended September 27, 2019 and September 28, 2018. 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 as of and for the fiscal three and nine months ended September 27, 2019 and as of and for the fiscal three and nine months ended September 28, 2018 is as follows:

	Energy	Engineering & Consulting	Unallocated Corporate	Intersegment	Consolidated Total
	<i>(in thousands)</i>				
Fiscal Three Months Ended September 27, 2019					
Contract revenue	\$ 97,934	\$ 19,560	\$ —	\$ —	\$ 117,494
Depreciation and amortization	5,425	363	—	—	5,788
Interest expense, net	20	—	1,237	—	1,257
Segment profit (loss) before income tax expense	1,669	2,586	(4,215)	—	40
Income tax expense (benefit)	461	715	(1,552)	—	(376)
Net income (loss)	1,208	1,871	(2,663)	—	416
Segment assets ⁽¹⁾	246,675	23,366	115,701	(23,130)	362,612
Fiscal Three Months Ended September 28, 2018					
Contract revenue	\$ 50,085	\$ 21,301	\$ —	\$ —	\$ 71,386
Depreciation and amortization	926	191	—	—	1,117
Interest expense	18	4	—	—	22
Segment profit (loss) before income tax expense	4,349	2,395	(1,836)	—	4,908
Income tax expense (benefit)	1,415	779	(597)	—	1,597
Net income (loss)	2,934	1,616	(1,239)	—	3,311
Segment assets ⁽¹⁾	103,752	20,057	39,930	(23,130)	140,609
Fiscal Nine Months Ended September 27, 2019					
Contract revenue	\$ 257,910	\$ 55,773	\$ —	\$ —	\$ 313,683
Depreciation and amortization	10,353	955	—	—	11,308
Interest expense, net	20	—	3,579	—	3,599
Segment profit (loss) before income tax expense	2,316	6,603	(8,653)	—	266
Income tax expense (benefit)	640	1,825	(3,838)	—	(1,373)
Net income (loss)	1,676	4,779	(4,816)	—	1,639
Segment assets ⁽¹⁾	246,675	23,366	115,701	(23,130)	362,612
Fiscal Nine Months Ended September 28, 2018					
Contract revenue	\$ 129,143	\$ 56,671	\$ —	\$ —	\$ 185,814
Depreciation and amortization	2,693	599	—	—	3,292
Interest expense	65	10	—	—	75
Segment profit (loss) before income tax expense	7,483	5,801	(2,231)	—	11,053
Income tax expense (benefit)	1,506	1,167	(449)	—	2,224
Net income (loss)	5,977	4,634	(1,782)	—	8,829
Segment assets ⁽¹⁾	103,752	20,057	39,930	(23,130)	140,609

(1) Segment assets represent segment assets, net of intercompany receivables.

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

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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.

13. DERIVATIVE FINANCIAL INSTRUMENTS

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

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

On January 31, 2019, the Company entered into an interest rate swap agreement that the Company designated as cash flow hedge to fix the variable interest rate on a portion of the Company's 2018 Term Loan Facility. The interest rate swap agreement total notional amount of \$35.0 million, has a fixed annual interest rate of 2.47% and expires on January 31, 2022. As of September 27, 2019, the effective portion of the Company's interest rate swap agreement designated as a cash flow hedge before tax effects was \$0.7 million, of which no amounts were reclassified from accumulated other comprehensive income to interest expense in the nine months ended September 27, 2019. The Company expects to reclassify \$0.3 million from accumulated other comprehensive income to interest expense within the next twelve months.

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

	Balance Sheet Location	Fair Value of Derivative Instruments as of	
		September 27, 2019	December 28, 2018
		<i>(in thousands)</i>	
Interest rate swap agreement	Accrued liabilities	\$ (228)	\$ —
Interest rate swap agreement	Other noncurrent (liabilities) assets	\$ (436)	\$ —

The impact of the effective portions of derivative instruments in cash flow hedging relationships and fair value relationships on other comprehensive income was \$ 0.1 million and \$0.5 million for the three and nine months ended September 27, 2019, respectively.

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The accumulated balances and reporting period activities for the three and nine months ended September 27, 2019 related to reclassifications out of accumulated other comprehensive income (loss) are summarized as follows:

	(Loss) on Derivative Instruments	Accumulated Other Comprehensive Loss
	<i>(in thousands)</i>	
Balances at December 28, 2018	\$ —	\$ —
Other comprehensive loss before reclassifications	(219)	(219)
Amounts reclassified from accumulated other comprehensive income:		
Interest rate contracts, net of tax ¹	—	—
Net current-period other comprehensive loss	(219)	(219)
Balances at March 29, 2019	\$ (219)	\$ (219)
Other comprehensive loss before reclassifications	\$ (219)	\$ (219)
Amounts reclassified from accumulated other comprehensive income:		
Interest rate contracts, net of tax ¹	—	—
Net current-period other comprehensive loss	(219)	(219)
Balances at June 28, 2019	\$ (438)	\$ (438)
Other comprehensive loss before reclassifications	\$ (42)	\$ (42)
Amounts reclassified from accumulated other comprehensive income:		
Interest rate contracts, net of tax ¹	—	—
Net current-period other comprehensive loss	(42)	(42)
Balances at September 27, 2019	\$ (480)	\$ (480)

- (1) This accumulated other comprehensive component is reclassified to “Interest expense” in our consolidated statements of income.

14. SUBSEQUENT EVENTS

The Company evaluates 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 28, 2019 (the “E3, Inc. Closing Date”), the Company, through its wholly owned subsidiary WES, acquired all of the capital stock of E3, Inc. pursuant to the terms of a stock purchase agreement (the “Stock Purchase Agreement”) by and among the Company, WES, E3, Inc., each of the stockholders of E3, Inc. (the “E3, Inc. Stockholders”) and Ren Orans, as seller representative of the E3, Inc. Stockholders. E3, Inc. is an energy consulting firm that helps utilities, regulators, policy makers, developers, and investors make strategic decisions as they implement new public policies, respond to technological advances, and address customers’ shifting expectations in clean energy. The Company agreed to pay up to \$44.0 million for the purchase of all of the capital stock of E3, Inc., which purchase price consists of (i) \$27.0 million in cash paid on the E3, Inc. Closing Date (subject to holdbacks and adjustments), (ii) \$5.0 million in shares of the Company’s common stock, based on the volume-weighted average price per share of the Company’s common stock for the ten trading days immediately following, but not including, the E3, Inc. Closing Date and (iii) up to \$12.0 million in cash if E3, Inc. exceeds certain financial targets during the three years after the E3, Inc. Closing Date, as more fully described below (such potential payments of up to \$12.0 million, being referred to as “Earn-Out Payments” and \$12.0 million in respect thereof, being referred to as the “Maximum Payout”).

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

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for each of the three years of the Earn-Out Period. In addition, the Earn-Out Payments will be subject to certain subordination provisions in favor of the lenders under the Company's Credit Agreement.

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

The Company borrowed \$27.0 million under its Delayed Draw Term Loan on October 28, 2019 to fund the \$27.0 million cash payment paid on the E3, Inc. Closing Date, which reduced the future borrowing capacity under the Delayed Draw Term Loan to \$23.0 million. See Note 7 "—Debt Obligations" for a description of the Delayed Draw Term Loan.

E3, Inc.'s financial information will be included within the Energy segment beginning in the fourth quarter of fiscal year 2019. The Company expects to finalize the purchase price allocation with respect to this transaction during the fourth quarter of fiscal 2020.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

We are a provider of professional technical and consulting services to utilities, private industry and public agencies at all levels of government. We enable our clients to realize cost and energy savings by providing a wide range of specialized services. We assist our clients with a broad range of complementary services relating to energy services and engineering and consulting services.

We operate our business through a nationwide network of offices spread across 24 states and the District of Columbia. As of September 27, 2019, we had 1,365 employees which includes licensed engineers and other professionals.

We seek to establish close working relationships with our clients and expand the breadth and depth of the services we provide to them over time. Our business with public and private utilities is concentrated primarily in New York, California and North Carolina, but we also have business with utilities in other states. We currently serve more than 25 major utility customers across the country, including 18 of the top 25 major U.S. utilities. Our business with public agencies is concentrated in New York and California. We provide services to many of the cities and counties in California. We also serve special districts, school districts, a range of public agencies and private industry.

We were founded in 1964, and Willdan Group, Inc., a Delaware corporation, was formed in 2006 to serve as our holding company. Historically, our clients were public agencies in communities with populations ranging from 10,000 to 300,000 people. Since expanding into energy services, our client base has grown to include investor-owned and other public utilities, as well as substantial energy users in government and business.

We consist of a group of wholly-owned companies that operate within two segments for financial reporting purposes:

- *Energy.* Our Energy segment consists of the business of our subsidiary Willdan Energy Solutions ("WES") which offers energy efficiency and sustainability consulting services to utilities, public agencies and private industry under a variety of business names, including Willdan Energy Solutions, Abacus Resource Management, 360 Energy Engineers, Genesys Engineering, Integral Analytics, NAM, Lime Energy, The Weidt Group and Onsite Energy Corporation ("Onsite Energy"). This segment is currently our largest segment based on contract revenue, representing approximately 82.2% and 69.5% of our consolidated contract revenue for the nine months ended September 27, 2019 and September 28, 2018, respectively. We expect that consolidated contract revenue generated from our Energy segment as a percentage of our total consolidated contract revenue will continue to grow in fiscal year 2019 as a result of our most recent acquisitions in this segment, including The Weidt Group, Lime Energy and Onsite Energy.
- *Engineering and Consulting.* Our Engineering and Consulting segment includes the operations of our subsidiaries, Willdan Engineering, Willdan Infrastructure, Public Agency Resources and Willdan Financial Services. Willdan Engineering provides civil engineering-related construction management, building and safety, city engineering, city planning, geotechnical, material testing and other engineering consulting services to our clients. Willdan Infrastructure, which was launched in fiscal year 2013, provides engineering services to larger rail, port, water, mining and other civil engineering projects. Public Agency Resources primarily provides staffing to Willdan Engineering. Contract revenue for the Engineering and Consulting segment represented approximately 17.8% and 30.5% of our consolidated contract revenue for the nine months ended September 27, 2019 and September 28, 2018, respectively.

Recent Developments

Acquisition of E3, Inc.

On October 28, 2019 (the "E3, Inc. Closing Date"), we, through our wholly owned subsidiary WES, acquired all of the capital stock of Energy and Environmental Economics, Inc. ("E3, Inc.") pursuant to the terms of a stock

purchase agreement (the “Stock Purchase Agreement”) by and among us, WES, E3, Inc., each of the stockholders of E3, Inc. (the “E3, Inc. Stockholders”) and Ren Orans, as seller representative of the E3, Inc. Stockholders. E3, Inc. is an energy consulting firm that helps utilities, regulators, policy makers, developers, and investors make strategic decisions as they implement new public policies, respond to technological advances, and address customers’ shifting expectations in clean energy. We agreed to pay up to \$44.0 million for the purchase of all of the capital stock of E3, Inc., which purchase price consists of (i) \$27.0 million in cash paid on the E3, Inc. Closing Date (subject to holdbacks and adjustments), (ii) \$5.0 million in shares of the Company’s common stock, based on the volume-weighted average price per share of our common stock for the ten trading days immediately following, but not including, the E3, Inc. Closing Date and (iii) up to \$12.0 million in cash if E3, Inc. exceeds certain financial targets during the three years after the E3, Inc. Closing Date (such potential payments of up to \$12.0 million, being referred to as “Earn-Out Payments” and \$12.0 million in respect thereof, being referred to as the “Maximum Payout”).

For the fiscal year ended December 31, 2018, E3, Inc. had revenues of \$16.1 million, gross profit of \$10.8 million and pre-tax income of \$3.9 million. For the six months ended June 30, 2019, E3, Inc. had revenues of \$8.2 million, gross profit of \$5.5 million and pre-tax income of \$2.3 million. Additionally, E3, Inc.’s top customer accounted for 12% of its consolidated revenue in fiscal year 2018 and its top two customers accounted for 26% of its consolidated revenue in the six months ended June 30, 2019. The consolidated financial statements for E3, Inc. as of and for the six months ended June 30, 2019 and 2018 and as of and for the fiscal years ended December 31, 2018 and 2017 are filed as exhibits 99.1 and 99.2, respectively, to this Quarterly Report on Form 10-Q. The unaudited pro forma condensed combined financial statements, giving effect to our acquisition of E3, Inc., as of and for the six months ended June 28, 2019 and for the year ended December 28, 2018 are filed as exhibit 99.3 to this Quarterly Report on Form 10-Q.

We believe the acquisition of E3, Inc. will continue to expand our portfolio of energy consulting resources and further develop our footprint in the clean energy industry.

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 contracts. 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, 2019, approximately 63.5% of our contracts were unit-based contracts, approximately 16.8% of our contracts were time-and-materials contracts and approximately 19.7% of our contracts were fixed price contracts. 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 of New York, Inc., the Dormitory Authority-State of New York (“DASNY”), the City of Elk Grove, 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 technical and nontechnical 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 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 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

General and administrative expenses include the costs of the marketing and support staffs, other marketing expenses, management and administrative personnel costs, payroll taxes, bonuses and employee benefits for all of our employees and the portion of salaries and wages not allocated to direct costs of contract revenue for those employees who provide our services. General and administrative expenses also include facility costs, depreciation and amortization, professional services, legal and accounting fees and administrative operating costs. Within general and administrative expenses, “Other” includes expenses such as provision for billed or unbilled receivables, 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

This discussion and analysis of financial condition and results of operations is based upon our condensed consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles (“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 provided a summary of our significant accounting policies in Note 2 to our consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 28, 2018. We describe below those accounting policies that require material subjective or complex judgments and that have the most significant impact on our financial condition and results of operations. Our management evaluates these estimates on an ongoing basis, based upon information currently available and on various assumptions management believes are reasonable as of the date of this report.

Contract Assets and Liabilities

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. Contract assets include unbilled amounts typically resulting from revenue under long-term contracts when the percentage-of-completion method of revenue recognition is utilized and revenue recognized exceeds the amount billed to the customer and right to payment is not unconditional. In addition, contract assets include retainage amounts withheld from billings to our clients pursuant to provisions in our contracts. Contract liabilities consist of advance payments and billings in excess of revenue recognized and deferred revenue.

The increase in contract assets and contract liabilities for the nine months ended September 27, 2019 were primarily attributable to normal business operations.

Contract Accounting

We enter into contracts with our clients that contain various types of pricing provisions, including fixed price, time-and-materials and unit-based provisions. We recognize 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, we identify a contract with a customer, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price to each performance obligation in the contract and recognize revenue when (or as) we satisfy a performance obligation.

The following table reflects our 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 our 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. We use the percentage-of-completion method to better match the level of work performed at a certain point in time in relation to our effort that will be required to complete a project. In addition, the percentage-of-completion method is a common method of revenue recognition in our industry.

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. 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. We recognize 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 include in revenue all reimbursable costs incurred during a reporting period. Certain of our time-and-materials contracts are subject to maximum contract values and, accordingly, when revenue is expected to meet the maximum contract value, these contracts are generally recognized under the percentage-of-completion method, consistent with fixed price contracts. For unit-based contracts, we recognize the contract price of units of a basic production product as revenue when the production product is delivered during a period. Revenue recognition for software licenses issued by the Energy segment is generally recognized at a point in time, utilizing the unit-based revenue recognition method, upon acceptance of the software by the customer and in recognition of the fulfillment of the performance obligation. Certain additional performance obligations beyond the base software license may be separated from the gross license fee and recognized on a straight-line basis over time. Revenue for amounts that have been billed but not earned is deferred, and such deferred revenue is referred to as contract liabilities in the accompanying condensed consolidated balance sheets.

To determine the proper revenue recognition method for contracts, we evaluate 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 our 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 we provide a significant service of integrating a complex set of tasks and components into a single project or capability.

We 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, we evaluate 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.

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, we allocate 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 we do 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 we forecast our expected costs of satisfying a performance obligation and then adds an appropriate margin for the distinct good or service.

We provide 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. We do not consider these types of warranties to be separate performance obligations.

In some cases, we have a master service or blanket agreement with a customer under which each task order releases us 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 our 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. Our estimates of variable consideration and determination of whether to include estimated amounts in the transaction price are based largely on assessments of legal enforceability, our performance, and all information (historical, current and forecasted) that is reasonably available to us.

Due to the nature of the work required to be performed on many of our 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 our contracts, we review and update our contract-related estimates regularly through a company-wide disciplined project review process in which management reviews the progress and execution of our 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.

We recognize 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, we recognize 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. We consider contract modifications to exist when the modification either creates new rights or obligations or changes the existing enforceable rights or obligations. Most of our 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 our 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, we account for such contract modifications as a separate contract.

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

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

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

Direct costs of contract revenue exclude that portion of technical and nontechnical salaries and wages related to marketing efforts, vacations, holidays and other time not spent directly generating revenue under existing contracts. Such costs are included in general and administrative expenses in the accompanying condensed consolidated statements of comprehensive (loss) income. Additionally, payroll taxes, bonuses and employee benefit costs for all of our personnel are included in general and administrative expenses in the accompanying condensed consolidated statements of comprehensive (loss) 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 we classify as general and administrative costs. We expense direct costs of contract revenue when incurred.

Included in revenue and costs are all reimbursable costs for which we have 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 we act solely in the capacity of an agent and have no risks associated with such costs.

Accounts receivable are carried at original invoice amount less an estimate made for doubtful accounts based upon our 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. 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. For further information on the types of contracts under which we perform our services, see “Business—Contract Structure” in our Annual Report on Form 10-K for the year ended December 28, 2018.

Goodwill

We test our goodwill at least annually for possible impairment. We complete our annual testing of goodwill as of the last day of the first month of our fourth fiscal quarter each year to determine whether there is impairment. In addition to our annual test, we regularly evaluate whether events and circumstances have occurred that may indicate a potential impairment of goodwill. We did not recognize any goodwill impairment charges during the nine months ended September 27, 2019 and September 28, 2018. We had goodwill of approximately \$103.1 million as of September 27, 2019, compared to \$40.2 million as of September 28, 2018. The increase in our goodwill as of September 27, 2019 is primarily the result of our acquisitions of Lime Energy, The Weidt Group and Onsite Energy.

We test our goodwill for impairment at the level of our reporting segments. In January 2017, the Financial Accounting Standards Board (the “FASB”) issued Update No. 2017-04 (“ASU 2017-04”), Intangibles—Goodwill and Other (Topic 350): Testing Goodwill for Impairment. This accounting guidance eliminates the requirement to compare the implied fair value of reporting unit goodwill with the carrying amount of that goodwill (commonly referred to as Step 2) from the goodwill impairment test. The new standard does not change how a goodwill impairment is identified. We will continue to perform our quantitative and qualitative goodwill impairment test by comparing the fair value of each reporting unit to its carrying amount, but if we are required to recognize a goodwill impairment charge, under the new standard the amount of the charge will be calculated by subtracting the reporting unit’s fair value from its carrying amount. Under the prior standard, if we were required to recognize a goodwill impairment charge, Step 2 required us to calculate the implied value of goodwill by assigning the fair value of a reporting unit to all of its assets and liabilities as if that reporting unit had been acquired in a business combination and the amount of the charge was calculated by subtracting the reporting unit’s implied fair value of goodwill from its actual goodwill balance. We adopted the new standard for future goodwill impairment tests at the beginning of the fourth quarter of 2019. The adoption of ASU 2017-04 did not have a material impact on our condensed consolidated financial statements.

To estimate the fair value of our reporting units, we use both an income approach based on management’s estimates of future cash flows and other market data and a market approach based upon multiples of earnings before interest, taxes, depreciation and amortization, or EBITDA, earned by similar public companies.

Once the fair value is determined, we then compare the fair value of the reporting unit to its carrying value, including goodwill. If the fair value of the reporting unit is determined to be less than the carrying value, we perform an additional assessment to determine the extent of the impairment based on the implied fair value of goodwill compared with the carrying amount of the goodwill. In the event that the current implied fair value of the goodwill is less than the carrying value, an impairment charge is recognized.

Inherent in such fair value determinations are significant judgments and estimates, including but not limited to assumptions about our future revenue, profitability and cash flows, our operational plans and our interpretation of current economic indicators and market valuations. To the extent these assumptions are incorrect or economic conditions that would impact the future operations of our segments change, any goodwill may be deemed to be impaired, and an impairment charge could have a material impact on our financial position or results of operation. As of September 27, 2019, almost all of our goodwill is contained in our Energy segment, with the remainder in our Engineering and Consulting segment.

Business Combinations

The acquisition method of accounting for business combinations requires us to use significant estimates and assumptions, including fair value estimates, as of the business combination date. For reporting periods prior to the

completion of our procedures to value assets and liabilities, the acquisition method requires us to refine those estimates as necessary during the measurement period (defined as the period, not to exceed one year, in which we may adjust the provisional amounts recognized for a business combination) based upon new information about facts that existed on the business combination date.

Under the acquisition method of accounting, we recognize separately from goodwill the identifiable assets acquired, the liabilities assumed and any non-controlling interests in an acquiree, at the acquisition date fair value. We measure goodwill as of the acquisition date as the excess of consideration transferred over the net of the acquisition date amounts of the identifiable assets acquired and liabilities assumed. Costs that we incur to complete the business combination, such as investment banking, legal and other professional fees, are not considered part of consideration. We charge these acquisition costs to other general and administrative expense as they are incurred.

Should the initial accounting for a business combination be incomplete by the end of a reporting period that falls within the measurement period, we report provisional amounts in our financial statements. During the measurement period, we adjust the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the measurement of the amounts recognized as of that date, and we record those adjustments to our financial statements. We recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined, including the effect on earnings of changes in depreciation, amortization or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date.

On April 30, 2018, we acquired NAM, an energy engineering and consulting company with offices in San Francisco and Los Angeles that provides clients with mechanical engineering expertise and comprehensive energy efficiency programs and services.

On November 9, 2018, we acquired Lime Energy, a designer and implementer of energy efficiency programs for utility clients.

On March 8, 2019, we acquired substantially all of the assets of The Weidt Group's energy practice division. We believe the acquisition will expand our presence in the upper Midwest and better position us to help utilities make their grids more resilient.

On July 2, 2019, we acquired substantially all of the assets of Onsite Energy, an energy efficiency services and project implementation firm based in Carlsbad, California, that specializes in energy upgrades and commissioning for industrial facilities.

On October 28, 2019, we acquired E3, Inc., an energy consulting firm that helps utilities, regulators, policy makers, developers, and investors make strategic decisions as they implement new public policies, respond to technological advances, and address customers' shifting expectations in clean energy. The acquisition of E3, Inc. is not reflected in our condensed consolidated financial statements as of September 27, 2019.

As of September 27, 2019, we had not yet completed our final estimate of fair value of the assets acquired and liabilities assumed relating to the acquisitions of Lime Energy, The Weidt Group and Onsite Energy due to the timing of the transactions and lack of complete information necessary to finalize such estimates of fair value. Accordingly, we have preliminarily estimated the fair value of the assets acquired and the liabilities assumed and will finalize such fair value estimates within twelve months of the acquisition date. For further discussion of our acquisitions, see Note 2 "—Business Combinations" of the notes to our condensed consolidated financial statements included elsewhere in this report.

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 our assets and liabilities, subject to a judgmental assessment of the recoverability of deferred tax assets. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is recorded when it is more likely than not that some of the deferred tax assets may not be realized. Significant judgment is applied when assessing the need for valuation allowances. Areas of estimation include our consideration of future taxable income and ongoing prudent and feasible tax planning strategies. Should a change in circumstances lead to a change in judgment about the utilization of deferred tax assets in future years, we would adjust the related valuation allowances in the period that the change in circumstances occurs, along with a corresponding increase or charge to income.

During each fiscal year, management assesses the available positive and negative evidence to estimate if sufficient future taxable income will be generated to utilize existing deferred tax assets. Beginning in fiscal year 2017, we determined that it was more-likely-than-not that the entire California net operating loss will not be utilized prior to expiration. Significant pieces of objective evidence evaluated included our history of utilization of California net operating losses in prior years for each of our subsidiaries, as well as our forecasted amount of net operating loss utilization for certain members of the combined group. As a result, we recorded a valuation allowance in the amount of \$86,000 at the end of fiscal year 2018 related to California net operating losses. There was no change to the valuation allowance during the nine months ended September 27, 2019.

For acquired business entities, if we identify 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 we record the offset to goodwill. We record all other changes to deferred tax asset valuation allowances and liabilities related to uncertain tax positions in current period income tax expense.

We recognize 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. We recognize interest and penalties related to unrecognized tax benefits in income tax expense. As of September 27, 2019, we recorded a liability of \$0.1 million for uncertain tax positions related to miscellaneous tax deductions taken in open tax years. Included in this amount are \$0.1 million of tax benefits that, if recognized, would affect the effective tax rate. Interest and penalties of \$0.03 million have been recorded related to unrecognized tax benefits as of September 27, 2019.

During the nine months ended September 27, 2019, the Internal Revenue Service continued its audit of our tax return for the fiscal year ended December 30, 2016. We are not able to determine the impact of this examination due to the audit process having not been completed.

Adoption of New Accounting Standards

For a description of recently adopted accounting standards, see Note 1 “—Basis of Presentation, Organization and Operations of the Company—Adoption of New Accounting Standards” and Note 8 “—Leases” of the notes to our condensed consolidated financial statements included elsewhere in this report.

Results of Operations

The following tables set forth, for the periods indicated, certain information derived from our condensed consolidated statements of comprehensive income expressed as a percentage of contract revenue⁽¹⁾:

	Three Months Ended					
	September 27, 2019		September 28, 2018		\$ Change	% Change
	<i>(in thousands, except percentages)</i>					
Contract revenue	\$117,494	100.0 %	\$ 71,386	100.0 %	\$ 46,108	64.6
Direct costs of contract revenue:						
Salaries and wages	16,145	13.7	11,233	15.7	4,912	43.7
Subconsultant services and other direct costs	66,677	56.7	36,840	51.6	29,837	81.0
Total direct costs of contract revenue	82,822	70.4	48,073	67.3	34,749	72.3
Gross profit	34,672	29.5	23,313	32.7	11,359	48.7
General and administrative expenses:						
Salaries and wages, payroll taxes and employee benefits	15,761	13.4	11,125	15.6	4,636	41.7
Facilities and facilities related	2,250	1.9	1,492	2.1	758	50.8
Stock-based compensation	4,107	3.5	1,705	2.4	2,402	140.9
Depreciation and amortization	5,788	4.9	1,117	1.6	4,671	418.2
Other	5,471	4.7	2,961	4.1	2,510	84.8
Total general and administrative expenses	33,377	28.4	18,400	25.8	14,977	81.4
Income (loss) from operations	1,295	1.2	4,913	6.9	(3,618)	(73.6)
Other income (expense):						
Interest expense	(1,257)	(1.1)	(22)	0.0	(1,235)	N/M
Other, net	2	0.0	17	0.0	(15)	(88.2)
Total other income (expenses)	(1,255)	(1.1)	(5)	0.0	(1,250)	N/M
Income before income tax expense	40	0.1	4,908	6.9	(4,868)	(99.2)
Income tax expense (benefit)	(376)	(0.3)	1,597	2.2	(1,973)	(123.5)
Net income	\$ 416	0.4	\$ 3,311	4.7	\$ (2,895)	(87.4)

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

N/M = Not meaningful

	Nine Months Ended					
	September 27,		September 28,		\$ Change	% Change
	2019		2018			
	<i>(in thousands, except percentages)</i>					
Contract revenue	\$313,683	100.0 %	\$185,814	100.0 %	\$127,869	68.8
Direct costs of contract revenue:						
Salaries and wages	46,679	14.9	33,358	18.0	13,321	39.9
Subconsultant services and other direct costs	175,248	55.9	86,453	46.5	88,795	102.7
Total direct costs of contract revenue	<u>221,927</u>	<u>70.8</u>	<u>119,811</u>	<u>64.5</u>	<u>102,116</u>	<u>85.2</u>
Gross profit	<u>91,756</u>	<u>29.3</u>	<u>66,003</u>	<u>35.5</u>	<u>25,753</u>	<u>39.0</u>
General and administrative expenses:						
Salaries and wages, payroll taxes and employee benefits	46,167	14.7	31,875	17.2	14,292	44.8
Facilities and facilities related	6,069	1.9	4,087	2.2	1,982	48.5
Stock-based compensation	8,148	2.6	4,431	2.4	3,717	83.9
Depreciation and amortization	11,308	3.6	3,292	1.8	8,016	243.5
Other	16,230	5.2	11,226	6.0	5,004	44.6
Total general and administrative expenses	<u>87,922</u>	<u>28.0</u>	<u>54,911</u>	<u>29.6</u>	<u>33,011</u>	<u>60.1</u>
Income from operations	<u>3,834</u>	<u>1.2</u>	<u>11,092</u>	<u>5.9</u>	<u>(7,258)</u>	<u>(65.4)</u>
Other income (expense):						
Interest expense	(3,599)	(1.1)	(75)	0.0	(3,524)	4,698.7
Other, net	31	0.0	36	0.0	(5)	(13.9)
Total other income (expenses)	<u>(3,568)</u>	<u>(1.1)</u>	<u>(39)</u>	<u>0.0</u>	<u>(3,529)</u>	<u>9,048.7</u>
Income (loss) before income tax expense	266	0.1	11,053	5.9	(10,787)	(97.6)
Income tax expense (benefit)	<u>(1,373)</u>	<u>(0.4)</u>	<u>2,224</u>	<u>1.2</u>	<u>(3,597)</u>	<u>(161.7)</u>
Net income	<u>\$ 1,639</u>	<u>0.5</u>	<u>\$ 8,829</u>	<u>4.7</u>	<u>\$ (7,190)</u>	<u>(81.4)</u>

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

The following table sets forth, for the periods presented, summary information regarding our revenue:

	Three Months Ended		Nine Months Ended	
	September 27,	September 28,	September 27,	September 28,
	2019	2018	2019	2018
	<i>(in thousands)</i>			
Revenue by reportable segment				
Energy	\$ 97,987	\$ 50,085	\$ 257,962	\$ 129,143
Engineering and Consulting	<u>19,507</u>	<u>21,301</u>	<u>55,721</u>	<u>56,671</u>
Total revenue	<u>\$ 117,494</u>	<u>\$ 71,386</u>	<u>\$ 313,683</u>	<u>\$ 185,814</u>

Three Months Ended September 27, 2019 Compared to Three Months Ended September 28, 2018

Contract revenue. Consolidated contract revenue increased \$46.1 million, or 64.6%, to \$117.5 million for the three months ended September 27, 2019 as compared to \$71.4 million for the three months ended September 28, 2018, primarily due to incremental contract revenue from the acquisitions of Onsite Energy (acquired on July 2, 2019), The Weidt Group (acquired on March 8, 2019), and Lime Energy (acquired on November 9, 2018). The increase in revenue contributed from our recent acquisitions was partially offset in part by a decrease in revenue related on our ongoing operations primarily due to normal quarterly fluctuations in the level of services provided.

Contract revenue in our Energy segment increased \$47.8 million, or 95.6%, to \$97.9 million for the three months ended September 27, 2019 as compared to \$50.1 million for the three months ended September 28, 2018. Contract revenue in our Energy segment increased primarily due to the incremental contract revenue of \$49.0 million from our acquisitions of Onsite Energy, Lime Energy, and The Weidt Group. Contract revenue in our Engineering and Consulting segment decreased \$1.7 million, or 8.2%, to \$19.6 million for the three months ended September 27, 2019 as compared to \$21.3 million for the three months ended September 28, 2018. Contract revenue in our Engineering and Consulting segment decreased primarily due to lower subcontracted revenue.

Direct costs of contract revenue. Direct costs of contract revenue were \$82.8 million for the three months ended September 27, 2019, an increase of \$34.7 million, or 72.3%, as compared to \$48.1 million for the three months ended September 28, 2018. This increase was primarily due to incremental increases in direct costs of \$35.8 million from our acquisitions of Onsite Energy, the Weidt Group, and Lime Energy. The increase in direct costs of contract revenue as a percentage of contract revenue resulted primarily from the shifting mix of projects derived from our recent acquisitions with projects from our recent acquisitions generally using a higher proportion of subcontractors for installation, as well as the ramping up of new projects in which we saw higher project startup costs relative to the revenue recognized.

Direct costs for our Energy segment increased \$36.2 million, or 103.1% to \$71.3 million, for the three months ended September 27, 2019 as compared to \$35.1 million for the three months ended September 28, 2018, primarily due to incremental increases in direct costs of \$35.8 million contributed by our acquisitions of Onsite Energy, The Weidt Group, and Lime Energy. Direct costs for our Engineering and Consulting segment decreased \$1.5 million, or 11.1%, to \$11.5 million for the three months ended September 27, 2019 as compared to \$13.0 million for the three months ended September 28, 2018. The decrease in direct costs for our Engineering and Consulting segment corresponded with the decreased revenue in the segment.

Within direct costs of contract revenue, salaries and wages increased by \$4.9 million and subcontractor services and other direct costs increased by \$29.8 million for the three months ended September 27, 2019 as compared to the three months ended September 28, 2018. As a percentage of contract revenue, salaries and wages decreased to 13.7% of contract revenue for the three months ended September 27, 2019 as compared to 15.7% for the three months ended September 28, 2018, while subcontractor services and other direct costs increased to 56.7% of contract revenue from 51.6% for the three months ended September 27, 2019. These increases were primarily the result of the shift in the mix of projects resulting from our acquisition of Lime Energy because Lime Energy projects include a significant quantity of material costs for lighting and other mechanical energy efficiency fixtures and use a higher proportion of subcontractors for installation than other units in our Energy segment.

Subcontractor services and other direct costs can vary significantly from period to period depending on the mix of projects being executed in the period. We expect that subcontractor services and other direct costs will be higher for the remainder of fiscal 2019 as compared to fiscal 2018 as a result of our recent acquisitions which generally utilize higher amount of subcontractor services and material costs than our historical projects and a shift in projects in our Energy segment to a higher percentage involving the installation of energy efficiency measures.

General and administrative expenses. General and administrative expenses increased by \$15.0 million, or 81.4%, to \$33.4 million for the three months ended September 27, 2019 from \$18.4 million for the three months ended September 28, 2018. The \$15.0 million increase in general and administrative expenses for the three months ended September 27, 2019, includes approximately \$4.7 million for depreciation and amortization expenses, \$4.6 million for salaries and wages, payroll taxes and employee benefits, \$2.5 million for other general and administrative expenses, \$2.4 million for stock-based compensation expenses, and \$0.8 million for facilities and facility related expenses. The increase in depreciation and amortization expenses was primarily related to our recent acquisitions. The increase in salaries and wages, payroll taxes and employee benefits was primarily due to increases from the addition of employees from the acquisitions of Onsite Energy, The Weidt Group, and Lime Energy. The increase in other general and administrative expenses primarily relates to professional services for acquisitions, automobile expenses and higher bid and proposal costs incurred in the pursuit of new projects. The increase in stock-based compensation expense was primarily due to the issuance of new stock awards and a second performance based restricted stock unit award program. The increase in facilities and facility related expenses was primarily due to the addition of offices from our acquisitions. General and administrative expenses as a percentage of contract revenue increased to 28.4% for the three months ended September

27, 2019 as compared to 25.8% for the three months ended September 28, 2018 primarily as a result of increased costs related to personnel and amortization expenses as a result of our recent acquisitions coupled with increases in general and administrative expenses associated with such acquisitions.

Broken down by segment, there was a \$15.1 million increase in general and administrative expenses of our Energy segment, primarily from the acquisitions of Onsite Energy, Lime Energy, and The Weidt Group and an increase of \$0.5 million in unallocated corporate general and administrative expenses, partially offset by a decrease of \$0.6 million in general and administrative expenses of our Engineering and Consulting segment.

Income from operations. Our operating income was \$1.3 million for the three months ended September 27, 2019 as compared to operating income of \$4.9 million for the three months ended September 28, 2018. Income from operations as a percentage of contract revenue was 1.1% for the three months ended September 27, 2019 as compared to 6.9% for the three months ended September 28, 2018. The decrease in operating income was primarily attributable to higher amortization expenses attributable to our recent acquisitions.

Total other expense. Total other expense, net was \$1.3 million for the three months ended September 27, 2019, as compared to \$5,000 for the three months ended September 28, 2018. Total other expense, net consists of interest expense, net and other, net. The increase was primarily attributable to an increase in interest expense due to our increased outstanding debt, primarily as a result of borrowings under our 2018 Credit Facilities, which were used to partially finance our acquisition of Lime Energy in the fourth quarter of 2018. We expect our interest expense to increase in the fourth quarter of 2019 as a result of borrowings under our Delayed Draw Term Loan used to finance our purchase of E3, Inc. on October 28, 2019.

Income tax (benefit) expense. Income tax benefit was \$0.4 million for the three months ended September 27, 2019, as compared to an income tax expense of \$1.6 million for the three months ended September 28, 2018. During the three months ended September 27, 2019 the difference between the effective tax rate and the federal statutory rate was primarily attributable to tax deductions related to the vesting of performance-based restricted stock units, exercise of non-qualified stock options, disqualifying dispositions arising from the sale of employee stock purchase and incentive stock options, and the reduction of the Company's uncertain tax position. During the three months ended September 28, 2018 the difference between the effective tax rate and the federal statutory rate was primarily attributable to a reduction in the tax deductions related to Section 179D, partially offset by tax deductions related to disqualifying dispositions under our employee stock purchase plan and non-qualified stock option exercises. The income tax expense deductions related to disqualifying dispositions under our employee stock purchase plan and non-qualified stock option exercises have been included as an increase of 8.76% to our effective tax rate for the three months ended September 27, 2019. The effective tax rates in each of the three months ended September 27, 2019 and September 28, 2018, vary from the federal statutory rate due to the impact of state income tax expense, net operating loss carry-forwards and certain expenses that are non-deductible for tax purposes, including meals and entertainment, and compensation expenses related to our employee stock purchase plan and incentive stock options. In addition, the effective tax in the three months ended September 27, 2019 varies from the federal statutory rate due to the impact of excess compensation for covered employees.

Net income. As a result of the above factors, our net income was \$0.4 million for the three months ended September 27, 2019, as compared to net income of \$3.3 million for the three months ended September 28, 2018. Net income as a percentage of contract revenue was 0.4% for the three months ended September 27, 2019 as compared to net income as a percentage of contract revenue of 4.7% for the three months ended September 28, 2018. The decrease in net profit margin was primarily driven by higher intangible amortization.

Nine Months Ended September 27, 2019 Compared to Nine Months Ended September 28, 2018

Contract revenue. Our contract revenue was \$313.7 million for the nine months ended September 27, 2019, with \$257.9 million attributable to the Energy segment and \$55.8 million attributable to the Engineering and Consulting segment. Consolidated contract revenue increased \$127.9 million, or 68.8%, to \$313.7 million for the nine months ended September 27, 2019 as compared to \$185.8 million for the nine months ended September 28, 2018, primarily due to the incremental contract revenue of \$130.0 million from the acquisitions of Onsite Energy, The Weidt Group, Lime Energy,

and NAM. The increase in revenue contributed from our acquisitions was partially offset by a decrease in revenue related to our ongoing operations primarily due to normal fluctuations in the level of services provided.

Contract revenue in our Energy segment increased \$128.8 million, or 99.7%, to \$257.9 million for the nine months ended September 27, 2019 as compared to \$129.1 million for the nine months ended September 28, 2018. Contract revenue for the Energy segment increased primarily due to the incremental contract revenue of \$131.8 million as a result of our acquisitions of Onsite Energy, The Weidt Group, Lime Energy, and NAM. Contract revenue for the Engineering and Consulting segment decreased \$0.9 million, or 1.6%, for the nine months ended September 27, 2019 as compared to the nine months ended September 28, 2018, primarily due to normal fluctuations in the level of services provided.

Direct costs of contract revenue. Direct costs of contract revenue increased 85.2% to \$221.9 million for the nine months ended September 27, 2019, with \$189.6 million attributable to the Energy segment and \$32.3 million attributable to the Engineering and Consulting segment. This increase is primarily attributable to increases in direct costs within our Energy segment of \$102.1 million, or 116.7%, primarily as a result of the increased use of subcontractors and higher material content in projects associated with our acquisitions of Onsite Energy, The Weidt Group, Lime Energy, and NAM. There was no change in direct costs for the Engineering and Consulting segment for the nine months ended September 27, 2019 as compared to the nine months ended September 28, 2018.

Salaries and wages increased \$13.3 million and subcontractor services and other direct costs increased \$88.8 million for the nine months ended September 27, 2019 compared to the prior year period. Within direct costs of contract revenue, salaries and wages decreased to 14.9% of contract revenue for the nine months ended September 27, 2019 from 18.0% for the nine months ended September 28, 2018 while subcontractor services and other direct costs increased to 55.9% of contract revenue for the nine months ended September 27, 2019 from 46.5% of contract revenue for the nine months ended September 28, 2018. Subcontractor services and other direct costs as a percentage of revenue increased primarily because Lime Energy projects include a significant quantity of material costs for lighting and other mechanical energy efficiency fixtures and use a larger mix of subcontractors for installation than other units in our Energy segment.

General and administrative expenses. General and administrative expenses increased by \$33.0 million, or 60.1%, to \$87.9 million for the nine months ended September 27, 2019 from \$54.9 million for the nine months ended September 28, 2018. Of the \$33.0 million increase in general and administrative expenses, approximately \$14.3 million relates to increases in salaries and wages, payroll taxes and employee benefits, \$8.0 million relates to increases in depreciation and amortization, \$5.0 million relates to increases in other general and administrative expenses, \$3.7 million relates to increases in stock-based compensation and \$2.0 million relates to increases in facilities and facility related expenses. The increase in salaries and wages, payroll taxes and employee benefits and in stock-based compensation primarily relate to increases from the addition of employees from the acquisitions of Onsite Energy, The Weidt Group, Lime Energy and NAM along with increases in current salary rates for our current employees and an increase in stock-based compensation. Increases in depreciation and amortization primarily relate to our recent acquisitions, while the increase in other general and administrative expenses primarily relates to professional services for acquisitions and higher bid and proposal costs incurred in the pursuit of new projects. The increase in facilities and facility related expenses was primarily due to the addition of offices from our acquisitions. As a percentage of contract revenue, general and administrative expenses decreased to 28.0% for the nine months ended September 27, 2019 as compared to 29.6% for the nine months ended September 28, 2018.

Broken down by segments, the \$33.0 million increase in general and administrative expenses was comprised of an increase of \$33.3 million in general and administrative expenses in the Energy segment, largely due to our recent acquisitions being in the Energy segment, an increase of \$1.5 million in unallocated corporate expenses and a decrease in general and administrative expenses in the Engineering and Consulting segment of \$1.8 million, primarily due to the reduction of corporate allocation of finance and administrative support because greater resources were allocated towards our recent acquisitions.

Income from operations. As a result of the above factors, our income from operations was \$3.8 million for the nine months ended September 27, 2019 as compared to income from operations of \$11.1 million for the nine months

ended September 28, 2018. The decrease in income from operations was primarily due to the increase in subcontractor services and other direct costs associated with the higher material and subcontractor costs of our Lime Energy projects. Our operating margin was 1.2% for the nine months ended September 27, 2019, as compared to 6.0% in the prior year period, primarily attributable to subcontractor services and other direct costs increasing at a proportionately higher rate as compared to the increase in contract revenue. The decrease in operating margin was partially offset by a lower rate of increase in general and administrative expenses compared to contract revenue for the nine months ended September 28, 2018 due to cost efficiencies.

Total other expense. Total other expense, net was \$3.6 million for the nine months ended September 27, 2019, as compared to \$39,000 for the nine months ended September 28, 2018. This increase in total other expense, net is primarily as a result of borrowings under our 2018 Credit Facilities, which were used to partially finance our acquisition of Lime Energy in the fourth quarter of 2018.

Income tax (benefit) expense. Income tax benefit was \$1.4 million for the nine months ended September 27, 2019, as compared to income tax expense of \$2.2 million for the nine months ended September 28, 2018. In the nine months ended September 27, 2019 the difference between the effective tax rate and the federal statutory rate was primarily attributable to tax deductions related to the vesting of performance-based restricted stock units, exercise of non-qualified stock options, disqualifying dispositions arising from the sale of employee stock purchase and incentive stock options, and the reduction of the Company's uncertain tax position. In the nine months ended September 28, 2018 the difference between the effective tax rate and the federal statutory rate was primarily attributable to tax deductions related to Section 179D deductions, and the recognition of tax deductions related to non-qualified stock option exercises and disqualifying dispositions under our employee stock purchase plan. In accordance with ASU 2016-09 (see Note 1 "Basis of Presentation, Organization and Operations of the Company" of the notes to our condensed consolidated financial statements included elsewhere in this report), the income tax benefit related to the 2019 deductions has been included as an increase to our effective tax rate for the nine months ended September 27, 2019. The effective tax rates in each of the nine months ended September 27, 2019 and September 28, 2018 also vary from the federal statutory rate due to the impact of state income tax expense, net operating loss carry-forwards and certain expenses that are non-deductible for tax purposes.

Net income. As a result of the above factors, our net income was \$1.6 million for the nine months ended September 27, 2019, as compared to net income of \$8.8 million for the nine months ended September 28, 2018. This decrease was primarily due to higher intangible amortization.

Liquidity and Capital Resources

The following table summarizes our statements of cash flows:

	Nine Months Ended	
	September 27, 2019	September 28, 2018
	<i>(in thousands)</i>	
Net cash provided by (used in):		
Operating activities	\$ 8,289	\$ 11,569
Investing activities	(52,130)	(3,673)
Financing activities	28,582	(5,639)
Net increase (decrease) in cash and cash equivalents	\$ (15,259)	\$ 2,257

We believe that cash generated by operating activities and available borrowings under the Revolving Credit Facility will be sufficient to finance our operating activities for at least the next 12 months. As of September 27, 2019, as a result of timing of payments where checks outstanding were in excess of our cash balance, we had \$0.0 of cash and cash equivalents. Our primary source of liquidity is cash generated from operations. In addition, as of September 27, 2019, we had \$97.5 million outstanding on our Term A Loan, a \$50.0 million Revolving Credit Facility with \$5.0 million outstanding and \$2.7 million in letters of credit issued, and a \$50.0 million Delayed Draw Term Loan with no amounts outstanding, each scheduled to mature on June 26, 2024. Subsequent to September 27, 2019, we borrowed

\$27.0 million under our Delayed Draw Term Loan to finance the purchase of all of the capital stock of E3, Inc., which reduced the future borrowing capacity under the Delayed Draw Term Loan to \$23.0 million.

Cash Flows from Operating Activities

Cash flows provided by operating activities were \$8.3 million for the nine months ended September 27, 2019, as compared to cash flows provided by operating activities of \$11.6 million for the nine months ended September 28, 2018. Cash flows provided by operating activities for the nine months ended September 27, 2019 resulted primarily from a net increase in our working capital. Cash flows provided by operating activities for the nine months ended September 28, 2018 resulted primarily from a decrease in accounts receivable and our net income, as adjusted for non-cash activity such as depreciation and amortization, stock-based compensation and deferred taxes, partially offset by an increase in contract assets and decreases in contracts liabilities and accrued liabilities.

Cash Flows from Investing Activities

Cash flows used in investing activities were \$50.4 million for the nine months ended September 27, 2019 as compared to cash flows used in investing activities of \$3.7 million for the nine months ended September 28, 2018. The cash flows used in investing activities for the nine months ended September 27, 2019 was primarily due to cash paid for the acquisition of The Weidt Group and Onsite Energy. The cash flows used in investing activities for the nine months ended September 28, 2018 was primarily due to cash paid for acquisitions of NAM, net of cash received and the purchase of equipment and leasehold improvements.

Cash Flows from Financing Activities

Cash flows provided by financing activities were \$26.9 million for the nine months ended September 27, 2019 as compared to cash flows used in financing activities of \$5.6 million for the nine months ended September 28, 2018. The cash flows provided by financing activities for the nine months ended September 27, 2019 were primarily attributable to borrowings under our term loan, partially offset by the payment of \$2.9 million in employee payroll taxes related to the repurchase of shares of our common stock in connection with the vesting of restricted stock awards and performance-based restricted stock units during the nine months ended September 27, 2019. The cash flows used in financing activities for the nine months ended September 28, 2018 were primarily attributable to payments of \$4.1 million for contingent consideration and on notes payable related to our prior acquisitions and repayments of \$2.5 million on borrowings under our Prior Credit Agreement, partially offset by \$1.8 million in proceeds from stock option exercises and sales of stock under our employee stock purchase plan.

Outstanding Indebtedness

Credit Facilities. On June 26, 2019, we and certain of our subsidiaries entered into an Amended and Restated Credit Agreement (the "Credit Agreement") with a syndicate of financial institutions as lenders and BMO Harris Bank, N.A. ("BMO"), as administrative agent. The Credit Agreement amends and restates our prior credit agreement, which was entered into on October 1, 2018 with a syndicate of financial institutions as lenders and BMO and was scheduled to mature on October 1, 2023.

The Credit Agreement provides for (i) a \$100.0 million term loan (the "Term A Loan"), (ii) up to \$50.0 million in delayed draw term loans (the "Delayed Draw Term Loan"), and (iii) a \$50.0 million revolving credit facility (the "Revolving Credit Facility" and, collectively with the Term A Loan and the Delayed Draw Term Loan, the "Credit Facilities"), each maturing on June 26, 2024. We may borrow under the Delayed Draw Term Loan any time and from time to time until June 26, 2022; provided that each borrowing under the Delayed Draw Term Loan must be a minimum of \$10.0 million, we may not make more than five borrowings under the Delayed Draw Term Loan and any borrowings made under the Delayed Draw Term Loan will permanently reduce future borrowing capacity under the Delayed Draw Term Loan. In addition, we must satisfy certain conditions prior to borrowing under the Delayed Draw Term Loan, including, but not limited to, that upon giving effect to such borrowing under the Delayed Draw Term Loan and any Credit Event (as defined in the Credit Agreement) in connection therewith, we will be in compliance with all financial

covenants on a pro forma basis and our consolidated total leverage ratio will be no greater than 0.25x less than the consolidated total leverage ratio covenant compliance level in effect at the time of such borrowing.

We may also request lenders to add incremental term loans or increase the aggregate commitment under the Revolving Credit Facility by an aggregate amount of up to \$100.0 million, subject to meeting certain conditions, and only if the existing or new lenders agree to provide the additional term or revolving commitments.

Borrowings under the Credit Agreement bear interest at a rate equal to either, at our option, (i) the highest of the prime rate, the Federal Funds Rate plus 0.5% or one-month LIBOR plus 1.00% (the "Base Rate") or (ii) LIBOR, in each case plus an applicable margin ranging from 0.125% to 1.00% with respect to Base Rate borrowings and 1.125% to 2.00% with respect to LIBOR borrowings. The applicable margin is based upon our consolidated total leverage ratio. We are also required to pay a commitment fee for the unused portion of the Revolving Credit Facility and the Delayed Draw Term Loan, which ranges from 0.15% to 0.35% per annum depending on our consolidated total leverage ratio, and fees on the face amount of any letters of credit outstanding under the Revolving Credit Facility, which range from 0.84% to 2.00% per annum, in each case, depending on whether such letter of credit is a performance or financial letter of credit and our consolidated total leverage ratio.

The Term A Loan amortizes quarterly in installments of \$2.5 million beginning with the fiscal quarter ending September 27, 2019, with a final payment of all then remaining principal and interest due on the maturity date of June 26, 2024. Any Delayed Draw Term Loan will amortize quarterly in an amount equal to 2.5% of the aggregate outstanding borrowings under the Delayed Draw Term Loan, beginning with the first full fiscal quarter ending after the initial borrowing date, with final payment of all then remaining principal and interest due on the maturity date of June 26, 2024.

Willdan Group, Inc. is the borrower under the Credit Agreement and its obligations under the Credit Agreement are guaranteed by its present and future domestic subsidiaries (other than inactive subsidiaries). In addition, subject to certain exceptions, all such obligations are secured by substantially all of the assets of Willdan Group, Inc. and the subsidiary guarantors.

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

As of September 27, 2019, \$97.5 million was outstanding under the Term A Loan, \$5.0 million was outstanding and \$2.7 million in letters of credit were issued under the Revolving Credit Facility, and no amounts were outstanding under the Delayed Draw Term Loan. Subsequent to September 27, 2019, we borrowed \$27.0 million under our Delayed Draw Term Loan to finance our purchase of all of the capital stock of E3, Inc., which reduced the future borrowing capacity under the Delayed Draw Term Loan to \$23.0 million.

We believe that, as of September 27, 2019, we were in compliance with all covenants contained in the Credit Agreement.

On January 31, 2019, we entered into an interest swap agreement for \$35.0 million notional amount. The interest swap agreement was designated as a cash flow hedge to fix the variable interest rate on a portion of the outstanding principal amount under our prior term loan facility. The interest swap fixed annual rate is 2.47% and the amortization is quarterly in an amount equal to 10% annually. The interest swap agreement expires on January 31, 2022. As of September 27, 2019, our composite interest rate, exclusive of the effects of upfront fees, undrawn fees and issuance cost amortization, was 4.40%.

Insurance Premiums. We have also financed, from time to time, insurance premiums by entering into unsecured notes payable with insurance companies. During our annual insurance renewals in the fourth quarter of its fiscal year ended December 28, 2018, we elected to finance our insurance premiums for the 2019 fiscal year with a note payable bearing interest at an annual rate of 4.3%, payable in monthly principal and interest installments of \$149,881 through October 2019. Included in our insurance renewal terms are individual stop loss amount of \$100,000 and an aggregate of 125%. As of September 27, 2019 and December 28, 2018, the unpaid balance of the financed premiums totaled \$0.3 million and \$1.5 million, respectively.

Software Agreements. We have also financed, from time to time, software costs by entering into unsecured notes payable with software providers. During the fiscal year ended December 28, 2018, we elected to finance IBM software of \$0.2 million with a note payable bearing interest of 4.656%, payable in monthly principal and interest installments of \$6,315 through November 2021. As of September 27, 2019 and December 28, 2018, the unpaid balance related to the IBM software agreement totaled \$150,000 and \$211,000, respectively.

Utility Customer Agreement. In connection with the acquisition of substantially all of the assets of Onsite Energy, we assumed a contract dispute settlement agreement between Onsite Energy and one of its utility customers dated December 20, 2018 (the "Utility Customer Agreement") where Onsite Energy agreed to pay \$1.7 million, bearing an imputed annual interest rate of 4.332%, payable in quarterly principal and interest installments through June 2021. The unpaid balance of the Utility Customer Agreement totaled \$1.1 million as of September 27, 2019.

Contractual Obligations

As of September 27, 2019, our aggregate obligations increased by \$32.3 million and our aggregate future interest payments on outstanding debt increased by \$5.9 million, each since December 28, 2018, which increase was primarily comprised of borrowings under the Term A Loan in June 2019. In addition, the maturity date of our Credit Facilities is now June 26, 2024. Our prior credit facilities were scheduled to mature on October 1, 2023. We had no material changes in commitments for operating lease obligations or finance lease obligations as of September 27, 2019, as compared to those disclosed in our table of contractual obligations included in our Annual Report on Form 10-K for the year ended December 28, 2018. Subsequent to September 27, 2019, we borrowed \$27.0 million under our Delayed Draw Term Loan to finance our purchase of all of the capital stock of E3, Inc

We are obligated to pay earn-out payments in connection with our acquisition of Integral Analytics in July 2017 and E3, Inc in October 2019. With respect to Integral Analytics, we were obligated to pay up to \$12.0 million in cash based on future work obtained from the business of Integral Analytics during the three years after the closing of the acquisition, payable in installments, if certain financial targets are met during the three years. As of September 27, 2019, we had contingent consideration payable of \$2.7 million related to this acquisition. For the nine months ended September 27, 2019, our statement of operations includes \$0.3 million of accretion (excluding fair value adjustments) related to the contingent consideration. On August 1, 2019, we executed an amendment to the Stock Purchase Agreement for Integral Analytics, which extends the earn-out period from three years after the closing of the acquisition to four years after the closing of the acquisition (July 28, 2021).

With respect to E3, Inc., we have agreed to pay up to \$12.0 million in cash in the aggregate if E3, Inc. exceeds certain financial targets during the three years after the closing of the acquisition. Payments will be made in annual installments for each of the three years of the earn-out period.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet financing arrangements or liabilities. In addition, we do not have any majority-owned subsidiaries or any interests in, or relationships with, any special-purpose entities that are not included in the condensed consolidated financial statements. We have, however, entered into an administrative services agreement with Genesys pursuant to which WES, our wholly-owned subsidiary, will 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.

Item 3. Quantitative and Qualitative Disclosures About Market 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, 2019, as a result of timing in payments where checks outstanding were in excess of our cash balance, we had cash and cash equivalents of \$0.0. This amount represents cash on hand in business checking accounts with BMO.

We do not engage in trading activities and do not participate in foreign currency transactions.

We are subject to interest rate risk in connection with our Term A Loan and borrowings, if any, under our Revolving Credit Facility and Delayed Draw Term Loan, each of which bears interest at variable rates. As of September 27, 2019, \$100.0 million was outstanding under the Term A Loan, no borrowed amounts were outstanding and \$2.7 million in letters of credit were issued under the Revolving Credit Facility and no amounts were outstanding under the Delayed Draw Term Loan. Borrowings under the Credit Agreement bear interest at a rate equal to either, at our option, (i) the highest of the prime rate, the Federal Funds Rate plus 0.5% or one-month LIBOR plus 1.00% (the "Base Rate") or (ii) LIBOR, in each case plus an applicable margin ranging from 0.125% to 1.00% with respect to Base Rate borrowings and 1.125% to 2.00% with respect to LIBOR borrowings. The applicable margin is based upon our consolidated total leverage ratio. We are also required to pay a commitment fee for the unused portion of the Revolving Credit Facility and the Delayed Draw Term Loan, which ranges from 0.15% to 0.35% per annum depending on our consolidated total leverage ratio, and fees on the face amount of any letters of credit outstanding under the Revolving Credit Facility, which range from 0.84% to 2.00% per annum, in each case, depending on whether such letter of credit is a performance or financial letter of credit and our consolidated total leverage ratio.

The Term A Loan amortizes quarterly in installments of \$2.5 million beginning with the fiscal quarter ending September 27, 2019, with a final payment of all then remaining principal and interest due on the maturity date of June 26, 2024. Any Delayed Draw Term Loan will amortize quarterly in an amount equal to 2.5% of the aggregate outstanding borrowings under the Delayed Draw Term Loan, beginning with the first full fiscal quarter ending after the initial borrowing date, with a final payment of all then remaining principal and interest due on the maturity date of June 26, 2024.

On January 31, 2019, we entered into an interest swap agreement for \$35.0 million notional amount. The interest swap agreement was designated as a cash flow hedge to fix the variable interest rate on a portion of the outstanding principal amount under our prior term loan facility. The interest swap fixed rate is 2.47% and the amortization is quarterly in an amount equal to 10% annually. The interest swap agreement expires on January 31, 2022.

Based upon the amount of our outstanding indebtedness as of September 27, 2019, a one percentage point increase in the effective interest rate would change our annual interest expense by approximately \$1.0 million in 2019.

Item 4. Controls and Procedures

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

Thomas Brisbin, and our Chief Financial Officer, Stacy McLaughlin, as appropriate to allow timely decisions regarding required disclosure.

In connection with the preparation of this Quarterly Report, an evaluation was performed under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures as of September 27, 2019. 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, 2019.

No change in our internal control over financial reporting occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. We acquired Lime Energy on November 9, 2018 and substantially all of the assets of The Weidt Group on March 8, 2019 and Onsite Energy on July 2, 2019. We are in the process of evaluating the internal controls of each of the acquired businesses and integrating them into our existing operations and internal control processes.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

We are subject to claims and lawsuits from time to time, including those alleging professional errors or omissions that arise in the ordinary course of business against firms, like ours, 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 condensed consolidated financial statements.

Item 1A. Risk Factors

There are no material changes to the risk factors set forth in “Item 1A. Risk Factors” of our Annual Report on Form 10-K for the year ended December 28, 2018.

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

On September 4, 2019, we issued 37,484, and 15,618 shares of our common stock to two executives of Onsite Energy, respectively. For further discussion of our acquisition of Onsite Energy, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Recent Developments—Acquisition of Onsite Energy Corporation” in our quarterly report on Form 10-Q for the quarter ended June 28, 2019 filed with the SEC on August 2,

2019. The issuances of common stock were not registered under the Securities Act of 1933, as amended (the “Securities Act”). Such shares were issued in a private placement exempt from the registration requirements of the Securities Act, in reliance on the exemptions set forth in Section 4(a)(2) of the Securities Act and Rule 506 under Regulation D for issuances to less than 35 non-accredited investors.

Item 3. Defaults upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Acquisition of E3, Inc.

On October 28, 2019 (the “E3, Inc. Closing Date”), the Company, through its wholly owned subsidiary WES, acquired all of the capital stock of Energy and Environmental Economics, Inc. (“E3, Inc.”) pursuant to the terms of a stock purchase agreement (the “Stock Purchase Agreement”) by and among the Company, WES, E3, Inc., each of the stockholders of E3, Inc. (the “E3, Inc. Stockholders”) and Ren Orans, as seller representative of the E3, Inc. Stockholders. E3, Inc. is an energy consulting firm that helps utilities, regulators, policy makers, developers, and investors make strategic decisions as they implement new public policies, respond to technological advances, and address customers’ shifting expectations in clean energy. The Company agreed to pay up to \$44.0 million for the purchase of all of the capital stock of E3, Inc., which purchase price consists of (i) \$27.0 million in cash paid on the E3, Inc. Closing Date (subject to holdbacks and adjustments), (ii) \$5.0 million in shares of the Company’s common stock, based on the volume-weighted average price per share of the Company’s common stock for the ten trading days immediately following, but not including, the E3, Inc. Closing Date and (iii) up to \$12.0 million in cash if E3, Inc. exceeds certain financial targets during the three years after the E3, Inc. Closing Date, as more fully described below (such potential payments of up to \$12.0 million, being referred to as “Earn-Out Payments” and \$12.0 million in respect thereof, being referred to as the “Maximum Payout”).

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

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

The foregoing description of the Purchase Agreement is qualified in its entirety by reference to the Purchase Agreement, which is filed as Exhibit 2.1 to this Quarterly Report on Form 10-Q and is incorporated herein by reference. Schedules and exhibits to the Purchase Agreement have been omitted pursuant to Item 601(a)(5) of Regulation S-K.

The Purchase Agreement has been provided solely to inform investors of its terms. The representations, warranties and covenants contained in the Purchase Agreement were made only for the purposes of such agreement and, as of specific dates, were made solely for the benefit of the parties to the such agreement and may be intended not as statements of fact, but rather as a way of allocating risk to one of the parties if those statements prove to be inaccurate. In addition, such representations, warranties and covenants contained in the Purchase Agreement may have been qualified by certain disclosures not reflected in the text of the Purchase Agreement and may apply standards of materiality in a

way that is different from what may be viewed as material by stockholders of, or other investors in, the Company. The Company's shareholders and other investors are not third-party beneficiaries under the Purchase Agreement and should not rely on the representations, warranties and covenants or any descriptions thereof as characterizations of the actual state of facts or conditions of the Company, WES or E3, Inc., or any of their respective subsidiaries or affiliates, or of the E3, Inc. Stockholders.

The Company borrowed \$27.0 million under its Delayed Draw Term Loan on October 28, 2019 to fund the \$27.0 million cash payment paid on the E3, Inc. Closing Date, which reduced the future borrowing capacity under the Delayed Draw Term Loan to \$23.0 million. See Note 7 "—Debt Obligations" of the notes to our condensed consolidated financial statements included elsewhere in this report for a description of the Delayed Draw Term Loan

The offer and sale of the Company's common stock in connection with the acquisition of E3, Inc. was not registered under the Securities Act. Such shares will be issued in a private placement exempt from the registration requirements of the Securities Act, in reliance on the exemptions set forth in Section 4(a)(2) of the Securities Act and Rule 506 under Regulation D.

Item 6. Exhibits

Exhibit Number	Exhibit Description
2.1 ^{*†}	Stock Purchase Agreement, dated as of October 28, 2019, by and among Willdan Group, Inc., Willdan Energy Solutions, Energy and Environmental Economics, Inc., each of the stockholders of Energy and Environmental Economics, Inc., and Ren Orans, as seller representative of the stockholders of Energy and Environmental Economics, Inc.
2.2 [*]	Amendment No. 1, dated as of August 1, 2019, to the Stock Purchase Agreement, dated as of July 28, 2017, by and among Willdan Group, Inc., Willdan Energy Solutions, Integral Analytics, Inc., the stockholders of Integral Analytics, Inc. and the Sellers' Representative (as defined therein).
3.1	First Amended and Restated Certificate of Incorporation of Willdan Group, Inc., including amendments thereto (incorporated by reference to Willdan Group, Inc.'s Registration Statement on Form S-1, filed with the SEC on August 9, 2006, as amended (File No. 333-136444)).
3.2	Amended and Restated Bylaws of Willdan Group, Inc. (incorporated by reference to Exhibit 3.1 to Willdan Group, Inc.'s Current Report on Form 8-K, filed with the SEC on March 8, 2018).
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 SEC 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.
23.1 [*]	Consent of Farber Hass Hurley LLP, independent accountants for Energy and Environmental Economics, Inc. for the years ended December 31, 2018 and 2017.
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
99.1 [*]	Unaudited financial statements of Energy and Environmental Economics, Inc., as of and for the six months ended June 30, 2019 and 2018.
99.2 [*]	Audited financial statements of Energy and Environmental Economics, Inc., as of and for the years ended December 31, 2018 and 2017.
99.3 [*]	Unaudited pro forma condensed combined balance sheet and statements of operations for Willdan Group, Inc. as of and for the six months ended June 28, 2019 and for the year ended December 28, 2018, giving effect to the acquisition of Energy and Environmental Economics, Inc., and the notes thereto.
101	Interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Condensed Consolidated Balance Sheets as of September 27, 2019 and December 28, 2018; (ii) the Condensed Consolidated Statements of Comprehensive (Loss) Income for the three and nine months ended September 27, 2019 and September 28, 2018; (iii) the Condensed Consolidated Statements of Stockholders Equity for the nine months ended September 27, 2019 and September 28, 2018; (iv) the Condensed Consolidated Statement of Cash Flows for the nine months ended September 27, 2019 and September 28, 2018 and (iv) the Notes to the Condensed Consolidated Financial Statements.

^{*} 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.

SIGNATURES

Pursuant to the requirements 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.

By: /s/ Stacy B. McLaughlin

Stacy B. McLaughlin

Vice President and Chief Financial Officer

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

Date: October 31, 2019

CERTAIN IDENTIFIED INFORMATION MARKED BY [*] HAS BEEN EXCLUDED FROM THIS EXHIBIT BECAUSE IT IS BOTH (I) NOT MATERIAL AND (II) WOULD CAUSE COMPETITIVE HARM TO THE REGISTRANT IF PUBLICLY DISCLOSED

STOCK PURCHASE AGREEMENT

among

WILLDAN ENERGY SOLUTIONS,

WILLDAN GROUP, INC.

and

THE SHAREHOLDERS OF ENERGY AND ENVIRONMENTAL ECONOMICS, INC.

Dated as of October 28, 2019

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STOCK PURCHASE AGREEMENT

This STOCK PURCHASE AGREEMENT (this “Agreement”), dated as of October 28, 2019, is made and entered into by and among Willdan Energy Solutions, a California corporation (the “Purchaser”), a subsidiary of Willdan Group, Inc., a Delaware corporation (“Willdan”), each of the holders of shares identified as such on the signature pages to this Agreement (the “Sellers”) of Energy and Environmental Economics, Inc., a California corporation (the “Company”), and Ren Orans, as Seller Representative (as defined in Section 9.12). The Purchaser, the Sellers and the Seller Representative are sometimes individually referred to herein as a “Party” and collectively as the “Parties.”

WITNESSETH:

WHEREAS, the Sellers own, in the aggregate, all of the outstanding shares in the Company, consisting of 110.87896 shares of common stock, no par value (the “Shares”);

WHEREAS, the Purchaser desires to acquire from the Sellers, and the Sellers desire to sell to the Purchaser, all of the Shares, on the terms and subject to the conditions set forth in this Agreement (the “Acquisition”), so that the Purchaser will become the owner of all of the Shares as of the Closing Date (as defined below); and

WHEREAS, the Parties desire to make and agree to certain representations, warranties, covenants and agreements in connection with the Acquisition, as set forth more fully herein.

WHEREAS, the Company is a “S” corporation under the Code.

NOW, THEREFORE, in consideration of the representations, warranties, covenants and agreements contained in this Agreement, and intending to be legally bound hereby, the Parties hereby agree as follows:

ARTICLE I DEFINITIONS; CONSTRUCTION

Section 1.1 Definitions. The following terms, as used herein, have the following meanings:

“Affiliate” of any specified Person means any other Person directly or indirectly Controlling or Controlled by or under direct or indirect common Control with such specified Person.

“Audited Financial Statements” has the meaning set forth in Section 3.7.

“Balance Sheet” has the meaning set forth in Section 3.7.

“Balance Sheet Date” has the meaning set forth in Section 3.7.

“Books and Records” means any books, records, files, research and production records, customer files, customer lists, customer product specifications, customer purchasing histories,

distributor files, vendor files, vendor lists, advertising and marketing materials, sales materials, budgets, forecasts, ledgers, journals, reports, technical information, databases, or documents, information and files of any kind, regardless of whether any of the foregoing are stored or maintained in traditional paper format, by means of electronic, optical or magnetic media or devices, photographic or video images, or any other format or media.

“Business” means the business of the Company in providing energy consulting services that helps utilities, regulators, policy makers, developers and investors make the best strategic decisions possible as they implement new public policies, respond to technological advances and address customers shifting expectations.

“Business Day” means any day except Saturday, Sunday or any day on which banks are generally not open for business in the city of San Francisco, California.

“CERCLA” means the Comprehensive Environmental Response, Compensation and Liability Act, 42 U.S.C. §§ 9601 et seq., any amendments thereto, any successor statutes and any regulations promulgated thereunder.

“Claims Period” means the period during which a claim for indemnification may be asserted hereunder by any Indemnified Party.

“Closing” means the consummation of the transactions contemplated by Article II of this Agreement.

“Closing Date” means the date on which the Closing occurs.

“Code” means the United States Internal Revenue Code of 1986, as amended.

“Company Ancillary Documents” means any certificate, agreement, document or other instrument, other than this Agreement, to be executed and delivered by the Company or the Sellers at Closing in connection with the transactions contemplated hereby.

“Company Intellectual Property” means any Intellectual Property that is owned by or licensed to the Company, including the Company Software.

“Company Licensed Software” means all Software (other than Company Proprietary Software) licensed to and used by the Company.

“Company Material Adverse Effect” means any fact, circumstance, event, change, effect or occurrence that, individually or in the aggregate, has had a material adverse effect on the assets, Liabilities, properties, operations, Business, or financial condition of the Company, considered as a whole; provided, however, that no facts, circumstances, events, changes, effects or occurrences resulting from, relating to or arising out of the following shall be deemed to be or constitute a Company Material Adverse Effect or shall be taken into account when determining whether there has, may, would or could have occurred a Company Material Adverse Effect: (a) the effect of any change generally affecting the industries in which the Company operates as of the date hereof (including general pricing changes), (b) the effect of any change in the economy or the financial or securities markets in the United States or elsewhere in the world, (c) the effect of any outbreak or escalation of hostilities, declared or undeclared acts of war, sabotage or terrorism, (d) any

change in Laws or accounting rules or principles, or (e) the execution and delivery of this Agreement or the announcement and performance hereunder (including any cancellations or delays in contract awards any impact on relationships with customers, subcontractors, suppliers or employees), except in the cases of clauses (a), (b) or (c), to the extent the effect of any such changes disproportionately and materially impact the operations, Business or financial condition of the Company, considered as a whole, relative to other participants in the industry in which the Company operates.

“Company Proprietary Software” means all Software owned by the Company.

“Company Registered Intellectual Property” means all Registered Intellectual Property owned by or filed in the name of the Company.

“Company Software” means either the Company Licensed Software or the Company Proprietary Software.

“Contract” means any written or oral contract, agreement, arrangement, commitment, license, lease, easement, right of way, guaranty, distribution agreement, product swap agreement, customer contract, sales contract, supply agreement, or any other contract, agreement or arrangement of any kind, including all transferable rights under warranties and guarantees, express or implied, contained therein.

“Control” means, when used with respect to any specified Person, the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise. The terms “Controlling” and “Controlled” have correlative meanings.

“Customers” means all of the customers of the Company.

“Damages” means any damage, loss, Liability, assessment, levy, fine, charge, claim, demand, action, suit, proceeding, payment, judgment, settlement, penalty, cost or expense, including reasonable expenses of investigation and reasonable attorneys’ fees and expenses in connection therewith.

“Employment Agreements” means any employment contract, consulting agreement, termination or severance agreement, change of control agreement, non-compete agreement, non-solicitation agreement, or any other agreement or understanding (written or oral) respecting the terms and conditions of employment or payment of compensation, or of a consulting or independent contractor relationship, in respect of any current or former officer, employee, consultant or independent contractor.

“Employment Laws” means all Laws in effect at or prior to Closing relating to employees and independent contractors and their employment, or rendition of services, including but not limited to health, labor, labor/management relations, occupational health and safety, pay equity, equal opportunity, discrimination, immigration, employment standards, benefits, workers’ compensation, wages, hours, collective bargaining, and the payment of social security and similar Taxes.

“Environmental Claims” means any complaint, summons, citation, notice, directive, Order, ruling, claim, litigation, investigation, judicial or administrative proceeding, judgment, letter or other communication from any Governmental Entity or any third party involving actual, potential or alleged violations of or liability under Environmental Laws or Releases of Hazardous Substances, and any information request from a Governmental Entity issued pursuant to any Environmental Law.

“Environmental Law” means any Law relating to the regulation or protection of human health, safety or the environment or to emissions, discharges, releases or threatened releases of pollutants, contaminants, chemicals or industrial, toxic or hazardous substances or wastes into the environment (including without limitation, ambient air, soil, surface water, ground water, wetlands, land or subsurface strata), or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of pollutants, contaminants, chemicals or industrial, toxic or Hazardous Substances (including without limitation, CERCLA, RCRA, and rule or regulation promulgated by the United States Occupational Safety and Health Administration and equivalent or similar state, local or foreign law).

“ERISA” means the Employee Retirement Income Security Act of 1974, as amended, and all rules and regulations promulgated thereunder.

“Financial Statements” has the meaning set forth in Section 3.7.

“Foreign Official” means any officer or employee of a foreign government or any department, agency or instrumentality thereof, or of a public international organization, or any person acting in an official capacity for or on behalf of any such government or department, agency or instrumentality, or for or on behalf of any such public international organization, or any political party or official thereof, or any candidate for political or political party office.

“GAAP” means generally accepted accounting principles as applied in the United States of America as consistently applied by the Company, where the Company’s practice do not conflict with GAAP.

“Government Bid” means any bid that if accepted or awarded would result in a contract or agreement with (a) any Governmental Entity, (b) any prime contractor to any Governmental Entity in its capacity as a prime contractor, or (c) any subcontractor with respect to any contract of the type described in clauses (a) and (b) above.

“Government Contract” means any contract or agreement between the Company and (a) any Governmental Entity, (b) any prime contractor to any Governmental Entity in its capacity as a prime contractor, or (c) any subcontractor with respect to any contract of the type described in clauses (a) and (b) above.

“Governmental Entity” means any federal, state or local or foreign government, any political subdivision thereof or any court, administrative or regulatory agency, department, instrumentality, body or commission or other governmental authority or agency, domestic or foreign.

“Hazardous Substances” means any wastes, substances, radiation, or materials (whether solids, liquids or gases): (a) which are hazardous, toxic, infectious, explosive, radioactive,

carcinogenic, or mutagenic pursuant to any Environmental Law; (b) which are or become defined as “pollutants,” “contaminants,” “hazardous materials,” “hazardous wastes,” “hazardous substances,” “toxic substances,” “radioactive materials,” “solid wastes,” or other similar designations in, or otherwise subject to regulation under, any Environmental Law; (c) the presence of which on, under or emanating from the Leased Real Property would be subject to applicable statutory or common laws; (d) which contain, without limitation, polychlorinated biphenyls (PCBs), mold, methyl-tertiary butyl ether (MTBE), asbestos or asbestos-containing materials, lead-based paints, urea-formaldehyde foam insulation, or petroleum or petroleum products (including crude oil or any fraction thereof); or (e) which have been deemed to pose a hazard to human health, safety, natural resources, employees or the environment under any Environmental Law.

“Holdback Amount” has the meaning set forth in Section 2.2(a).

“Indebtedness” means, without duplication, the sum of (a) all obligations of the Company for borrowed money or issued in substitution for or exchange of indebtedness for borrowed money, including intercompany and shareholder indebtedness; (b) other indebtedness of the Company evidenced by notes, bonds, debentures or other debt securities; (c) indebtedness of the types described in clauses (a) and (b) guaranteed, directly or indirectly, in any manner by the Company through an agreement, contingent or otherwise, to supply funds to, or in any other manner invest in, the debtor, or to purchase indebtedness, primarily for the purpose of enabling the debtor to make payment of the indebtedness or to insure the owners of indebtedness against loss; (d) indebtedness for the deferred purchase price of property or services with respect to which the Company is liable, contingently or otherwise, other than ordinary course trade payables; (e) all obligations of the Company as lessee or lessees under capital leases; (f) all payment obligations under any interest rate swap agreements or interest rate hedge agreements to which the Company is party or by which the Company is otherwise bound; (g) any interest owed with respect to the indebtedness referred to above and prepayment premiums or fees related thereto; and (h) all obligations under or evidenced by any letter of credit, banker’s acceptance, guarantee, surety, bonds (including a performance bond, bid bond or appeal bond) or similar credit transaction or debt security.

“Indefinite Purchaser Claims” means any claim by the Purchaser under Article VIII hereof for Purchaser Losses arising out of or relating to (a) a breach or inaccuracy of any representation or warranty contained in the first sentence in Section 3.1 (Organization), Section 3.2 (Authorization), Section 3.3 (Shares), Section 4.1 (Authorization), or Section 4.3 (Ownership of Shares), or (b) fraud in connection with the transactions contemplated by this Agreement.

“Indefinite Seller Claims” means any claim by the Sellers under Article VIII hereof for Seller Losses arising out of or relating to (a) a breach or inaccuracy or any representation and warranty contained in Section 5.1 (Organization) or Section 5.2 (Authorization), or (b) fraud in connection with the transactions contemplated by this Agreement.

“Intellectual Property” means all intellectual property rights of the Company, including: (a) all United States and foreign patents and applications therefor and all reissues, divisions, renewals, extensions, provisionals, continuations and continuations-in-part thereof; (b) all inventions (whether patentable or not), invention disclosures, improvements, mask works, trade secrets, manufacturing processes, test and qualification processes, designs, drawings, schematics,

proprietary information, know-how, technology, technical data and customer lists, and all documentation to the extent embodying any of the foregoing throughout the world; (c) all works of authorship (whether copyrightable or not), copyrights, copyright registrations and applications therefor throughout the world; (d) all industrial designs and any registrations and applications therefor throughout the world; (e) all Software; (f) all internet uniform resource locators, domain names, trade names, logos, slogans, designs, trade dress, common law trademarks and service marks, trademark and service mark and trade dress registrations and applications therefor throughout the world; (g) all databases and data collections and all rights therein throughout the world.

“Interim Balance Sheet” has the meaning set forth in section 3.7.

“Interim Balance Sheet Date” has the meaning set forth in section 3.7.

“Interim Financial Statements” has the meaning set forth in section 3.7.

“IRS” means the United States Internal Revenue Service.

“Knowledge of the Sellers” means the collective knowledge of the Sellers of the Company. An individual will be deemed to have knowledge of a particular fact or other matter if: (a) that individual is actually aware of that fact or matter; or (b) a prudent individual would be reasonably likely to discover or otherwise become aware of the fact or matter following due inquiry regarding the accuracy of any representation or warranty contained in this Agreement but without, in the case of any matter relating solely to the Company, making inquiry of any customers of the Company.

“Laws” means all statutes, rules, codes, regulations, restrictions, ordinances, Orders, rulings (including common law rulings), approvals, or awards issued by any Governmental Entity.

“Leased Real Property” means those parcels of real property or portions thereof of which the Company is the lessee (together with those fixtures or improvements thereon that are included in the terms of the leases therefor).

“Liability” or “Liabilities” means any and all debts, liabilities, commitments, obligations, duties or responsibilities of any kind and description, whether absolute or contingent, accrued or fixed, monetary or non-monetary, direct or indirect, known or unknown, or matured or unmatured, or of any other nature.

“Licenses” means all notifications, licenses, permits, franchises, certificates, approvals, exemptions, classifications, registrations and other similar documents and authorizations issued by any Governmental Entity, and applications therefor.

“Liens” means all mortgages, liens, pledges, security interests, charges, claims, and encumbrances of any nature whatsoever.

“Litigation” means any litigation, legal action, arbitration, mediation, administrative or judicial proceeding, demand, or claim pending or, to the Knowledge of the Sellers, threatened, or, to the Knowledge of the Sellers, any investigation pending or threatened, against, affecting or brought by or against the Company, or any of the Company’s (i) assets or properties or (ii) present

or former officers, directors, managers, employees or independent contractors, in each case in their capacities as such, in any jurisdiction, foreign or domestic.

“Maximum Earnout” has the meaning set forth in Section 2.5.

“Order” means any order, ruling, decision, verdict, decree, writ, subpoena, mandate, precept, command, directive, consent, approval, award, judgment, injunction, or other similar determination or finding by, before or under the supervision of any Governmental Entity, arbitrator or mediator.

“Ordinary Course” means the ordinary course of business consistent with past practice of the Company.

“Permitted Liens” means (a) Liens for Taxes not yet due and payable or being contested in good faith, (b) Liens of landlords with respect to Leased Real Property, (c) Liens of carriers, warehousemen, mechanics, materialmen and repairmen incurred in the Ordinary Course and not yet delinquent, and (d) in the case of Leased Real Property, in addition to items (a), (b) and (c), zoning, building, or other restrictions, variances, covenants, rights of way, encumbrances, easements and other minor irregularities in title, none of which, individually or in the aggregate, interfere in any material respect with the present use of or occupancy of the affected parcel by the Company.

“Person” means, any individual, corporation, partnership, joint venture, limited liability company, trust, unincorporated organization or association or other similar entity, Governmental Entity or other legal entity.

“Purchaser Ancillary Documents” means any certificate, agreement, document or other instrument, other than this Agreement, to be executed and delivered by the Purchaser at Closing in connection with the transactions contemplated hereby.

“Purchaser Indemnified Parties” means the Purchaser and its Affiliates (which following the Closing, shall include the Company) and each of their respective officers and directors, and each of the successors and assigns of any of the foregoing.

“Purchaser Material Adverse Effect” means any fact, circumstance, event, change, effect or occurrence that, individually or in the aggregate, has had or has a material adverse effect on (i) the assets, Liabilities, properties, operations, business or financial condition of the Purchaser or (ii) Purchaser’s ability to consummate the transactions contemplated by this Agreement and to perform its obligations hereunder (including, without limitation, its obligations under Section 2.5 hereof); provided, however, that no facts, circumstances, events, changes, effects or occurrences resulting from, relating to or arising out of the following shall be deemed to be or constitute a Purchaser Material Adverse Effect or shall be taken into account when determining whether there has, may, would or could have occurred a Purchaser Material Adverse Effect: (a) the effect of any change generally affecting the industries in which the Purchaser operate as of the date hereof (including general pricing changes), (b) the effect of any change in the economy or the financial or securities markets in the United States or elsewhere in the world, (c) the effect of any outbreak or escalation of hostilities, declared or undeclared acts of war, sabotage or terrorism, or (d) any change in Laws or accounting rules or principles, except in the cases of clauses (a), (b) or (c), to

the extent the effect of any such changes disproportionately and materially impact the operations, business or financial condition of the Purchaser relative to other participants in the industries in which the Purchaser operates.

“RCRA” means the Resource Conservation and Recovery Act, 42 U.S.C. §§ 6901 et seq., and any successor statute, and any regulations promulgated thereunder.

“Registered Intellectual Property” means all United States and foreign: (a) patents and patent applications (including provisional applications); (b) registered trademarks and service marks, applications to register trademarks and service marks, registered and applications to register trade dress, intent-to-use trademark or service mark applications, or other registrations or applications for trademarks and service marks and trade dress; (c) registered copyrights and applications for copyright registration; and (d) domain name registrations.

“Release” means the presence, release, spill, emission, leaking, pulping, injection, deposit, disposal, discharge, dispersal, leaching or migration into the indoor or outdoor environment, including the movement of Hazardous Substances through ambient air, soil, surface water, ground water, wetlands, land or subsurface strata, and any exposure to Hazardous Substances.

“Representative” means, with respect to any Person, such Person’s equity holders, directors, members, managers, officers, employees, agents, consultants or Persons acting in a similar capacity.

“Seller Indemnified Parties” means the Sellers and any of their respective heirs, executors, members, successors and assigns.

“Senior Creditor” means a syndicate of BMO Harris Bank N.A., MUFG Union Bank, N.A., Bank of America N.A., Citibank N.A. and U.S. Bank, N.A. as the lenders under the Senior Financing Agreement, together with its successors and assigns.

“Senior Event of Default” means an “Event of Default” as defined in the Senior Financing Agreement.

“Senior Finance Agreement” means that certain Amended and Restated Credit Agreement dated as July 2, 2019, among Willdan Group, Inc., as the Borrower, Purchaser as a Guarantor, the other guarantors and loan parties thereunder, and a syndicate of BMO Harris Bank N.A., MUFG Union Bank, N.A., Bank of America N.A., Citibank N.A. and U.S. Bank, N.A. as the lenders, as the same may be amended, restated, supplemented or otherwise modified from time to time.

“Software” means all computer software programs, together with any error corrections, updates, modifications or enhancements thereto, in both machine-readable form and human-readable form.

“Software Licensing” has the meaning set forth in Section 2.5(b).

“SOL Purchaser Claims” means any claim by the Purchaser under Article VIII for Purchaser Losses arising out of or relating to a breach or inaccuracy of any representation or warranty contained in Section 3.9 (Tax Returns; Taxes) or Section 3.15 (Company Employee Benefit Plans).

“Tax” or “Taxes” means all federal, state, local and foreign taxes, assessments, charges, duties, fees, levies and other governmental charges, including income, franchise, stamp, capital stock, real property, personal property, withholding, employment, payroll, social security, social contribution, unemployment compensation, disability, transfer, sales, use, excise, gross receipts, value-added, premium, windfall profits, environmental, customs duty, profits, transaction, registration, alternative or add-on minimum and estimated taxes, composite taxes payable by the Company on behalf of shareholders, and all other taxes of any kind for which the Company has any liability imposed by any Governmental Entity, whether disputed or not, and any associated charges, interest, additions to tax, or penalties imposed by any Governmental Entity.

“Tax Return” means any report, return, declaration or other information return or other document (including schedules or any related or supporting information) required to be supplied to a Governmental Entity or other authority in connection with the determination, assessment or collection of any Tax or the administration of any Laws, regulations or administrative requirements relating to any Tax.

“Transaction Expenses” means any legal, accounting, financial advisory and other third party advisory, brokerage, or consulting fees and other expenses incurred by a Party in connection with the transactions contemplated by this Agreement and other related matters.

“Treasury Regulations” means any regulations promulgated under the Code.

“Vendors” means the top twenty (20) vendors, suppliers, materialmen and other subcontractors of the Company in terms of amounts paid to such Vendors during the Company’s fiscal year ended 2018 and the nine-month period ended September 30, 2019.

“Willdan” means Willdan Group, Inc., a Delaware corporation.

“Willdan Shares” means shares of common stock of Willdan Group, Inc., a Delaware corporation (NASDAQ: WLDN), par value \$0.01 per share.

“Year 1” has the meaning specified in Section 2.5(b).

“Year 1 EBITDA Target” has the meaning specified in Section 2.5(b).

“Year 2” has the meaning specified in Section 2.5(c).

“Year 2 EBITDA Target” has the meaning specified in Section 2.5(c).

“Year 3” has the meaning specified in Section 2.5(d).

“Year 3 EBITDA Target” has the meaning specified in Section 2.5(d).

Section 1.2 Construction. The Parties have participated jointly in the negotiation and drafting of this Agreement. If an ambiguity or question of intent or interpretation arises, this Agreement will be construed as if drafted jointly by the Parties and no presumption or burden of proof will arise favoring or disfavoring any Party because of the authorship of any provision of this Agreement. Unless the context of this Agreement otherwise clearly requires, (a) references to the plural include the singular, and references to the singular include the plural, (b) references to one gender include the other gender and neuter, (c) the words “include,” “includes” and

“including” do not limit the preceding terms or words and shall be deemed to be followed by the words “without limitation,” (d) the word “or” is not exclusive, (e) the terms “hereof,” “herein,” “hereunder,” “hereto” and similar terms in this Agreement refer to this Agreement as a whole and not to any particular provision of this Agreement, (f) unless otherwise specified, the terms “day” and “days” mean and refer to calendar day(s), and (g) unless otherwise specified, the terms “year” and “years” mean and refer to calendar year(s). Unless otherwise set forth herein, references in this Agreement to (i) any document, instrument or agreement (including this Agreement) (A) include and incorporate all exhibits, schedules and other attachments thereto, (B) include all documents, instruments or agreements issued or executed in replacement thereof, and (C) mean such document, instrument or agreement, or replacement or predecessor thereto, as amended, modified or supplemented from time to time in accordance with its terms and in effect at any given time; and (ii) a particular Law means such Law as amended, modified, supplemented or succeeded, from time to time and in effect at any given time at or prior to the Closing Date. All Article, Section, Exhibit and Schedule references herein are to Articles, Sections, Exhibits and Schedules of this Agreement, unless otherwise specified.

Section 1.3 Other Definitions. Each of the following terms is defined in the Section set forth opposite such term below:

<u>Term</u>	<u>Section</u>
Accountants	2.4(d)
Acquisition	Recitals
Agreement	Preamble
Causes of Action	6.5(a)
Certificates	2.3(a)
Claim Notice	8.3(a)
Closing TNAV	2.4(a)
COBRA	3.15(q)
Company	Preamble
Company Contracts	3.14(a)
Continuing Employee	6.6
Deductible	8.5
Direct Claim	8.3(a)
Dispute Period	8.3(b)
Earn-Out Disagreement	2.5(g)
Earn-Out Financial Statement	2.5(g)
Earn-Out Payment	2.5(a)
Earn-Out Period	2.5(a)
Earn-Out Resolution Discussions	2.5(i)
EBITDA	2.5(a)
Employee Benefit Plans	3.15(a)
ERISA Affiliate	3.15(a)
ERISA Plans	3.15(a)
Final Statement	2.4(b)
Final Statement Disagreement	2.4(c)
Indemnification Cap	8.5
Indemnification Claims	8.3(a)

Indemnified Party	8.3
Indemnifying Party	8.3
Initial Purchase Price	2.2(a)
Initial Purchase Price Adjustment	2.4(a)
Leases	3.5(a)
Licensed Professionals	3.13(a)
Parties	Preamble
Party	Preamble
Post-Closing Tax Period	3.9(e)
Pre-Closing Tax Period	3.9(e)
Proceeding	8.3(a)
Purchase Price	2.2(b)
Purchaser	Preamble
Purchaser Losses	8.1
Purchaser Plan	6.6(b)
Released Parties	6.5(a)
Releasing Parties	6.5(a)
Seller	Preamble
Seller Agreements	7.2(d)
Seller Losses	8.2
Seller Representative	9.12
Settlement	8.3(b)
Shares	Recitals
Straddle Period	6.3(b)
Target TNAV	2.4(a)
Third Party Claim	8.3(a)
Transfer Taxes	6.3(d)

ARTICLE II PURCHASE AND SALE

Section 2.1 Agreement to Purchase and Sell. Subject to the terms and conditions of this Agreement, each Seller hereby sells, transfers and delivers to the Purchaser, and the Purchaser hereby purchases and acquires from each Seller, free and clear of all Liens, all of the Shares owned by such Seller.

Section 2.2 Consideration.

(a) The aggregate cash amount to be paid by the Purchaser for the Shares at Closing shall be \$27,000,000 less \$1,500,000 (the "Holdback Amount") plus such number of shares ("Willdan Shares"), subject to a six (6) months restriction period, having a value equal to \$5,000,000 calculated based upon the volume weighted average price for the ten (10) Trading Days immediately following the Closing Date, excluding the Closing Date (the "Initial Purchase Price"). The Purchaser will cooperate with the registration of the shares, at no cost to the Sellers, upon request from the Sellers. The Purchaser shall pay the cash amount of the Initial Purchase

Price, to each of the Sellers in cash, via 6 wire transfers of immediately available funds, in accordance with Section 2.2(b). The Purchaser shall also pay the stock consideration of the Initial Purchase Price, to each of the Sellers via their designated stock brokerage accounts in accordance with Section 2.2(b). The Holdback Amount under Section 2.2(a) shall be paid to Sellers, or retained by Buyer, when, as and to the extent provided in accordance with Section 2.4 (a).

(b) The Initial Purchase Price due the Sellers and the Earn-Out Payment (as defined in Section 2.5) will be allocated among the Sellers in accordance with their ownership percentages of the Shares. The Initial Purchase Price is subject to adjustment pursuant to Section 2.4, and any such adjustment shall be allocated among the Sellers in accordance with their ownership percentages of the Shares. The Initial Purchase Price, as adjusted, and the Earn-Out Payment due hereunder will constitute the "Purchase Price" for purposes of this Agreement.

Section 2.3 Delivery of Certificates Evidencing Shares.

(a) At the Closing, each Seller shall deliver to the Purchaser (i) any and all certificates (the "Certificates") evidencing the Shares, and (ii) corresponding transfer instruments, in form and substance reasonably satisfactory to the Purchaser, executed for transfer. If any Certificate shall have been lost, stolen or destroyed, that Seller shall provide an affidavit of lost certificate, in form and substance reasonably satisfactory to the Purchaser, with respect to such Certificate.

(b) The Initial Purchase Price paid upon the Closing and surrender of Certificates in accordance with the terms of this Article II shall be deemed to have been exchanged and paid in full satisfaction of all rights pertaining to the Shares represented by such Certificates.

(c) At Closing, each Seller shall provide to Purchaser a completed W-9 Form.

Section 2.4 Adjustment to Initial Purchase Price.

(a) The Initial Purchase Price shall be adjusted upward or downward on a dollar-for-dollar basis (the "Initial Purchase Price Adjustment") to the extent that, as of the close of business on the Closing Date, the Company's tangible net asset value (the "Closing TNAV"), calculated as set forth below, is more or less than \$3,000,000 (the "Target TNAV").

(i) The Initial Purchase Price Adjustment will be determined by (A) preparing a Closing Date balance sheet that is mutually agreed to by the Parties, (B) calculating the difference between the Closing TNAV and the Target TNAV, and (C) making payment of the difference to the appropriate party.

(ii) The Closing TNAV will be calculated as (A) the Company's total tangible assets, including cash, as further described in subparagraph (b) below, less (B) the Company's total tangible liabilities (including all Transaction Expenses incurred by the Company and/or the Sellers and to be paid by the Company that have not be paid prior to Closing, and less (C) the Company's third party debt. For clarification, the Closing TNAV will be calculated from Seller's accounting system

on the accrual basis consistent with GAAP, and shall include any work in progress, deferred Taxes and accrued vacation, holiday, and sick time, as well as a pro rata portion of the expected year end bonus expense for all employees and any accrued liability for hard work or other incentive bonuses.

(b) Not later than sixty (60) days after the Closing Date, the amount of the Closing TNAV shall be determined and set forth in a statement to be prepared by the Seller Representative (the "Final Statement"). The Final Statement shall be prepared from Company's accounting system on the accrual basis according to Company's practices as consistently applied, which may not be in accordance with GAAP, and shall reflect all tangible assets and liabilities of the Company as of the Closing Date as described in subparagraph (a)(ii) above. The Parties agree that the earn-out liabilities payable under Section 2.5 hereof, will be accounted for on the Purchaser's books and records and, accordingly, will not be considered liabilities of the Company for purposes of calculating TNAV. Seller Representative shall have full access to the Company's books and records for purposes of preparing the Final Statement.

(c) The Seller Representative shall cause the Final Statement to be delivered to the Purchaser for review by the Purchaser and its accountants. The Final Statement shall be final and binding upon the Parties for all purposes, unless the Purchaser shall notify the Seller Representative in writing, not later than thirty (30) days from the Purchaser's receipt of the Final Statement, of a disagreement with the amounts reflected in the Final Statement (the "Final Statement Disagreement"), in which event the provisions of subparagraph (d) below shall apply. Such notice shall specify all items as to which there is disagreement, including the amount, and provide an explanation of the basis for such disagreement. During the 30-day review period, the Purchaser and its representatives shall have full access to the Company's books and records, and the Sellers shall make available to the Purchaser, at reasonable times and upon reasonable notice, the employees, representatives and agents of the Sellers who prepared, or assisted in the preparation of, the Final Statement. The failure of the Purchaser to timely notify the Seller Representative in writing of the existence of a Final Statement Disagreement shall be deemed, for all purposes, the Purchaser's acceptance of the Final Statement.

(d) In the event and to the extent that the Purchaser shall timely notify the Seller Representative in writing, as provided in subparagraph (c) above, of a Final Statement Disagreement, the Parties shall attempt, in good faith, to resolve such disagreement. In the event the Parties are unable to resolve such Final Statement Disagreement within ten (10) Business Days from the date of receipt by the Seller Representative of notice from the Purchaser of the Final Statement Disagreement, each of the Purchaser and the Seller Representative shall, within ten (10) Business Days, submit to representatives of a mutually agreed CPA firm (the "Accountants") its or his proposal concerning what the amount of Closing TNAV should be, together with all relevant financial data, and the Final Statement Disagreement shall be submitted for final and binding arbitration and resolution by the Accountants. In resolving the Final Statement Disagreement, the Accountants shall only consider those items or amounts in the Final Statement as to which the Parties disagree. After completing their review of the Final Statement Disagreement, the Accountants shall resolve each item in dispute and confirm their conclusion (and the resulting amounts) in

writing to the Seller Representative and the Purchaser. The Parties shall instruct the Accountants to deliver their written conclusion to the Purchaser and the Seller Representative no later than thirty (30) days following the conclusion of the presentation of the Purchaser's and the Seller Representative's respective proposals to the Accountants. The decision of the Accountants regarding such adjustment shall be final and binding upon the Parties for all purposes and enforceable in any court of competent jurisdiction. The fees and costs of the Accountants, if any, in connection with such arbitration shall be shared by the Sellers and the Purchaser in inverse proportion to the amounts in dispute determined to be for the account of the Sellers and the Purchaser, respectively.

(e) In the event the Closing TNAV is finally determined to equal or exceed the Target TNAV, the excess and the remaining balance of the Holdback Amount shall be paid to the Sellers in accordance with Section 2.2(b). In the event the Closing TNAV is finally determined to be less than the Target TNAV, the Buyer shall be entitled to retain a portion of the Holdback Amount equal to the Post-Closing Adjustment and within five Business Days of acceptance of the applicable Closing TNAV Statement the Seller Representative shall collect the amount of deficiency from the Sellers and pay to the Purchaser the full amount of such deficiency in cash. Any payment required by this subparagraph (e) shall be made within ten (10) days after the determination that there is no dispute among the Parties with respect to the Final Statement if there is no such dispute, or ten (10) days after the resolution of any such dispute (by arbitration or otherwise) pursuant to subparagraph (d) hereof.

Section 2.5 Earn-Out Consideration. In addition to the Initial Purchase Price, the Sellers may receive additional consideration of up to \$12,000,000 (the "Maximum Earnout") payable in cash, over a three-year earn-out period (the "Earn-Out Period") following the Closing Date. The earn-out, described below and credit as adjustment to earn-out agreement as set forth in Exhibit "A", will be paid in accordance with the following terms (it is being understood that the aggregate of all Earn-Out payments paid to Sellers pursuant to this Agreement shall not exceed the Maximum Earnout under any circumstances):

(a) With respect to the period of the first thirty-six months of operations as a unit of the Purchaser (the "Earn-Out Period"), the Purchaser will make an earn-out payment (the "Earn-Out Payment") based upon the Company's earnings before interest, taxes, depreciation and amortization ("EBITDA") during each year of the Earn-Out Period. For purposes of determining the earn-out, EBITDA is defined as earnings from operations of the Company determined in accordance with GAAP. The Purchaser's corporate-allocated overhead (excluding any charges borne by the Purchaser solely for the benefit of the Company that otherwise would have been incurred directly by the Company in the normal course of business regardless of the Transaction¹) shall not be included. Prior to each year of the Earn-Out Period, Purchaser and Seller Representative shall mutually agree on an estimated budget of charges that Purchaser reasonably anticipates incurring solely for the benefit of the Company under the parenthetical in the immediately preceding sentence. Purchaser shall also provide Seller Representative, on a monthly basis during the Earn-Out

Period, a statement showing in reasonable detail all such charges actually incurred by Purchaser for the prior month. To the extent such charges exceed the amounts the Company would reasonably have been expected to incur had charges been borne by the Company directly and not by Purchaser, and are not offset by cost reductions provided from other expense line items supplied by or procured by Purchaser, the Company will receive a credit towards EBITDA in an amount equal to the excess. To the extent that such Purchaser supplied cost reductions exceed any increases in costs, the Company will receive a debit against its EBITDA in an amount equal to the excess. If the Closing Date occurs on a date that is not the end of one of Purchaser's fiscal months, the Earn-Out Period will begin with the first full fiscal month of Purchaser's ownership.

(b) If the Company generates EBITDA of or exceeding \$[*] (the "Year 1 EBITDA Target") during the period beginning on the Closing Date and ending on the day prior to the first anniversary of the Closing Date (such period, "Year 1"), the Purchaser will make an Earn-Out Payment of \$4,000,000. For EBITDA of less than \$[*] but more than \$[*] for Year 1, the amount of the Earn-Out Payment will be calculated pro rata on the amount by which the Company's EBITDA is between \$[*] and \$[*]. No Earn-Out Payment is payable for Year 1 if the Company's EBITDA is less than \$[*]. The Earn-Out Payment is to be paid in cash to the Seller Representative for distribution to the Sellers under Sections 2.2(b) and (c) within eighty-five (85) days after the first anniversary of the Closing Date, or ten (10) days after the resolution of an Earn-Out Disagreement. If the maximum Earn-Out Payment of \$4,000,000 is not fully achieved in Year 1, the balance not earned shall be carried over into Year 2 as an addition to the maximum \$4,000,000 Earn-Out Payment potentially earned in that period. Additionally, if the Company's EBITDA for Year 1 exceeds or falls short of the Year 1 EBITDA Target, the excess shall be carried over into Year 2 as a credit or the shortfall shall be carried into Year 2 as a debit, to the Company's EBITDA for Year 2.

Year 1 Example #1: if the Company's EBITDA for Year 1 is \$[], the Earn-Out Payment would be [*]% of the \$4,000,000 total available for that period ($([*]/[*]) \times 4,000,000$), and the remaining Earn-Out Payment available for Year 1 ($4,000,000 - [*]$) would carry over into and be available in Year 2, such that the total Earn-Out Payment that could potentially be earned for Year 2 would be \$[*].*

Year 1 Example #2: if the Company's EBITDA for Year 1 is \$[], the Earn-Out Payment would be [*]% of the \$4,000,000 total available for that period, and \$[*] of the Company's EBITDA for that period ($[*] - [*]$) would be carried over into Year 2 and credited towards the Company's EBITDA for Year 2.*

(c) If the Company generates EBITDA of or exceeding \$[*] (the "Year 2 EBITDA Target") during the period beginning on the first anniversary of the Closing Date and ending on the day prior to the second anniversary of the Closing Date (such period, "Year 2"), the Purchaser will make an Earn-Out Payment of \$4,000,000 plus any carry over from Year 1 as described in (b) above. For EBITDA of less than \$[*] but more than \$[*] for Year 2, the Earn-Out Payment will be calculated pro rata on the amount by which the Company's EBITDA is between \$[*] and \$[*]. No Earn-Out Payment is payable for Year 2 if the Company's EBITDA is less than \$[*]. The Earn-Out Payment is to be paid

in cash to the Seller Representative for distribution to the Sellers under Section 2.2(b) within eighty-five (85) days after the second anniversary of the Closing Date, or ten (10) days after the resolution of an Earn-Out Disagreement. If the maximum Earn-Out Payment is not fully achieved in Year 2 (which maximum shall be \$4,000,000 plus any portion of the Earn-Out not fully achieved in Year 1 that has been carried over into Year 2), the balance shall be carried over into Year 3. Additionally, if the Company's EBITDA for Year 2 exceeds or falls short of the Year 2 EBITDA Target, the excess shall be carried over into Year 3 as a credit or the shortfall shall be carried into Year 3 as a debit, to the Company's EBITDA for Year 3.

Year 2 Example #1: if the Company's EBITDA for Year 2 is \$[], and 50% of the Earn-Out Payment for Year 1 had been carried over into Year 2, the Earn-Out Payment earned in Year 2 would be 50% of the \$6,000,000 total available for that period ($([*]/[*]) \times 6,000,000$), and the remaining Earn-Out Payment available for Year 2 ($6,000,000 - [*]$) would carry over into and be available for Year 3, such that the total Earn-Out Payment that could potentially be earned for Year 3 would be \$[*].*

Year 2 Example #2: if the Company's EBITDA for Year 2, without taking into account any credits from Year 1, is \$[], and the Company is entitled to a \$[*] credit to EBITDA for Year 2 based on the foregoing Year 1 Example #2, the Company's total EBITDA for purposes of the Year 2 calculation would be \$[*]. As such EBITDA exceeds the Year 2 EBITDA Target by \$[*] ($[*] - [*]$), such excess would be carried over into Year 3 and applied as a credit to the Company's EBITDA for that year.*

(d) If the Company generates EBITDA of or exceeding \$[*] (the "Year 3 EBITDA Target") during the period beginning on the second anniversary of the Closing Date and ending on the day prior to the third anniversary of the Closing Date (such period, "Year 3"), the Purchaser will make an Earn-Out Payment of \$4,000,000 plus any carry over from Year 2 as described in (d) above. For EBITDA of less than \$[*] but more than \$[*], the Earn-Out Payment will be calculated pro rata on the amount by which the Company's EBITDA is between \$[*] and \$[*]. No Earn-Out Payment is payable if the Company's EBITDA is less than \$[*] for Year 3. The Earn-Out Payment is to be paid in cash to the Seller Representative for distribution to the Sellers under Sections 2.2(b) and (c) within eighty-five (85) days after the third anniversary of the Closing Date, or ten (10) days after the resolution of an Earn-Out Disagreement.

Year 3 Example: if the Company generates EBITDA during Year 3 of \$[], and the total Earn-Out Payment that could potentially be earned for Year 3 was \$[*] due to the carry over described in the example in Section 2.5(c), the Earn-Out Payment for Year 3 would be ($([*]/[*]) \times [*]$) = [*].*

(e) The financial statement showing the Company's EBITDA for each year of the Earn-Out Period (the "Earn-Out Financial Statement") shall be prepared by the Purchaser in accordance with GAAP and delivered to the Seller Representative no later than forty-five (45) days following the end of each year of the Earn-Out Period. Unless

there is a disagreement with the Earn-Out Financial Statement (an “Earn-Out Disagreement”) (which shall be resolved in accordance with subparagraph (h) below), the Purchaser shall, within ten (10) days following the acceptance or deemed acceptance by the Seller Representative of the Earn-Out Financial Statement, pay the appropriate Earn-Out Payment to the Seller Representative in cash via wire transfer of immediately available funds for appropriate distribution under Sections 2.2(b) and (c). If there is an Earn-Out Disagreement, the amount of the Earn-Out Payment not in dispute shall be paid pursuant to the immediately preceding sentence.

(f) The Earn-Out Financial Statement shall be final and binding upon the parties hereto unless the Seller Representative shall notify the Purchaser in writing, not later than thirty (30) days from the Seller Representative’s receipt of the Earn-Out Financial Statement, of an Earn-Out Disagreement. Such notice of Earn-Out Disagreement shall specify all items as to which there is an Earn-Out Disagreement, including the amount, and provide an explanation of the basis for such Earn-Out Disagreement; provided, however, that the Seller Representative shall not be precluded from raising additional points of disagreement or providing additional explanations in the subsequent discussions and arbitration discussed in subparagraph (i) below. The Seller Representative’s failure to timely notify the Purchaser in writing of the existence of an Earn-Out Disagreement shall be deemed, for all purposes, to be the Seller Representative’s acceptance of the Earn-Out Financial Statement.

(g) In the event and to the extent that the Seller Representative shall timely notify the Purchaser in writing, as provided in subparagraph (g) above, of an Earn-Out Disagreement, the Parties hereto shall attempt, in good faith, to resolve such Earn-Out Disagreement (“Earn-Out Resolution Discussions”). In the event that the Parties are unable to resolve such Earn-Out Disagreement within twenty (20) Business Days after the date of receipt by the Purchaser of notice from the Seller Representative of the Earn-Out Disagreement, the Purchaser and the Seller Representative shall, within ten (10) Business Days, submit to the Accountants its or his proposal to settle the Earn-Out Disagreement. Further, the Parties shall submit to the Accountants all relevant financial data, and the Earn-Out Disagreement shall be submitted for final and binding arbitration and resolution by the Accountants. In resolving the Earn-Out Disagreement, the Accountants shall only consider those items or amounts in the Earn-Out Financial Statement as to which the Parties have continued to disagree after the Earn-Out Resolution Discussions. After completing their review of the Earn-Out Disagreement, the Accountants shall resolve each item in dispute and confirm their conclusion in writing to the Seller Representative and the Purchaser. The Parties shall instruct the Accountants to deliver their written conclusion to the Purchaser and the Seller Representative no later than thirty (30) days following the conclusion of the presentation of the Purchaser’s and the Seller Representative’s respective proposals on the Earn-Out Disagreement to the Accountants. The decision of the Accountants shall be final and binding upon the parties hereto for all purposes and enforceable in any court of competent jurisdiction. Within ten (10) days following the decision of the Accountants, the Purchaser shall make the required payment in cash to the Seller Representative for appropriate distribution, via wire transfer of immediately available funds. The fees and costs of the Accountants, if any, in connection with such arbitration shall be shared by the

Purchaser and the Sellers in inverse proportion to the amounts of the disputed EBITDA amount determined to be for the account of the Sellers and the Purchaser, respectively.

(h) The Purchaser will make the work papers and back-up materials used in preparing the Earn-Out Financial Statements, and the books, records and financial staff of the Purchaser and the Company, available to the Seller Representative and his accountants and other representatives at reasonable times and upon reasonable notice at any time during (A) the preparation by the Purchaser of the Earn-Out Statement, (B) the review by the Seller Representative of the Earn-Out Statement, and (C) the resolution by the Parties of any objections thereto.

(i) Until the expiration of the Earn-Out Period, except as consented to in writing by the Seller Representative, the Purchaser shall:

(i) conduct the operations of the Company in the usual and Ordinary Course to the extent such conduct is in compliance with the Purchaser's operating policies (copies of which have been provided to Seller Representative) and take no action intended to, or that would knowingly result in a reduction in EBITDA below that which would have been achieved if such action had not been taken;

(ii) use best efforts to maintain the relations and good will with suppliers, customers, landlords, creditors, employees, agents and others having business relationships with Company as of the Closing Date and during the Earn-Out Period;

(iii) maintain a financial reporting system that will separately account for EBITDA, and allow Seller Representative reasonable access to such system from time to time during the Earn-Out Period;

(iv) make reasonable commercial efforts to ensure that the Company maintains the services of any technical and management employees who are essential to perform any then current Contracts of the Company;

(v) not terminate, transfer, assign or novate to any Person any then current Contracts of the Company or those executed within the Earn-Out Period without first mutually agreeing to make a pro-rata adjustment of the Earn-Out targets;

(vi) regularly consult with and consider in good faith the recommendations and requests of the Seller Representative regarding management of then current projects, and bidding on new projects proposed to be undertaken by the Company;

(vii) consult with and consider in good faith the recommendations and requests of the Seller Representative regarding the budget for the Company during the Earn-Out Period;

(viii) consult with and consider in good faith the recommendations and requests of the Seller Representative regarding employees' salaries and bonuses and office openings and closures; and

(ix) provide as appropriate in the then current circumstances reasonable support to the Company as may be reasonably requested by the Seller Representative from time to time, in the Ordinary Course, including, without limitation, working capital, technical support, equipment, office space, supplies and assistance with recruiting and other corporate functions; provided, however, that any direct costs mutually agreed to be borne by the Purchaser solely for the benefit of the Company will be accrued for purposes of determining the Earn-Out Payment.

(j) Notwithstanding anything to the contrary in this Agreement, Purchaser shall not be obligated to pay all or any portion of the Earn-Out Payment on the date of such payment is otherwise due hereunder if and to the extent that the payment of such amount would result in a Senior Event of Default or a Senior Event of Default exists at the time of such contemplated payment. Purchaser shall pay any amount it is obligated to pay under this section as soon as the restrictions set forth in the preceding sentence no longer exist. Sellers acknowledge and agree that any failure by Purchaser to pay all or any portion of the Earn-Out Payment on the date otherwise due hereunder by virtue of this section shall not constitute a default under or a breach of this Agreement for any reason. The Senior Creditor shall be an express third-party beneficiary with respect to this section.

ARTICLE III REPRESENTATIONS AND WARRANTIES RELATING TO THE COMPANY

The Sellers hereby represent and warrant to the Purchaser, jointly and severally, as of the date hereof, that:

Section 3.1 Organization. The Company is a corporation duly organized, validly existing and in good standing under the laws of the State of California. The Company has all requisite corporate power and authority to own, lease and operate its properties and to carry on its Business as currently conducted. The Company is duly qualified to transact business as a foreign entity and is in good standing in each other jurisdiction in which the ownership or leasing of its properties or assets or the conduct of its Business requires such qualification except where the failure to qualify would not, individually or in the aggregate, have a Company Material Adverse Effect. A list of the jurisdictions in which the Company is qualified to conduct its Business is set forth in Schedule 3.1. The Sellers have previously made available to the Purchaser complete copies of the Company's articles of incorporation and bylaws, each as amended to date.

Section 3.2 Authorization. The Company has all necessary corporate power and authority to execute and deliver the Company Ancillary Documents to which it is a party and to perform its obligations thereunder and to consummate the transactions contemplated thereby. The execution, delivery and performance by the Company of the Company Ancillary Documents to which it is a party and the consummation of the transactions contemplated thereby have been duly authorized and approved by all necessary corporate action. When each of the agreements that are Company Ancillary Documents to which the Company is a party have been duly executed and delivered by the Company, and assuming due authorization, execution and delivery thereof by the other parties thereto, each such agreement will constitute the valid and binding agreement of the Company, enforceable against the Company in accordance with its terms, except as such

enforceability (a) may be limited by bankruptcy, insolvency, moratorium or other similar Laws affecting or relating to enforcement of creditors' rights generally, and (b) is subject to general principles of equity (regardless of whether enforceability is considered in a proceeding at law or in equity).

Section 3.3 Shares. The Shares owned by the Sellers constitute all of the outstanding Shares of the Company. Schedule 3.3 accurately and completely sets forth the number of all Shares of the Company that are authorized and outstanding, and the holder thereof. Except as set forth in Schedule 3.3, (a) there are no outstanding options, warrants, rights, calls, conversion rights, rights of exchange, subscriptions, or convertible or exchangeable securities relating to the Shares; (b) there are no distributions that have accrued but are unpaid on the Shares or other equity interests of the Company; (c) there are no outstanding Contracts of the Company or any Seller to purchase or otherwise acquire any outstanding Shares or other equity interests of the Company, or securities or obligations of any kind convertible into any Shares or other equity interests of the Company; and (d) there are no Contracts between any Seller and any other Person relating to the management of the Company or any equity interest of the Company.

Section 3.4 Absence of Restrictions and Conflicts.

(a) Except as set forth on Schedule 3.4(a), the consummation of the Acquisition and the other transactions contemplated by this Agreement and the Company Ancillary Documents does not and will not, (i) conflict with or violate the Company's articles of incorporation or bylaws, each as amended to date, (ii) conflict with or violate any Law applicable to the Company, or by which any property or asset of the Company is bound, or (iii) require any consent which has not been previously obtained or result in any violation or breach of or constitute (with or without notice or lapse of time or both) a default (or give to others any right of termination, amendment, acceleration or cancellation) under, or result in the triggering of any payments or result in the creation of any Lien or other encumbrance on any property or asset of the Company, in all cases, pursuant to any of the terms, conditions or provisions of any Contract to which the Company is a party, except with respect to clauses (ii) and (iii) for any such conflicts, violations, breaches, defaults or other occurrences that would not, individually or in the aggregate, reasonably be expected to result in a Company Material Adverse Effect.

(b) Except as set forth on Schedule 3.4(b), the execution and delivery by the Company of the Company Ancillary Documents to which it is a party does not, and the performance of its obligations thereunder will not, require any consent, approval, authorization or permit of, or filing with or notification to, any Governmental Entity, except where such consent, approval, authorization or permit has been previously obtained, such filing or notification has been previously made, or where the failure to obtain such consents, approvals, authorizations or permits, or to make such filings or notifications, would not, individually or in the aggregate, reasonably be expected to result in a Company Material Adverse Effect.

Section 3.5 Real Property.

(a) Schedule 3.5(a) correctly identifies all Leased Real Property, and the Sellers have delivered, or caused to be delivered, to the Purchaser all leases, agreements and

subleases, and any amendments thereto, with respect to such Leased Real Property (the “Leases”). The Leases are in full force and effect, and there are no existing material defaults or any events that with the passage of time or the giving of notice, or both, would constitute an event of default by the Company under any Lease to which it is a party, or, to the Knowledge of the Sellers, by any other party to any Lease. Except as described in Schedule 3.5(a), no consent, waiver, approval or authorization that has not been previously obtained is required from the landlord or lessee under any Lease as a result of the execution of this Agreement or the consummation of the transactions contemplated hereby.

(b) The Company does not own, or has never owned, any interest in any parcel of real property.

(c) With respect to each piece of Leased Real Property, the Company, as applicable, has a good and valid leasehold interest, and, to the Knowledge of the Sellers, each such leasehold interest is free and clear of any Lien except for Permitted Liens, except as set forth on Schedule 3.5(c). To the Knowledge of the Sellers, there are no pending or threatened condemnation proceedings, lawsuits or administrative actions relating to the Leased Real Property. Other than the Company, as applicable, to the Knowledge of the Sellers, there are no parties in possession or parties having any rights to occupy any of the Leased Real Property that is leased by the Company.

(d) Each piece of Leased Real Property is adequate and suitable in all material respects for the purposes for which it is currently being used. To the Knowledge of the Sellers, the Company has reasonably adequate rights of ingress and egress with respect to all Leased Real Property and the improvements thereon pursuant to public streets and roads or by good, marketable and insurable appurtenant easements.

(e) The Company does not owe any brokerage commission with respect to any Leased Real Property.

(f) The Leased Real Property constitutes all of the real property utilized by the Company in the operation of its Business and is sufficient for the Company to operate the Business as currently conducted.

Section 3.6 Title to Assets; Related Matters. Except as set forth in Schedule 3.6, the Company has good and marketable title to all of its properties and assets, free and clear of all Liens, except Permitted Liens. All material equipment and other material items of tangible personal property and assets of the Company (a) are in good operating condition and capable being used for their intended purposes, ordinary wear and tear excepted, and (b) are usable in the Ordinary Course. There has not been any significant interruption of operations of the Business due to, or notice from any Governmental Entity with respect to, inadequate maintenance by the Company of any tangible personal property and assets. Except as disclosed in Schedule 3.6 or incurred in the Ordinary Course, since February 28, 2018, the Company has not sold, transferred or disposed of any material assets. The assets and properties of the Company constitute all of the material assets, services, properties, goodwill and rights (including Company Intellectual Property rights) used in the business of the Company as currently conducted. All of the Business assets and properties located at the Leased Real Property are owned or validly leased by the Company, as

applicable. No asset or property used in, or held for use in, the Business is leased from or owned by any Seller or an Affiliate of any Seller (other than the Company).

Section 3.7 Financial Statements. Complete copies of the Company's audited financial statements consisting of the balance sheet of the Company at December 31st, 2018 and the related statements of income and retained earnings, stockholders' equity and cash flow for the year then ended (the "Audited Financial Statements") are attached as Schedule 3.7, and unaudited financial statements consisting of the balance sheet of the Company as at September 30, 2019 and the related statement of income for the nine month period then ended (the "Interim Financial Statements") and together with the Audited Financial Statements, (the "Financial Statements") are included in the Disclosure Schedule and have been delivered to Buyer. The Financial Statements have been prepared in accordance with GAAP applied on a consistent basis throughout the period involved, subject, in the case of Interim Financial Statements, to normal and recurring year-end adjustments (the effect of which will not be materially adverse) and the absence of notes that, if presented, would not differ materially from those presented in the Audited Financial Statements. The Financial Statements are based on the books and records of the Company, and fairly present the financial condition of the Company as of the respective dates they were prepared and the results of the operations of the Company for the periods indicated and include the accrual of a pro-rata share of any reasonably expected bonus pools to be paid from the earnings of the Company upon the completion of the fiscal year. The balance sheet of the Company as of December 31, 2018 is referred to herein as the "Balance Sheet" and the date thereof as the "Balance Sheet Date" and the balance sheet of the Company as of September 30, 2019 is referred to herein as the "Interim Balance Sheet" and the date thereof as the "Interim Balance Sheet Date". The Company maintains a standard system of accounting established and administered in accordance with GAAP. No unbilled revenue has been recorded, no accrual has been provided for vacation, holiday or sick pay accrued by employees, and no provision for deferred Taxes has been made in the Financial Statements.

Section 3.8 Accounts Receivable. All billed and unbilled accounts receivable of the Company (a) arose in the Ordinary Course, (b) except as provided in the associated allowance for doubtful accounts on the Final Statement, are valid, existing and, collectible without resort to legal proceedings or collection agencies, and (c) except as set forth on Schedule 3.8, are not subject to any refund or adjustment or, any defense, right of set-off, assignment, restriction, security interest or other lien. Except as set forth on Schedule 3.8, no third party has initiated or threatened in writing to initiate, a dispute regarding the collectability of any accounts receivable. All billed and unbilled accounts receivable reflected in the Final Statement, net of the associated allowance for doubtful accounts, are fully collectible within three hundred and sixty-five (365) days after the date hereof and payable at their face amounts. The Company has never factored any of its respective accounts receivable. No account receivable set forth on Schedule 3.8 is with a party with whom the Company has had or settled a dispute regarding the collection of any past account receivable.

Section 3.9 Tax Returns; Taxes.

(a) The Company has timely filed with all appropriate Governmental Entities all income and other Tax Returns required to be filed prior to the Closing Date by it in respect of all applicable Taxes of the Company. All such Tax Returns are correct and complete in all material respects and were prepared in compliance in all material respects with applicable Law. All Taxes due, or claimed to be due by any Tax authority, pursuant thereto (whether or not shown as due on any Tax Return) were paid when due.

(b) To the Knowledge of the Sellers, no written claim has ever been made by a Governmental Entity in a jurisdiction in which the Company does not file Tax Returns that the Company is or may be subject to taxation by that jurisdiction.

(c) There are no Liens on any of the assets of the Company that arose in connection with any failure (or alleged failure) to pay any Tax (other than Permitted Liens).

(d) Except as set forth in Schedule 3.9(d), the Company has collected and withheld all Taxes that they have been required to collect or withhold and have timely submitted all such collected and withheld Taxes to the appropriate authorities. The Company has complied in all material respects and is in compliance in all material respects with all applicable Laws relating to the payment, withholding and information reporting requirements relating to any Taxes required to be collected or withheld. All individuals paid for services by the Company have been properly classified as either employees or independent contractors in accordance with the Code and applicable Tax laws.

(e) Except as set forth in Schedule 3.9(e), the Company will not be required to include any item of income in, or exclude any item of deduction from, taxable income for any period ending after the Closing Date (each, a "Post-Closing Tax Period") as a result of any (i) change in accounting method for any period ending on or prior to the Closing Date (each, a "Pre-Closing Tax Period") under Section 481 of the Code (or any analogous or comparable provision of United States, state or local or non-United States Tax law) other than as a result of the transactions contemplated hereunder, (ii) written agreement with a Tax authority with regard to the Tax liability of the Company for any Pre-Closing Tax Period, (iii) deferred intercompany gain described in United States Treasury Regulations under Section 1502 of the Code (or any corresponding or similar provision of state, local or non-United States Tax law) arising from any transaction that occurred prior to the Closing Date or prior to the Closing on the Closing Date, (iv) installment sale or open transaction disposition made prior to the Closing Date or prior to the Closing on the Closing Date, or (v) prepaid amount received on or prior to the Closing Date.

(f) To the Knowledge of the Sellers, there is no notice from any Governmental Entity with respect to the assessment of any additional Taxes for any period for which Tax Returns have been or will be filed. There is no Litigation concerning any Liability for Taxes of the Company, either (i) claimed or raised by any Governmental Entity and delivered to the Company in writing, or (ii) to the Knowledge of the Sellers, based upon personal contact with any agent of such Governmental Entity. No Tax audits or other administrative proceedings are presently pending or, to the Knowledge of the Sellers, threatened with respect to any Taxes for which the Company has been or could be liable.

(g) The Company has made available to the Purchaser true, correct and complete copies of all federal, state, local and foreign Tax Returns and all written communications from or to the IRS or other Governmental Entity in the Company's custody, possession or control and relating to any such Tax Returns, examination reports and statements of deficiencies filed, assessed against or agreed to by the Company since December 31, 2013.

(h) The Company has not executed or entered into with any taxing authority (i) any agreement, waiver or other document extending or having the effect of extending or waiving the period for assessments or collection of any Taxes for which the Company would or could be liable, (ii) any closing agreement pursuant to Section 7121 of the Code, or any predecessor provision thereof or any similar provision of state, local or foreign Tax law that relates to the assets or operation of the Company, or (iii) any power of attorney with respect to any Tax matter that is currently in force.

(i) Except as set forth in Schedule 3.9(i), no Tax assessment or deficiency which has not been paid, or for which an adequate reserve has not been set aside, has been made or proposed in writing against the Company, nor are any of the Tax Returns now being or, to the Knowledge of the Sellers, threatened to be audited. All Tax deficiencies determined as a result of any completed audit have been satisfied. The Company has delivered or otherwise made available to the Purchaser complete copies of all audit reports and statements of deficiencies with respect to any Tax assessed against or agreed to by the Company for the three most recent taxable periods for which such audit reports and statements of deficiencies have been received by the Company.

(j) The Company is not a party to any agreement, contract, arrangement or plan that has resulted or would result, separately or in the aggregate, in the payment of any "excess parachute payment" within the meaning of Code Section 280G (or any corresponding provision of state, local, or foreign Tax Law) in connection with the transactions contemplated by this Agreement.

(k) The Company is not a party to or bound by any Tax sharing, Tax indemnity or Tax allocation agreement or other similar arrangement, excluding, however, any agreement or arrangement the primary purpose of which is not the allocation or payment of Tax liability and in which such provisions regarding Taxes are typical of such agreements or arrangements.

(l) Except as set forth in Schedule 3.9(l), the Company has not been a member of an affiliated group filing a consolidated federal income Tax Return.

(m) The Company has no material liability for the Taxes of any Person other than the Company (A) under Reg. Section 1.1502-6 (or any similar provision of state, local or foreign Law), (B) as a transferee or successor, or (C) by a contract other than contracts entered into in the Ordinary Course or any agreement or arrangement the primary purpose of which is not the allocation or payment of Tax liability and in which such provisions regarding Taxes are typical of such agreements or arrangements.

(n) To the Knowledge of the Sellers, the Company will not be required to make an adjustment to any Tax attribute of, or the basis of any asset of, the Company under Section 1.1502-36(d) of the Treasury Regulations as a result of the transactions contemplated by this Agreement.

(o) The Company is not under examination by any taxing authority.

Section 3.10 No Undisclosed Liabilities. Except as set forth in the Financial Statements or Schedule 3.10, the Company has no Liabilities of a nature required by GAAP to be reflected on the face of a balance sheet or in the notes thereto, other than (a) Liabilities incurred since the date of the Balance Sheet in the Ordinary Course, (b) forward-looking obligations to perform under any Contracts of the Company, or (c) the matters disclosed in or arising out of matters set forth in the schedules to this Agreement.

Section 3.11 Absence of Certain Changes. Since September 15, 2019, and except as set forth in Schedule 3.11 and for matters incurred in the Ordinary Course, (a) there has not been any Company Material Adverse Effect or any state of facts, circumstance, event, change, effect or occurrence that, individually or in the aggregate, would reasonably be expected to result in a Company Material Adverse Effect, and (b) the Company has not:

(i) amended its organizational documents or merged or consolidated with any other Person, or changed or agreed to rearrange in any manner the character of its Business;

(ii) failed to maintain its Books and Records in the Ordinary Course;

(iii) issued, sold or purchased any options or rights to subscribe, with respect to its capital stock or other equity interests, or entered into any Contract or commitment to issue, sell or purchase, any shares of its capital stock or other equity interests;

(iv) issued any note, bond or other debt security, or created, incurred, assumed or refinanced any Indebtedness, or guaranteed any Indebtedness, or incurred or assumed any Liability (whether or not currently payable), or incurred any Lien on any of its assets or rights;

(v) acquired any assets or properties or made or authorized, accelerated or deferred any capital expenditures;

(vi) declared, set aside or paid any dividends or made any other distributions of any kind to its shareholders or holders of equity interests, or made any direct or indirect redemption, retirement, purchase or other acquisition of any shares of its capital stock, units or other equity interests;

(vii) changed any of its accounting or tax methods, policies, practices, or principles, changed its reserve amounts or policies, changed any depreciation or amortization policies or previously adopted rates, or written-off as uncollectible any accounts receivable;

- (viii) amended any Tax Return;
- (ix) changed any working capital practice, including accelerated any collections of cash or accounts receivable or deferred or delayed payments, or failed to make timely accruals, with respect to accounts payable and Liabilities incurred in the Ordinary Course;
- (x) materially damaged any material assets or properties of the Company, or any other Person, or incurred or caused any material loss, destruction or casualty not covered by insurance;
- (xi) settled or compromised any Litigation or waived or released any material right of the Company;
- (xii) paid, discharged or satisfied any Liability or Lien other than Indebtedness as it matures and becomes due and payable;
- (xiii) compromised or settled any issue relating to Taxes of the Company, agreed to any adjustment of any Tax attribute of the Company, or made any material election with respect to Taxes;
- (xiv) acquired, sold, transferred, or disposed of, or agreed to acquire, sell, transfer, or otherwise dispose of, or entered into any agreement requiring the consent of any party to the transfer and assignment of, any material assets or rights (including management and control thereof) of the Company;
- (xv) (A) hired any individual as an employee, (B) hired or engaged any individual as a consultant or independent contractor of the Company, (C) increased the annual salary, bonus or other compensation payable or to become payable to any employee, consultant or independent contractor of the Company, other than normal year-end increases; (D) increased the coverage or benefits available under any existing, or created any new, severance pay, termination pay, vacation pay, company awards, salary continuation for disability, sick leave, deferred compensation, bonus or other incentive compensation, insurance, pension or other employee benefit plan or arrangement or otherwise modified or amended or terminated any such plan or arrangement, (E) entered into any employment, deferred compensation, severance, consulting, non-competition or similar agreement (or amended any such existing agreement) with any employee, consultant or independent contractor of the Company, except, in each case, as required by applicable Law or by the terms of any Employee Benefit Plan, or (F) transferred any employment contract or arrangement of any employee, consultant or independent contractor of the Company to any Affiliate of any Seller;
- (xvi) made any loans to any of its Affiliates or Representatives or changed any of its existing borrowing or lending arrangements for or on behalf of any of such Persons pursuant to an Employee Benefit Plan or otherwise;
- (xvii) entered into, modified or terminated any labor or collective bargaining agreement covering any employee of the Company or, through

negotiations or otherwise, made any commitment or incurred any Liability to any labor organization or other group representing any employee of the Company or group thereof;

(xviii) entered into any transaction between the Company, on the one part, and any of the Affiliates of the Company, on the other part;

(xix) entered into any material real estate or personal property lease (as lessor or lessee);

(xx) made any changes in any of its sales practices or credit terms;

(xxi) waived any rights of material value or taken any actions with respect to collection practices that would reasonably be expected to result in any material losses or material adverse changes in collection loss experience;

(xxii) changed its manner of managing working capital; or

(xxiii) entered into any Contract outside the Ordinary Course, to do any of the things described in the preceding clauses (i) through (xxi).

Section 3.12 Legal Proceedings. Schedule 3.12 sets forth all Litigation of the Company for the three years prior to the date hereof, including the name of the claimant, the date of the alleged act or omission, a narrative as to the nature of the alleged act or omission, the date the matter was referred to an insurance carrier (if referred), the estimated amount of exposure, the amount the Company has accrued with respect to such matter, or the amount of the Company's claim and estimated expenses in connection with such matters. Except as set forth on Schedule 3.12, there is no current Litigation to which the Company is a party or in which the Company is otherwise involved, and, to the Knowledge of the Sellers, no such Litigation has been threatened by any Person. The Company has no Liability with respect to any past Litigation to which it was a party or was otherwise involved which is not fully covered by insurance policies. There is no Order or other determination of an arbitrator or Governmental Entity specifically applicable to the Company, or any of the Company's assets or properties. There is no Litigation relating to alleged unlawful discrimination or sexual harassment or any other Litigation that if determined adversely to the Company would be deemed a violation of Section 3.13 hereof. There is no Litigation which seeks to prevent, or seeks Damages in connection with, consummation of the Acquisition or the other transactions contemplated hereby or by the Company Ancillary Documents.

Section 3.13 Compliance with Laws.

(a) Except as set forth in Schedule 3.13, to the Knowledge of the Sellers, the Company's employees, consultants and independent contractors who are required as related to the Business to obtain and maintain Licenses in respect of their duties to the Company (such employees, consultants and independent contractors collectively, the "Licensed Professionals") have maintained and have materially complied with, and maintain and are in material compliance with, all Licenses and Laws applicable to the Company, the Business, and the Licensed Professionals. To the Knowledge of the Sellers, all such Licenses held by the Company or the Licensed Professionals are valid and in full

force and effect, and there is no Litigation that could reasonably be expected to result in the termination, impairment or nonrenewal thereof.

(b) Except as set forth in Schedule 3.13, the Company, and its respective properties, assets, business and operations, have been and are being operated and have been and are in compliance in all material respects with all Laws and Orders applicable to such properties, assets, business or operations. The Company has not received a written notice or other written communication alleging a possible violation of any Law or Order applicable to its properties, assets, business or operations, and no such written notice, communication or allegation has been threatened in writing.

(c) Neither the Company nor any of its respective shareholders, directors, or officers, or to the Knowledge of the Sellers, employees, managers, agents or other representatives, has, in connection with the Business, directly or indirectly offered, paid or promised to pay, or authorized the payment of, any money or other thing of value or any commission payment payable, to: (i) any person who is a Foreign Official; or (ii) any other Person, in either case in violation of any applicable Law for any of the following purposes: (x) influencing any action or decision of such Person in such Person's official capacity, including a decision to fail to perform such Person's official function; (y) inducing such Person to use such Person's influence with any Governmental Entity to affect or influence any act or decision of such Governmental Entity to assist the Company in obtaining or retaining business for, with, or directing business to, any Person; or (z) where such payment would constitute a bribe, kickback or illegal or improper payment to assist the Company in obtaining or retaining business for, with, or directing business to, any Person.

Section 3.14 Company Contracts.

(a) Schedule 3.14(a) sets forth a correct and complete list of the following Contracts and bids to which the Company is a party, by which the Company, or any of their respective assets or properties, is subject, or by which the Company is otherwise bound (collectively, the "Company Contracts") (other than the Employee Benefit Plans described in Section 3.15, the Employment Agreements described in Section 3.17 and the insurance policies described in Section 3.18) and:

- (i) any voting trusts or similar agreements relating to any of the Shares to which any Seller or the Company is a party;
- (ii) all bonds, debentures, notes, loans, credit or loan agreements or loan commitments, mortgages, indentures, guarantees or other Contracts evidencing or governing Indebtedness;
- (iii) any Contracts relating to the making of any loan or advance by the Company;
- (iv) all leases or licenses involving any personal property or asset requiring the payment by the Company of an amount in excess of \$10,000 per lease or license;

- (v) any Contract that imposes any non-compete, non-solicitation or exclusivity restriction on the Company with respect to any line of the Business in which the Company is currently engaged or geographic area with respect to the Company;
- (vi) any Contract that limits the ability of the Company to own, operate, sell, transfer, pledge or otherwise dispose of any assets or property;
- (vii) all Contracts for capital expenditures or the acquisition or construction of fixed assets requiring the payment by the Company of an amount in excess of \$25,000 per Contract;
- (viii) all Contracts granting to any Person (other than the Company) an option or a first refusal, first-offer or similar preferential right to purchase or acquire any assets which are material to the Company;
- (ix) any sales, broker, distributor, dealer, representative, franchise or agency agreements;
- (x) all joint venture or partnership Contracts and all other similar Contracts providing for the sharing of any profits by the Company;
- (xi) all Contracts involving the sale or purchase of substantially all of the assets or equity of any Person, or a merger, consolidation or business combination transaction;
- (xii) all current Contracts with any Customers of the Company pursuant to which the Company expects to receive at least \$250,000;
- (xiii) all current Contracts with any Vendors pursuant to which the Company expects to spend at least \$100,000;
- (xiv) any Contract, other than Contracts with Customers, Vendors or suppliers of the Company entered into in the Ordinary Course, under which the Company has agreed to indemnify, or to provide any warranty or guaranty in favor of, any Person;
- (xv) any license, sublicense or royalty agreement, including any agreement pursuant to which the Company licenses the right to use any Company Intellectual Property that is owned by the Company to any Person or from any Person, and any research and development agreements by which Company Intellectual Property has been created;
- (xvi) any Government Contract the period of performance of which has not yet expired;
- (xvii) any pending Government Bid;
- (xviii) any non-Customer Contract that (A) cannot be terminated by the Company, as applicable, upon thirty (30) days or less notice any time without

penalty or payment of cash consideration in excess of \$25,000 to the counterparty and (B) involves aggregate consideration in excess of \$50,000;

(xix) any Contract that requires the payment of commissions, finder's fees or similar payments by the Company;

(xx) all other Contracts not made in the Ordinary Course which are material to the Company; and

(xxi) any Contract, other than as set forth above, to which the Company, or any Affiliate of the Company, is a party, the breach, violation or termination of which, or default under, by any party thereto, would reasonably be expected to result in a Company Material Adverse Effect.

(b) Correct and complete copies of all Company Contracts have been made available to the Purchaser to the extent such Company Contracts are in the Company's possession or control. The Company Contracts (other than Government Bids) are legal, valid, binding and enforceable in all material respects in accordance with their respective terms with respect to the Company, and, to the Knowledge of the Sellers, each other party to such Company Contracts.

(c) Except as set forth in Schedule 3.14(c):

(i) there is no default under any Company Contract by the Company or, to the Knowledge of the Sellers, by any other party thereto, and no event has occurred that with the lapse of time or the giving of notice or both would constitute a material default thereunder by the Company or, to the Knowledge of the Sellers, any other party;

(ii) no party to any Company Contract has given written notice to the Company or, to the Knowledge of the Sellers, oral notice to the Company, of or made a claim against the Company with respect to any breach or default thereunder;

(iii) no party to any Company Contract has given written notice to the Company or, to the Knowledge of the Sellers, oral notice to the Company that it intends to cancel, withdraw, modify or amend any such Contract;

(iv) with respect to each Company Contract, (A) to the Knowledge of the Sellers, the Company, as applicable, has complied with all material terms and conditions of such Company Contract, including all clauses, provisions and requirements incorporated expressly or by reference therein; (B) the Company, as applicable, has complied, in all material respects, with all requirements of any statute, rule, regulation or Order of any Governmental Entity or any agreement pertaining to such Company Contract; (C) to the Knowledge of the Sellers, all representations and certifications executed, acknowledged or set forth in or pertaining to such Company Contract were current, accurate and complete in all material respects as of their effective date, and the Company, as applicable, has complied in all material respects with all such representations and certifications; (D) no Governmental Entity nor any prime contractor, subcontractor or other

Person has notified the Company, as applicable, in writing or, to the Knowledge of the Sellers, orally, that the Company, as applicable, has breached or violated any statute, rule, regulation, certification, representation, clause, provision or requirement; (E) in writing, no termination for convenience, termination for default, cure notice or show cause notice has been issued with respect to a Company Contract; (F) except for questions and disallowances in the Ordinary Course, no cost incurred by the Company has been questioned or disallowed by a Customer or Governmental Entity; and (G) to the Knowledge of the Sellers, except as permitted by the Company Contract or agreed to in the Ordinary Course, no money due to the Company, as applicable, has been withheld or set off;

(v) there exists (A) no financing arrangements with respect to the performance by the Company; (B) no outstanding claims or requests for financial adjustments against the Company, either by any party to a Company Contract, any Governmental Entity or by any prime contractor, subcontractor, vendor or other third party, arising under or relating to any Company Contract, other than claims as to which the Company has established a reserve; (C) to the Knowledge of the Sellers, no facts upon which such a claim or request for a financial adjustment would be reasonably expected to be validly based in the future, other than claims as to which the Company has established a reserve; (D) no contract disputes for which written notice has been given and to the Knowledge of the Sellers, no other contract disputes, in each case between the Company, as applicable, and any party to a Company Contract, any Governmental Entity or any prime contractor, subcontractor or vendor arising under or relating to any Company Contract, other than disputes as to which the Company has established a reserve;

(vi) to the knowledge of the Sellers, except as set forth in Schedule 3.14(c)(vi), (A) the revenue and profit associated with each of the Company Contracts, as applicable, have been recorded and (B) there exists no Company Contract, that the Company expects to receive at least \$500,000, with a period of performance that has not yet ended as to which the Company's, as applicable, estimated cost at completion (including material and labor costs, other direct costs, overheads and engineering costs, whether incurred or yet to be incurred), exceeds the aggregate contract revenue recorded or reasonably expected by the Sellers to be recorded under such Company Contract through completion in accordance with GAAP.

(d) Except as set forth in Schedule 3.14(d): (i) neither the Company, nor any of its directors, officers or, to the Knowledge of the Sellers, any employees or Representatives of the Company, is (or for the last five years has been) under administrative, civil or criminal investigation, indictment or information, audit or internal investigation, with respect to any alleged irregularity, misstatement or omission arising under or relating to any Government Contract or Government Bid or is (or for the last five years has been) in violation, in any material respect, of any statutes or regulations applicable to the Company that are specifically applicable to Government Contracts, including prohibitions against conflict of interest or any governmental accounting regulations; and (ii) the Company has not made a voluntary disclosure to any Governmental

Entity with respect to any alleged irregularity, misstatement or omission arising under or relating to any Government Contract or Government Bid that has led or could be expected to lead to any of the consequences set forth in clause (i) above or other Damages.

Section 3.15 Company Employee Benefit Plans.

(a) Schedule 3.15(a) contains a true and complete list of each employment, stock option or other equity based compensation, bonus, deferred compensation, incentive compensation, severance or other termination pay, change-in-control, health, disability, life, cafeteria, insurance, supplemental unemployment benefits, profit-sharing, pension or retirement plan, policy, program, agreement or arrangement, and each other employee benefit plan, program, agreement or arrangement, whether written or oral, sponsored, maintained, participated in or contributed to or required to be contributed to by the Company, or (without duplication) in the case of any employee benefit plan described in subsections (c), (d) or (e) below, any other entity that would be deemed a “single employer” within the meaning of Section 4001(b)(1) of ERISA (an “ERISA Affiliate”), for the benefit of any current or former employee, officer, manager or director of the Company, or any ERISA Affiliate (collectively, the “Employee Benefit Plans”). Schedule 3.15(a) identifies each of the Employee Benefit Plans that is an “employee welfare benefit plan,” or “employee pension benefit plan” as such terms are defined in Sections 3(1) and 3(2) of ERISA (the “ERISA Plans”). Except as contemplated under this Agreement or as required by Laws, neither the Company nor any ERISA Affiliate has any formal plan or commitment, whether legally binding or not, to create any additional Employee Benefit Plan or modify or change any existing Employee Benefit Plan that would affect any current or former employee, officer, manager or director of the Company or any ERISA Affiliate. The Company does not maintain any Employee Benefit Plan subject to a jurisdiction outside of, or for any employee, officer, manager or director of the Company, or any ERISA Affiliate, located or residing outside of, the United States.

(b) The Company has delivered or otherwise made available to the Purchaser a true and complete copy of:

(i) each Employee Benefit Plan and any related funding agreements (e.g., trust agreements or insurance contracts), including all amendments, and Schedule 3.15(b) includes a description of any such amendment that is not in writing);

(ii) the current draft of the Summary Plan Description of each Employee Benefit Plan (if applicable); and

(iii) the most recent Internal Revenue Service determination letter, advisory letter or opinion letter (if applicable) for each Employee Benefit Plan.

(c) Except as set forth in Schedule 3.15(c), neither the Company nor any ERISA Affiliate maintains or contributes to, or has within the last six (6) years maintained or contributed to, any Employee Benefit Plan that is subject to Title IV of ERISA, or Section 302 or Section 412 of the Code.

(d) Except as set forth in Schedule 3.15(d), no Employee Benefit Plan is a “multi- employer plan”, as defined in Section 3(37) of ERISA, nor is any Employee Benefit Plan a plan described in Section 4063(a) of ERISA. All contributions have been made to any multiemployer plan that are required to be made by the Company under the terms of the plan or of any collective bargaining agreement or by applicable law; the Company has not withdrawn or partially withdrawn from any multiemployer plan, incurred any withdrawal liability with respect to any such plan or received notice of any claim or demand for withdrawal liability or partial withdrawal liability from any such plan that has not been paid in full, and, to the Knowledge of the Sellers, no condition has occurred which, if continued, might result in a withdrawal or partial withdrawal by the Company from any such plan which results in withdrawal liability with respect to any plan; and the Company has not received any notice that any multiemployer plan is in reorganization, that increased contributions may be required to avoid a reduction in plan benefits or the imposition of any excise tax, that any such plan is or has been funded at a rate less than that required under Section 412 of the Code, that any such plan is or may be terminated, or that any such plan is or may become insolvent;

(e) To the Knowledge of the Sellers, no material liability under Title IV of ERISA has been incurred by the Company, or any ERISA Affiliate, since the effective date of ERISA that has not been satisfied in full, and to the Knowledge of the Sellers, no condition exists that presents a risk to the Company, or any ERISA Affiliate of incurring a liability under such title.

(f) All costs of administering and contributions required to be made on or prior to the date of this Agreement by the Company to each Employee Benefit Plan under the terms of that Employee Benefit Plan, ERISA, the Code or any other applicable Law have been timely made. All amounts properly accrued to date as Liabilities of the Company under or with respect to each Employee Benefit Plan (including administrative expenses and incurred but not reported claims) for the current plan year of the Employee Benefit Plan have been recorded on the Company’s books.

(g) Except as set forth in Schedule 3.15(g), each Employee Benefit Plan complies currently, and to the Knowledge of the Sellers has complied in the past, both in form and operation, in all material respects, with all Laws applicable at the relevant time, including but not limited to ERISA and the Code. Each Employee Benefit Plan has been operated in accordance with its terms in all material respects. Furthermore, except as set forth in Schedule 3.15(g), the Internal Revenue Service has issued a favorable determination letter, advisory letter, or opinion letter with respect to each Employee Benefit Plan that is intended to qualify under Section 401(a) of the Code, and to the Knowledge of the Sellers no event has occurred (either before or after the date of the letter) that would disqualify the plan.

(h) Each Employee Benefit Plan that is intended to meet currently applicable requirements for tax-favored treatment under Subchapter D of Chapter 1 of the Code is to the Knowledge of the Sellers, in compliance with such requirements and, if applicable, with the requirements of Sections 419 and 419A of the Code, and no “disqualified benefits”

(within the meaning of Section 4976(a) of the Code) have been paid which would subject the Company to a Tax under Code Section 4976.

(i) No prohibited transaction has occurred with respect to any of the Employee Benefit Plans which is not exempt under Section 4975 of the Code and Section 406 of ERISA and which would result in a material liability to the Company, and the Company has not engaged in any transaction with respect to any Employee Benefit Plan which could subject it to either a civil penalty of a material nature assessed pursuant to Section 409, 502(i) or 502(l) of ERISA, or a Tax of a material nature imposed pursuant to Section 4975 or 4976 of the Code.

(j) The Company does not maintain any plan that provides (or will provide) medical or death benefits to one or more former employees (including retirees) beyond their retirement or other termination of service, other than benefits that are required to be provided pursuant to Section 4980B of the Code or state Law continuation coverage or conversion rights.

(k) There is no Litigation and, to the Knowledge of the Sellers, there are no investigations, either currently in progress or expected to be instituted in the future, relating to any Employee Benefit Plan, by any administrative agency, whether local, state or federal.

(l) There are no pending or, to the Knowledge of the Sellers, threatened lawsuits or other claims (other than routine claims for benefits under the plan) against or involving (i) any Employee Benefit Plan or (ii) to the Knowledge of the Sellers, any Fiduciary of such Employee Benefit Plan (within the meaning of Section 3(21)(A) of ERISA) brought on behalf of any participant, beneficiary or Fiduciary thereunder, nor to the Knowledge of the Sellers, is there any reasonable basis for any such claim.

(m) The Company has no commitment to create any additional Employee Benefit Plan, or any intention or commitment to modify any existing Employee Benefit Plan other than changes that are necessary to comply with applicable Law.

(n) Except as set forth in Schedule 3.15(n), none of the Employee Benefit Plans or any other employment agreement or arrangement entered into by the Company will entitle any current employees or former employee to any benefits or other compensation that become payable solely as a result of the consummation of the transactions contemplated hereby.

(o) None of the Employee Benefit Plans are subject to the Tax on unrelated business taxable income or unrelated debt-financed income under Section 511 of the Code.

(p) The Company has complied, prior to the date hereof (to the extent applicable), with the provisions of the Worker Adjustment and Retraining Notification Act, if applicable.

(q) To the Knowledge of the Sellers, all reports, notices and other disclosure relating to Employee Benefit Plans required to be filed with, or furnished to, Governmental Entities, plan participants or plan beneficiaries have been timely filed and furnished in

accordance with applicable Law, including notices required to be furnished to employees under the Consolidated Omnibus Budget Reconciliation Act of 1995 (“COBRA”) upon the occurrence of a “qualifying event”, as defined at Section 4980B of the Code, except where the failure to do so would not result in material liability to the Company.

(r) To the Knowledge of the Sellers, no Employee Benefit Plan has any interest in any annuity contract or other investment or insurance contract issued by an insurance company that is the subject of bankruptcy, conservatorship, rehabilitation or similar Litigation.

(s) None of the persons performing services for the Company have been improperly classified as independent contractors or as being exempt from the payment of wages for overtime.

(t) Schedule 3.15(t) lists, as of January 1, 2019, each individual who is absent from active employment with the Company by reason of (i) short-term or long-term disability, (ii) leave of absence under the Family and Medical Leave Act of 1993 (or comparable state statute), (iii) military leave (under conditions that give the employee re-employment rights) or (iv) other Company-approved leave of absence.

(u) Schedule 3.15(u) lists, as of July 1, 2019, each individual who (i) has elected to continue participating in a group health plan of the Company pursuant to an election under COBRA, or (ii) has not made an election under COBRA but who is still within the period during which the election may be made.

Section 3.16 Labor Relations. Except as set forth on Schedule 3.16(a), the Company is not or has not within the last six (6) years been a party to any collective bargaining agreement. During the three years prior to the date hereof, there has been no labor strike, work stoppage, unfair labor practice charge, grievance or other organized labor dispute pending or, to the Knowledge of the Sellers, threatened against or with respect to the Company. During the three years prior to the date hereof, to the Sellers’ Knowledge, there have been no activities or proceedings of any labor union to organize any employees of the Company. To the Sellers’ Knowledge, no event has occurred that could provide the basis for any work stoppage or other organized labor dispute. To the Knowledge of the Sellers, the Company is not liable for the payment of any compensation, Damages, Taxes, fines, penalties or other amounts, however designated, for failure to comply with any Employment Laws. To the Knowledge of the Sellers, all of the Company’s current procedures, policies and training practices with respect to employee matters, including, without limitation, those relating to the hiring and termination of employees and worker safety, conform in all material respects with all applicable Laws. The Company is not subject to any pending claim for overdue overtime compensation due to any employee, and to the Knowledge of the Company, no such claim has been threatened. No consent of any labor union is required to consummate the transactions contemplated by this Agreement and the Company Ancillary Documents. Except as set forth on Schedule 3.16(b), the Sellers have no Knowledge to the effect that any current key employee, consultant or independent contractor has any immediate plans to terminate or materially alter its relations with the Company, either as a result of the transactions contemplated hereby or otherwise.

Section 3.17 Employees and Contractors. Schedule 3.17 contains a correct and complete list of (a) all of the corporate officers of the Company, specifying their position, work location and length of service, respectively, and (b) as of September 1, 2019 all of the other employees (whether full-time, part-time or otherwise) and independent contractors of the Company specifying their position, status, work location and length of service, and with respect to independent contractors, consulting or other independent contractor fees, together with an appropriate notation next to the name of any officer or other employee or independent contractor on such list who is subject to any Employment Agreement. Except to the extent set forth in Schedule 3.17:

(a) the Company is in compliance in all material respects with all Employment Laws including Laws, Orders and other requirements respecting employment and employment practices, terms and conditions of employment and wages and hours; and is not engaging in any unfair labor practice with respect to any employee of the Company;

(b) there is no existing material default or material breach of the Company under any Employment Agreement (or event or condition that, with notice or lapse of time or both could constitute a material default or material breach) and, to the Knowledge of the Sellers, there is no such material default (or event or condition that, with notice or lapse of time or both, could constitute a material default or material breach) with respect to any other party to any Employment Agreement with the Company;

(c) other than the Employment Agreements, there is no severance, consulting, relocation or other agreement, contract or arrangement between the Company and any of their respective employees, other than at-will employment arrangements;

(d) there is no pending or, to the Knowledge of the Sellers, threatened charge, complaint, allegation, application or other process or claim against the Company before any Governmental Entity with respect to any employee;

(e) no employee is covered by any collective bargaining agreement with respect to services to the Company, nor, to the Knowledge of the Sellers, is there any effort being made by any union to so organize the employees;

(f) the Company has paid, or set forth as an accrual on the Financial Statements, and performed all payment obligations when due with respect to its respective employees, consultants, agents, officers and directors, including without limitation the payment of any accrued and payable wages, severance pay, vacation pay, benefits and commissions, except those obligations that are in good faith being challenged by the Company as not valid obligations as more fully described in Schedule 3.17; and

(g) except as set forth in Schedule 3.17, there are no pending or, to the Knowledge of the Sellers, threatened claims or actions against the Company under any workers' compensation policy or long-term disability policy.

Section 3.18 Insurance Policies and Bonds.

(a) The Company maintains insurance coverage with respect to its properties and business of such a nature, in such amounts, with such terms, and covering such risks as are required under Contracts and applicable Laws. All such policies are in full force and

effect. The Company has not received written notice of default under any such policy, nor has it received written notice of any pending or threatened termination or cancellation, coverage limitation or reduction, or material premium or deductible increase with respect to any such policy.

(b) Schedule 3.18(b) contains a complete list of all insurance policies carried by or for the benefit of the Company (including any such policy under which the Company is listed as a named insured or an additional insured), specifying the insurer, the amount of and nature of coverage, the risk insured against, the deductible amount (if any), the date through which coverage shall continue by virtue of premiums already paid, and a list and description of all claims made against such insurance policies for the three-year period prior to the date hereof. None of the policy limits of such insurance have been exhausted, nor has the Company failed to give any notice or to present any claim thereunder in due and timely fashion. The Company has not received any notice of the intent of any insurance company to not renew or to cancel any insurance policies for the Company or materially increase the premiums thereunder, and except as set forth in Schedule 3.18(b), none of the insurance policies shall terminate solely as a result of the transactions contemplated hereby. The Company's insurance policies provide, and have previously provided, all coverage that is or was required by applicable Law and by any and all Contracts and Licenses to which the Company is or was a party.

(c) Schedule 3.18(c) contains a complete, current and correct list of all outstanding bonds (including any bid, performance and payment bonds), letters of credit and other surety arrangements issued or entered into in connection with the Business, assets and Liabilities of the Company. The Company is not in default under any of such arrangements.

Section 3.19 Environmental, Health and Safety Matters.

(a) Except as set forth in Schedule 3.19(a), To the Knowledge of the Sellers, the Company is currently in compliance and has been in compliance, in all material respects, with all applicable Environmental Laws.

(b) (i) To the Knowledge of the Sellers, no Environmental Claims have been asserted in writing, or orally against the Company, nor do the Sellers have any Knowledge or notice of any pending or threatened Environmental Claims concerning the violation of any Environmental Law against the Company; and (ii) to the Knowledge of the Sellers, the Company has no Liabilities under any Environmental Law or with respect to Hazardous Substances.

(c) (i) To the Knowledge of the Sellers, there has been no Release or threatened Release at, on, under or from any of the properties or facilities currently leased or operated by the Company that could reasonably be expected to result in material Liability to the Company under any Environmental Law or Contract or with respect to Hazardous Substances; (ii) to the Knowledge of the Sellers, there was no Release at, on, under or from any of the properties formerly leased or operated by the Company during the period of such tenancy or operation that could reasonably be expected to result in Liability to the Company under any Environmental Law or Contract; and (iii) to the Knowledge of the

Sellers, the Company has not arranged, by Contract, agreement or otherwise, for the treatment or disposal of Hazardous Substances at any location such as could reasonably be expected to result in any material Liability to the Company.

(d) To the Knowledge of the Sellers, except as set out in Schedule 3.19(d), the Company has not, as related to their services at a facility or project site, been involved in any event involving loss of life, bodily injury or any violation of any Environmental Law during the most recent five (5) year period.

Section 3.20 Transactions with Affiliates. Except as set forth in Schedule 3.20, to the Knowledge of the Sellers, other than for compensation received as employees and reimbursement for expenses incurred in the Ordinary Course, no Affiliate of the Company, no Person with whom any such Affiliate has any direct or indirect relation by blood, marriage or adoption, no entity in which any such Affiliate or Person owns any beneficial interest (other than a publicly held entity whose stock is traded on a national securities exchange or in the over-the-counter market and less than five percent (5%) of the stock of which is beneficially owned by all such Affiliates and Persons in the aggregate), and no Affiliate of any of the foregoing has any interest in: (a) any Contract, arrangement or understanding with the Company, or the properties or assets of the Company; (b) any loan, arrangement, understanding, agreement or Contract for or relating to the Company, or the properties or assets of the Company; or (c) any property (real, personal or mixed), tangible or intangible, used or currently intended to be used by the Company. Schedule 3.20 sets forth a correct and complete list of (y) all accounts receivable, notes receivable and other receivables and accounts payable owed by the Company to or due to the Company from any Affiliate of the Company, and (z) to the Knowledge of the Sellers, each blood or spousal relationship between (A) supervisory employees of the Company, and (B) employees of the Company whom such supervisory employees directly or indirectly supervise.

Section 3.21 Customers and Vendors; Services.

(a) Schedule 3.21(a) contains a correct and complete list of the names and addresses of the Customers and Vendors who acquired or were sold services or from whom purchases were made in excess of \$250,000 since October 1, 2018, and the amount of sales or services provided to or purchases or services received from each such Customer or Vendor since October 1, 2018. The Company maintains commercially reasonable relations with each of its Customers and Vendors. Except as set forth in Schedule 3.21(a), no Customer or Vendor has during the last twelve (12) months, cancelled, terminated or, to the Knowledge of the Sellers, made any threat (i) to cancel or otherwise terminate any of its Contracts with the Company, or (ii) to decrease its usage or supply of the Company's services.

(b) The Company has not been subject to any criminal investigation or penalty, civil penalty or award of civil damages with respect to the provision of services, and there is no Litigation by any Customer, Governmental Entity or insurers with respect to any services or other professional work performed by the Company.

Section 3.22 Service Warranties. Except as set forth in Schedule 3.22, the Company has not made any express warranty or guaranty as to services provided by the Company or their respective subcontractors, other than those warranties or guaranties provided for by applicable

Laws (including without limitation by the inclusion or incorporation of contract clauses codified in the Federal Acquisition Regulation). There is no pending or, to the Knowledge of the Sellers, threatened claim alleging, or any existing facts or circumstances that could reasonably be expected to give rise to, any breach of any express or implied warranty or guaranty or request for credit for defective services. The Company has not been required to pay direct, incidental or consequential Damages to any Person or to incur any direct or indirect costs in connection with a warranty or guaranty claim in connection with any of such services during the three years prior to the date hereof.

Section 3.23 Intellectual Property.

(a) Schedule 3.23(a) contains a correct and complete list of all Company Registered Intellectual Property and all unregistered trademarks and service marks that constitute Company Intellectual Property owned by the Company.

(b) No Company Intellectual Property that is owned by the Company and no Company Proprietary Software is subject to any proceeding or outstanding Order (i) restricting in any manner the use thereof by the Company, or (ii) that may affect, to the Knowledge of the Sellers, the validity, use or enforceability of any such Intellectual Property or any such Company Proprietary Software. To the Knowledge of the Sellers, no Company Intellectual Property licensed to the Company and no Company Licensed Software is subject to any proceeding or outstanding Order (A) restricting in any manner the use thereof by the Company, or (B) that may materially affect the validity, use or enforceability of such Company Intellectual Property or any such Company Licensed Software.

(c) Each item of Company Registered Intellectual Property is subsisting and in full force in all material respects. All necessary registration, maintenance and renewal fees due prior to the date hereof in connection with Company Registered Intellectual Property have been paid and all necessary documents, recordations and certifications required to be filed on or prior to the date hereof in connection with the Company Registered Intellectual Property have been filed with the relevant patent, copyright, trademark or other authorities in the United States or foreign jurisdictions, as the case may be, for the purposes of maintaining such Company Registered Intellectual Property or recording ownership by the Company of such Company Registered Intellectual Property (aside from any recordation that may result or be required by this Agreement).

(d) The Company is the sole and exclusive owner, free and clear of any Lien, except Permitted Liens of each item of Company Intellectual Property owned or purported to be owned and used by the Company in the conduct of its business currently conducted, other than Intellectual Property that is licensed to the Company and Intellectual Property that is available generally to the public without the requirement of a license.

(e) Schedule 3.23(e) lists all works of original authorship both owned by the Company and prepared by or on behalf of the Company (including Software programs), which works are material to the conduct of the Business of the Company, regardless of whether the Company has obtained or is seeking a copyright registration for such works.

(f) To the Knowledge of the Sellers, the operations of the Company as currently conducted do not infringe or misappropriate the Intellectual Property of any third party or constitute unfair competition or unfair trade practices under the Laws of any jurisdiction.

(g) To the Knowledge of the Sellers, no Person is infringing or misappropriating any Company Intellectual Property that is owned by or exclusively licensed to the Company.

Section 3.24 Software.

(a) Schedule 3.24(a) sets forth a correct and complete list of the agreements for Company Licensed Software other than licenses to Company to use commercially available off-the-shelf Software.

(b) None of the Company Proprietary Software is subject to any contractual obligation or condition (including any obligation or condition under any “open source” license to which Company has agreed) that: (i) could or does require, or could or does condition the use or distribution of such Company Proprietary Software on, the disclosure, licensing or distribution of any source code for any portion of such Company Proprietary Software; or (ii) could or does otherwise impose any material limitation, restriction or condition on the right or ability of the Company to use or distribute any Company Proprietary Software.

(c) To the Knowledge of the Sellers, none of the Company Software contains any material programming defect, error or bug that is outside the scope of programming defects, errors and bugs typically corrected in the Ordinary Course of the Company’s software maintenance procedures and programs and that, if such defect, error or bug were not corrected, would materially and adversely affect the Company’s operations.

(d) Except as disclosed in Schedule 3.24(d), the source code for Company Proprietary Software currently in use by the Company or that is subject to any license arrangement is maintained in confidence consistent with commercially reasonable effort and generally recognized industry practices.

Section 3.25 Licenses. Schedule 3.25 is a correct and complete list of all Licenses held by the Company, and to the Sellers’ Knowledge, held by each Licensed Professional. To the Knowledge of the Sellers, the execution, delivery and the consummation of the transaction contemplated by this Agreement shall not by themselves adversely affect any such License, or require consent from, or notice to, any Governmental Entity. The Company, and to the Sellers’ Knowledge, each Licensed Professional have taken all commercially reasonable actions to maintain each License. No loss, suspension or expiration of any License is pending or, to the Knowledge of the Sellers, threatened (other than expiration upon the end of any term).

Section 3.26 Bank Accounts and Powers of Attorney. Schedule 3.26 sets forth (a) the names and locations of all banks, trusts, companies, savings and loan associations and other financial institutions at which the Company maintains safe deposit boxes, checking accounts, lock box or other accounts of any nature with respect to its business, and (b) the names of all persons authorized to draw thereon, make withdrawals therefrom or have access thereto. Schedule 3.26

also sets forth the name of each Person, firm, corporation or business organization holding a general or special power of attorney from the Company and a summary of the terms thereof.

Section 3.27 Accounting Records. Except as reflected in the Financial Statements or in Schedule 3.27, the Company maintains accounting records that fairly and validly reflect, in all material respects, its transactions and maintains accounting controls sufficient to provide reasonable assurances that such transactions are, in all material respects, (a) executed in accordance with management's general or specific authorization, and (b) recorded as necessary to permit the preparation of financial statements applied on a consistent basis.

Section 3.28 Brokers, Finders and Investment Bankers. Except as set forth in Schedule 3.28, neither the Company nor any Representative or Affiliate of the Company has employed any broker, finder or investment banker or incurred any liability for any investment banking fees, financial advisory fees, brokerage fees or finders' fees in connection with the transactions contemplated hereby.

ARTICLE IV REPRESENTATIONS AND WARRANTIES RELATING TO THE SELLERS

Each Seller hereby represent and warrant to the Purchaser, severally, as of the date hereof, that:

Section 4.1 Authorization. Each Seller has the right, power, authority and capacity to execute and deliver this Agreement and the Company Ancillary Documents to which such Seller is a party and to perform such Seller's obligations hereunder and thereunder and to consummate the transactions contemplated hereby and thereby. This Agreement and each of the Company Ancillary Documents to which each Seller is a party have been duly executed and delivered by such Seller, and assuming due authorization, execution and delivery thereof by the other Parties hereto and thereto, constitute the valid and binding agreement of such Seller, enforceable against such Seller in accordance with their terms, except as such enforceability (a) may be limited by bankruptcy, insolvency, moratorium or other similar Laws affecting or relating to enforcement of creditors' rights generally, and (b) is subject to general principles of equity (regardless of whether enforceability is considered in a proceeding at law or in equity).

Section 4.2 Absence of Restrictions and Conflicts. The execution and delivery by each Seller of this Agreement and the Company Ancillary Documents to which such Seller is a party does not, and the performance of such Seller's obligations hereunder and thereunder will not, (a) to the Knowledge of such Seller, conflict with or violate any Law applicable to such Seller (with or without notice or lapse of time or both), or by which any of such Seller's properties or assets is bound, (b) to the Knowledge of such Seller, violate or conflict with, constitute a breach of or default under, result in the loss of any benefit under, permit the acceleration of any obligation under or create in any party the right to terminate, modify or cancel, (i) any contract, will, agreement, permit, franchise, license or other instrument applicable to such Seller, or (ii) any Order of any Governmental Entity to which such Seller is a party or by which any of such Seller's properties are bound, or (c) conflict with or violate any arbitration award applicable to such Seller, except with respect to clauses (a) and (b) above, for any such conflicts, violations, breaches, defaults or other occurrences that would not, individually or in the aggregate reasonably be expected to result in a Purchaser Material Adverse Effect.

Section 4.3 Ownership of Shares.

(a) Each Seller has good and valid title to and beneficial ownership of the Shares set forth next to such Seller's name on Schedule 3.3; such Shares are validly issued and free and clear of all Liens other than restrictions under applicable securities Laws and Liens arising under any notes receivable from such Seller for such Shares which will be paid at or prior to Closing; and, immediately following the completion of the transactions contemplated by this Agreement, the Purchaser will own the Shares free and clear of all Liens, other than restrictions under applicable securities Laws and other than Liens imposed by the Purchaser.

(b) Other than the Shares set forth next to each Seller's name on Schedule 3.3, such Seller owns no other equity security of the Company, or any warrant, purchase right, subscription right, conversion right, exchange right, conversion right, contingent right to receive or other right of any kind to have any such equity security issued.

Section 4.4 Legal Proceedings. There is no Proceeding pending or, to the Knowledge of the Sellers, threatened against, relating to or involving such Seller that could reasonably be expected to adversely affect such Seller's ability to consummate the transactions contemplated by this Agreement or any Company Ancillary Document to which such Seller is a party.

Section 4.5 No Foreign Person. Such Seller is not a foreign person within the meaning of Section 1445 of the Code.

**ARTICLE V
REPRESENTATIONS AND WARRANTIES OF THE PURCHASER**

The Purchaser and Willdan hereby represents and warrants to the Sellers, as of the date hereof, that:

Section 5.1 Organization. The Purchaser is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware and has all requisite corporate power and authority to own, lease and operate its properties and to carry on its business as now being conducted.

Section 5.2 Authorization. The Purchaser has all necessary corporate power and corporate authority to execute and deliver this Agreement and the Purchaser Ancillary Documents to which it is a party, to perform its obligations hereunder and thereunder and to consummate the transactions contemplated hereby and thereby. The execution and delivery by the Purchaser and Willdan of this Agreement and the Purchaser Ancillary Documents to which it is a party, the performance by it of its obligations hereunder and thereunder, and the consummation of the transactions provided for herein and therein have been duly and validly authorized by all necessary corporate action on the part of the Purchaser. This Agreement and the Purchaser Ancillary Documents to which the Purchaser is a party have been duly executed and delivered by the Purchaser and, assuming due authorization, execution and delivery hereof and thereof by the other parties hereto and thereto, constitutes the valid and binding agreement of the Purchaser enforceable against the Purchaser in accordance with their terms, except as such enforceability (a) may be limited by bankruptcy, insolvency, moratorium or other similar Laws affecting or relating to

enforcement of creditors' rights generally, and (b) is subject to general principles of equity (regardless of whether enforceability is considered in a proceeding at law or in equity).

Section 5.3 Absence of Restrictions and Conflicts.

(a) The execution and delivery by the Purchaser and Willdan of this Agreement and the Purchaser Ancillary Documents to which it is a party does not, and the performance of the Purchaser's obligations hereunder will not, (i) conflict with or violate the certificate of incorporation or bylaws of the Purchaser, (ii) conflict with or violate any Law applicable to the Purchaser (with or without notice or lapse of time or both), or by which any of its properties or assets is bound, or (iii) require any consent or result in any violation or breach of, or constitute a default or give to others any rights of termination, amendment, acceleration or cancellation, under, or result in the triggering of any payments or result in the creation of a Lien or other encumbrance on any of its properties or assets pursuant to, any of the terms, conditions or provisions of any note, bond, mortgage, indenture, Contract, lease, license, permit, franchise or other instrument or obligation to which the Purchaser is a party or by which it or any of its properties or assets is bound, except, with respect to clauses (ii) and (iii), for any such conflicts, violations, breaches defaults or other occurrences that would not, individually or in the aggregate, reasonably be expected to result in a Purchaser Material Adverse Effect.

(b) The execution and delivery by the Purchaser and Willdan of this Agreement and the Purchaser Ancillary Documents to which it is a party does not, and the performance of its obligations hereunder and thereunder will not, require any consent, approval, authorization or permit of, or filing with, or notification to, any Governmental Entity, except where the failure to obtain such consents, approvals, authorizations or permits, or to make such filings or notifications, would not, individually or in the aggregate, reasonably be expected to result in a Purchaser Material Adverse Effect.

(c) Intentionally Deleted.

Section 5.4 Legal Proceedings. There is no Proceeding pending or, to the knowledge of the Purchaser and Willdan, threatened against, relating to or involving the Purchaser and Willdan that could reasonably be expected to adversely affect the Purchaser and Willdan's ability to consummate the transactions contemplated by this Agreement or any Purchaser Ancillary Document to which the Purchaser is a party.

Section 5.5 Brokers, Finders and Investment Bankers. Neither the Purchaser, Willdan nor any Representative or Affiliate of the Purchaser and Willdan has employed any broker, finder or investment banker or incurred any liability for any investment banking fees, financial advisory fees, brokerage fees or finders' fees in connection with the transactions contemplated hereby.

Section 5.6 Investment Intent. The Purchaser and Willdan is acquiring the Shares for its own account for investment purposes only, and not with a view to their distribution within the meaning of Section 2(11) of the Securities Act of 1933, as amended.

ARTICLE VI
CERTAIN COVENANTS AND AGREEMENTS

Section 6.1 Further Assurances; Cooperation. If at any time after the Closing Date any additional action is necessary or reasonably requested to carry out the purposes of this Agreement, the Parties shall use commercially reasonable efforts to take or cause to be taken all such action reasonably requested by any Party.

Section 6.2 Public Announcements. Subject to any legal obligations, the Purchaser and the Seller Representative shall consult with each other with respect to the timing and content of any announcements regarding this Agreement or the transactions contemplated hereby, and no Party shall, without the prior written consent of the Seller Representative (in the case of the Purchaser) or the Purchaser (in the case of the Sellers), issue (or in the case of the Purchaser, permit the Company to issue) any public announcement or press release regarding this Agreement or the transactions contemplated hereby.

Section 6.3 Tax Matters.

(a) Tax Periods Ending on or Before the Closing Date. The Seller Representative shall prepare or cause to be prepared and timely filed all Tax Returns of the Company for all Pre-Closing Tax Periods that are due (taking into account applicable extensions) on or prior to the Closing Date. All Tax Returns filed with respect to Pre-Closing Tax Periods shall be prepared using the same accounting method and elections used for the preparation of such Tax Returns in the preceding taxable period unless otherwise required by applicable Law or mutually approved by the Purchaser and the Seller Representative in writing. The Sellers shall pay or cause to be paid on behalf of the Company all Taxes of the Company with respect to all Pre-Closing Tax Periods except to the extent such Taxes were taken into consideration in computing Closing TNAV and excluding any reserve for deferred Taxes established to reflect timing differences between book and Tax income. Any Tax refunds that are received by the Company, and any amounts credited against Taxes to which the Company become entitled, that relate to any Pre-Closing Tax Period (including the pre-Closing portion of a Straddle Period), shall be for the account of the Sellers, and the Purchaser shall pay over to the Sellers any such refund or the amount of any such credit within fifteen (15) days after receipt thereof or entitlement thereto, except to the extent such Tax refunds were taken into consideration in computing Closing TNAV. In addition, to the extent that a claim for refund or a proceeding results in a payment or credit against Tax by any taxing authority to the Company of any amount that had been taken into account as a liability for Taxes in the determination of Closing TNAV, the Purchaser shall cause the Company to pay such amount to the Sellers within fifteen (15) days after receipt or entitlement thereto.

(b) Tax Periods Beginning Before and Ending After the Closing Date. The Purchaser shall prepare or cause to be prepared at its own expense and shall timely file, taking into account extensions, or cause to be timely filed all Tax Returns of the Company for any Tax periods which begin before the Closing Date and end after the Closing Date (each, a "Straddle Period"). At least thirty (30) days prior to the date on which each such Straddle Period Tax Return is to be filed, the Purchaser shall provide a copy of such Straddle Period Tax Return to the Seller Representative for his review and shall make any

reasonable changes to such Tax Return that are requested by the Seller Representative. The Sellers shall reimburse the Purchaser for the portion of the Taxes paid by the Purchaser with respect to such Straddle Period Tax Return that is allocable to the portion of the Straddle Period that ends on the Closing Date, except to the extent that such Taxes are taken into account in computing TNAV, such reimbursement to be made within fifteen (15) days after such payment. For purposes of this Agreement, Taxes for a Straddle Period shall be allocated as follows: (i) *ad valorem* Taxes imposed on or with respect to real or personal property shall be allocated between the portion of the Straddle Period that ends on the Closing Date and the remaining portion of the Straddle Period in proportion to the number of days in each such portion, and (ii) all other Taxes shall be allocated based on a “closing of the books” as of the close of business on the Closing Date. All Tax Returns filed for any Straddle Period shall be prepared using the same accounting method and elections used for the preparation of such Tax Returns in the preceding taxable periods unless otherwise required by applicable Law or mutually approved by the Purchaser and the Seller Representative in writing. The Purchaser shall pay over to the Sellers any Tax refunds for any Straddle Period that are allocable (in accordance with the foregoing principles) to the portion of such Straddle Period ending on the Closing Date, such refund to be paid within fifteen (15) days of the Company’s receipt of the same.

(c) **Tax Audits and Contests.** The Purchaser shall promptly notify the Seller Representative in writing upon the receipt by the Purchaser, the Company of notice of any audit or any court or administrative Litigation relating to the liability of the Company for Taxes for any period described in Sections 6.3(a) or 6.3(b). The Sellers shall have the right, at their own expense and through counsel of their choosing, to participate in any audit or Litigation relating to a Pre-Closing Tax Period or Straddle Period, and the Sellers shall have the right, at their own expense and through counsel of their choosing reasonably acceptable to the Purchaser, to control any such audit or Litigation that relates to a Pre-Closing Tax Period (including any portion of a Straddle Period that relates to periods prior to the Closing Date). The Purchaser shall have the right, at its own expense, to participate in any audit or Litigation that is controlled by the Sellers, and the Purchaser shall have the right to control any audit or Litigation that is not controlled by the Sellers. The Purchaser shall not agree to settle or cause or permit the Company to settle any audit or Litigation which has the effect of imposing additional Tax liability on the Company with respect to any Pre-Closing Tax Periods or the portion of any Straddle Period that ends on the Closing Date without the advance written consent of the Seller Representative (which consent will not be denied, delayed or conditioned unreasonably). In the event of conflict between the provisions of this Section 6.3(c) and the provisions of Section 8.3 with respect to any potential Liability for Taxes, the provisions of this Section 6.3(c) shall control.

(d) **Section 338(h)(10) Elections.**

(a) The Sellers and the Buyer shall make a timely, effective, and irrevocable election under Section 338(h)(10) of the Code and under any comparable statutes in any other jurisdiction with respect to Energy and Environmental Economics, Inc. (collectively, the “Section 338(h)(10) Elections”) and shall file such Section 338(h)(10) Elections in accordance with applicable regulations. The Sellers and the Buyer shall cooperate in all respects for the purpose of effectuating the Section 338(h)(10) Elections, including the execution and filing of any required Tax Returns and the grant of consent to the Section 338(h)(10) Elections by the Sellers. Without

limiting the foregoing, the Buyer and the Sellers shall each execute a Form 8023 with respect to Energy and Environmental Economics, Inc. at the Closing, which forms shall be timely filed by the Buyer.

(b) Within 120 days after the Closing Date, the Sellers shall deliver to the Buyer an allocation of the Aggregate Deemed Sales Price (as such term is defined in Treasury Regulation § 1.338-4) among the assets of Energy and Environmental Economics, Inc. in accordance with Treasury Regulations §§ 1.338-6 and 1.338-7 (the "Allocation Statement"). The allocation of the Aggregate Deemed Sales Price shall be in accordance with the fair market value of the acquired assets as provided in Section 1060 of the Code. The Buyer shall have the right to review the Allocation Statement. Within twenty (20) days after the Buyer's receipt of the Allocation Statement, the Buyer shall indicate its concurrence therewith, or propose to the Sellers any changes to the Allocation Statement. The Buyer's failure to notify the Sellers of any objection to the Allocation Statement within twenty (20) days after receipt thereof shall constitute the Buyer's concurrence therewith. Should the Buyer propose any change to the Allocation Statement, the Buyer and the Sellers shall resolve any disagreement regarding the Allocation Statement in accordance with the provisions of Section 2.4(d). The allocation so determined shall be binding on the parties, and all Tax Returns filed by the Buyer, the Sellers, and each of their Affiliates, if any, shall be prepared consistently with such allocation, and none of them shall take a position on any Tax Return or other form or statement contrary to such allocation (unless required to do so by Law). Appropriate adjustments shall be made with respect to the allocation for all payments made after the Closing Date in accordance with Section 6.3(d)(c). Each of the parties agrees to notify the other if the IRS or any other authority proposes a reallocation of amounts allocated pursuant to this Section 6.3(d)(b).

(c) With respect to payments made after the Closing Date and not included in the original Allocation Statement, Sellers shall prepare and provide to Buyer within sixty (60) days after such payments are made a revised Allocation Statement that reflects such payments and is prepared in accordance with Section 6.3(d)(b). Thereafter, Sellers and Buyer shall follow the same procedures contained in Section 6.3(d)(b) in finalizing the revised Allocation Statement. The allocation so determined shall be binding on the parties, and all Tax Returns filed by the Buyer, the Sellers, and each of their Affiliates, if any, shall be prepared consistently with such allocation, and none of them shall take a position on any Tax Return or other form or statement contrary to such allocation (unless required to do so by Law). Each of the parties agrees to notify the other if the IRS or any other authority proposes a reallocation of amounts allocated pursuant to this Section 6.3(d)(c).

(d) Buyer shall reimburse Sellers for Sellers all costs and expenses, including but not limited to legal and accounting, relating to the Section 338(h)(10) Election. The Buyer shall also pay to the Sellers the amount necessary (such amount, the "Tax Adjustment Amount") to cause the Sellers' after Tax net proceeds from the sale of the Shares pursuant to this Agreement, taking into account the Section 338(h)(10) Election (and taking into account additional Taxes as a result of the payment pursuant to this Section 6.3 and calculated based on the allocation determined pursuant to the preceding paragraphs to be equal to the after-Tax net proceeds that the Sellers would have received had the 338(h)(10) Election not been made, in each case without taking into account any other tax items or attributes of the Sellers, subject to any adjustments by any Taxing Authority and/or as necessary to reflect any subsequent adjustment to the Purchase Price pursuant to this Agreement. Payments made pursuant to this Section 6.3 will be treated for all purposes as

an adjustment to the Purchase Price. Within thirty (30) days after the final determination of the allocation in accordance with the above paragraph, the Sellers shall provide the Buyer a schedule, with supporting workpapers, setting forth a calculation of the Tax Adjustment Amount. The Buyer and the Sellers shall attempt in good faith to agree upon the Tax Adjustment Amount and, if they are unable to do so within twenty (20) days, in accordance with the provisions of Section 2.4[d]. The Tax Adjustment Amount shall be payable within ten (10) days after the determination of the final Tax Adjustment Amount.

(e) Transfer Taxes. All excise, transfer, stamp, documentary, filing, recordation and other similar taxes, together with any interest, additions or penalties with respect thereto and any interest in respect of such additions or penalties, resulting directly from the sale and transfer by the Sellers to the Purchaser of the Shares (the "Transfer Taxes") under California law, shall be borne by the Sellers. Notwithstanding Sections 6.3(a) and (b), which shall not apply to Tax Returns relating to Transfer Taxes, any Tax Returns that must be filed in connection with Transfer Taxes shall be prepared and filed when due by the Sellers, taking into account extensions.

(f) Amendments, Modifications, Etc. Notwithstanding anything to the contrary in this Agreement, except to the extent required by applicable Law, the Purchaser shall not, and shall not permit any of its Affiliates to, (i) amend any Tax Returns with respect to any Pre-Closing Tax Period or any Straddle Period, (ii) file any Tax Return of the Company for any taxable period (or portion thereof) ending on or before the Closing Date in a jurisdiction in which the Company did not previously file a Tax Return, or (iii) make or change any Tax election that has retroactive effect to any taxable period (or portion thereof) ending on or before the Closing Date, in each case, without the prior written consent of the Sellers, which consent shall not be unreasonably withheld.

(g) Cooperation. The Purchaser and the Sellers shall cooperate fully, as and to the extent reasonably requested by the other Party, in connection with the preparation and filing of Tax Returns pursuant to this Section 6.3 and any audit or Litigation with respect to Taxes.

Section 6.4 Resignation. Unless otherwise directed by the Purchaser in writing at or prior to the Closing, the Sellers shall have caused the directors of the Company to deliver written resignations from their positions, in form and substance satisfactory to the Purchaser, effective as of the Closing.

Section 6.5 Release.

(a) Each Seller, severally, on behalf of such Seller and such Seller's successors, assigns, heirs, members, beneficiaries, creditors, Representatives, trustees and Affiliates (the "Releasing Parties") hereby fully, finally and irrevocably releases, acquits and forever discharges the Company, and its successors, assigns, Affiliates, insurers, controlling persons, and operating, administration and services companies and the like, and all persons and entities acting for, through or in concert with any of them (collective, the "Released Parties"), of and from any and all commitments, actions, debts, claims, counterclaims, suits, causes of action, Damages, demands and compensation of every kind and nature whatsoever, past, present or future, whether known or unknown, contingent or otherwise, suspected or unsuspected, at law or in equity, whether in any federal or state court or before an administrative agency of any federal, state, county or municipal government, which such Releasing Parties, or any of them, had, has or may have had at any time in the past

until and including the date of this Agreement, against the Company, or their respective predecessors, only with regard to (i) any claims which relate to or arise out of such Releasing Party's prior relationship with the Company, or their respective predecessors, or such Seller's rights or status as an officer, director or employee of the Company, or their respective predecessors, and (ii) any rights to intellectual property, or any rights to indemnification or reimbursement from the Company, or their respective predecessors, whether pursuant to their respective organizational documents, contract or otherwise, and whether or not relating to claims pending on, or asserted after, the Closing Date

(collectively, "Causes of Action"); provided, however, that nothing herein shall be deemed to release any claims of a Seller for amounts owed to the Seller pursuant to this Agreement and amounts owed to a Seller in the Ordinary Course for compensation for services rendered as an employee of the Company.

(b) Each Seller, severally, hereby represents to the Released Parties that such Seller (i) has not assigned any Causes of Action or possible Causes of Action against any Released Party, (ii) fully intends to release all Causes of Action against the Released Parties, and (iii) has been given an opportunity to or has consulted with counsel with respect to the execution and delivery of this release and has been apprised of the consequences hereof.

(c) Each Seller, severally, hereby irrevocably covenants to refrain from, directly or indirectly, asserting any claim or demand, or commencing, instituting or causing to be commenced, any proceeding of any kind against any Released Parties, based upon any Causes of Action. Each Seller further agrees that, in the event such Seller brings a claim or charge covered by this Section 6.5 or does not dismiss and withdraw any claim covered by this Section 6.5 in which he seeks Damages or any other relief against any Released Party, or in the event he seeks to recover against any Released Party in any claim brought by a Governmental Entity on such Seller's behalf, the release in this Section 6.5 shall serve as a complete defense to such claims or charges.

Section 6.6 Employee Benefits Matters. The Purchaser shall continue the employment of each individual who is an employee of the Company as of immediately prior to the Closing (each, a "Continuing Employee") on an at-will basis or pursuant to the terms of any existing employment agreement in effect on the Closing Date, as applicable.

(a) With respect to any one or more employee benefit policies, plans or programs maintained by the Purchaser or its Affiliates from time to time (each, a "Purchaser Plan") in which Continuing Employees participate after the Closing, the Purchaser shall, or shall cause the Company or such Affiliates to recognize all service of Continuing Employees with the Company and its current and former Affiliates from each such employee's most recent date of hire as reflected in the Company's records for purposes of eligibility to participate, vesting credit (other than vesting of equity awards), form of payment, and accrual of paid time off benefits or severance in applicable Purchaser Plans, as such plans may be amended from time to time, to the same extent taken into account under a comparable Employee Benefit Plan immediately prior to Closing, but not to any extent that such recognition would result in any duplication of benefits.

(b) The Purchaser will provide an annual bonus pool opportunity for the Company's employees and will also provide the Company's employees with a quarterly "hard work" bonus pool opportunity, consistent with the Company's past practice.² The Purchaser may not amend, modify or terminate these bonus opportunities prior to December 31, 2024 without the prior consent of the Seller Representative. In addition, commencing in January 1, 2020, all eligible employees of the Company will be able to purchase the Purchaser's common stock at a discount in accordance with the terms and condition of the Purchaser's Employee Stock Purchase Plan. The discount as of the date of this Agreement is a minimum of fifteen percent (15%) to market price applied to a maximum \$25,000 purchase per year and will remain the discount absent modification to the Purchaser's Employee Stock Purchase Plan. All key employees will be eligible for stock options and restricted stock units (RSUs) under Willdan Group Inc.'s Restricted Stock Program (the "Program"), granted annually by the Board of Directors for senior staff and significant contributors. Each Seller will be considered a key employee for purposes of receiving stock options and RSUs under the Program, and, to the extent the Company's performance permits the award of RSUs under the Program, Purchaser or its Affiliates will recommend to the Board of Directors of Willdan Group Inc. that Sellers are awarded RSUs under the Program. For Year 1, Year 2, and Year 3, Seller Representative will be entitled to designate a maximum of six in year 1, seven in year 2, and eight in year 3 as a key employee eligible to receive stock options and RSUs under the Plan.

(c) Nothing contained in this Section 6.6 shall be construed to (i) establish, amend, or modify any benefit or compensation plan, program, agreement or arrangement, (ii) limit the ability of the Purchaser or the Company to amend, modify or terminate any compensation or benefit plan, program or arrangement maintained by the Company or Purchaser at any time after the Closing Date, or (iii) provide any third party beneficiary rights to any Person under this Agreement.

Section 6.7 Transaction Expenses. The Parties hereby agree that the Sellers shall be responsible for and shall pay any and all Transaction Expenses incurred by or on behalf of the Sellers and/or the Company and that the Purchaser shall be responsible for and shall pay any and all Transaction Expenses incurred by or on behalf of the Purchaser. The Parties further agree that the Purchaser, on the one hand, and Sellers, on the other, share split equally the costs associated with the third-party audit of the Company. The Parties covenant that, to the maximum extent permitted by applicable Law, any Tax deduction resulting from the accrual of any Seller Transaction Expenses will be reported in a Pre-Closing Tax Period rather than in any taxable period ending after the Closing Date.

Section 6.8 Professional Liability Insurance. The Purchaser will add the Company to Purchaser's professional liability insurance policy at Closing and such professional liability insurance coverage shall be retroactive to the inception of the Company's professional liability insurance coverage for all projects. The professional liability insurance coverage provided will be no less than \$10,000,000 per claim and \$20,000,000 annual aggregate.

Section 6.9 Purchaser Waivers. The Purchaser hereby waives any requirement that the Company or the Sellers (i) obtain the consent of the Company's landlords to or (ii) provide prior written notice to the Company's landlords of, the consummation of the Acquisition and the other transactions contemplated in the Agreement and the Company Ancillary Documents.

ARTICLE VII CLOSING

Section 7.1 Closing. The Closing shall occur on the date hereof, or on such other date as the Parties may agree. The Closing shall take place at such place as the Parties may agree, via facsimile or electronic transmission of documents and signatures, or in such other manner as mutually agreed to by the parties hereto.

Section 7.2 Sellers' Closing Deliverables. At or prior to the Closing, the Sellers shall deliver, or cause to be delivered, to the Purchaser the following:

- (a) each Certificate, endorsed for transfer or with corresponding transfer document executed for transfer;
- (b) each completed W-9 Form in accordance with Section 2.3(c);
- (c) the organizational record books, minute books and corporate seal, as applicable, of the Company;
- (d) each of Ren Oransand Brian Horii shall have executed a non-competition agreement in substantially the form set forth on Exhibit 7.2(d)(2), each of Arne Olson and Snuller Price shall have executed a non-competition agreement in substantially the form set forth on Exhibit 7.2(d)(3), and each of Kush Patel and Amber Mahone shall have executed a non-competition agreement in substantially the form set forth on Exhibit 7.2(d)(4) (such agreements are collectively the "Seller Agreements");
- (e) copies of a good standing certificate from the applicable Governmental Entity of the Company's jurisdiction of incorporation and each jurisdiction in which the Company is qualified to conduct business, dated a recent date prior to the Closing Date;
- (f) in accordance with Section 6.4, resignations of the Company's directors, as applicable;
- (g) A fully completed and irrevocable election under Section 338(h)(10) of the Code and under any comparable statutes in any other jurisdiction with respect to Energy and Environmental Economics, Inc. (collectively, the "Section 338(h)(10) Elections") which shall be filed in accordance with applicable regulations; and
- (h) all other documents required to be entered into or delivered by the Company and the Sellers at or prior to Closing pursuant to the express terms of this Agreement.

Section 7.3 Purchaser Closing Deliverables. At or prior to the Closing, the Purchaser shall deliver, or cause to be delivered, the following:

- (a) the Initial Purchase Price, paid in accordance with Section 2.2(a);

(b) the Seller Agreements, executed on behalf of the Company by the Purchaser;

(c) a certificate, executed by the Purchaser's secretary and dated as of the Closing Date, stating that the Board of Directors of the Purchaser has taken all necessary action to approve and authorize, including obtaining the approval of the Purchaser's banks "BMO Harris Bank N.A., MUFG Union Bank, N.A., Bank of America N.A., Citibank N.A. and U.S. Bank, N.A.", the Purchaser's performance of its obligations under this Agreement and the Purchaser Ancillary Documents to which it is a party and all actions required to be taken by the Purchaser pursuant hereto and thereto;

(d) a guaranty executed by Willdan Group, Inc. guaranteeing Purchaser's obligations under this Agreement; and

(e) all other documents required to be entered into or delivered by the Purchaser at or prior to Closing pursuant to the express terms of this Agreement.

ARTICLE VIII INDEMNIFICATION

Section 8.1 Indemnification of the Purchaser Indemnified Parties. Subject to the other provisions of this Article VIII, from and after the Closing, the Sellers shall indemnify, reimburse, defend and hold harmless the Purchaser Indemnified Parties from and against any and all Damages incurred, resulting or arising from the following:

(a) any breach or inaccuracy of any representation or warranty made by the Sellers in Article III or Article IV this Agreement;

(b) any breach of any covenant, agreement or undertaking made by the Sellers in this Agreement or any Company Ancillary Document;

(c) Sellers' Transaction Expenses, to the extent not paid or accrued for at or prior to the Closing;

(d) notwithstanding any Knowledge qualifiers contained in any representations and warranties of the Sellers hereunder, any Liability or obligation for (i) any Taxes imposed on the Company with respect to any Pre-Closing Tax Period and the portion of any Straddle Period through and ending on the Closing Date, other than Taxes for which Sellers are entitled to be indemnified pursuant to Section 6.3 (provided, however, that the Sellers shall have no liability for Taxes attributable to transactions or occurrences outside the Ordinary Course on the Closing Date after the Closing), (ii) any Taxes of any member of an affiliated, consolidated combined or unitary group of which the Company (or predecessor of the Company) was a member prior to the Closing, for which the Company is liable pursuant to Treasury Regulation Section 1.1502-6 or any analogous or similar state, local or foreign law or regulation, (iii) any Taxes of any Person (other than the Company) imposed on the Company as a transferee, successor or by Contract, when the events giving rise to such Taxes and to the Company's liability for such Taxes occurred prior to the Closing, (iv) any Taxes imposed upon any income or gain recognized by the

Sellers or the Company with respect to the sale and purchase of the Shares pursuant to the provisions of this Agreement, and (v) any Transfer Taxes under California law; and

(e) any Liability or obligation incurred by the Company with respect to any of the Litigation disclosed or required to be disclosed in Schedule 3.12.

The Damages of the Purchaser Indemnified Parties described in this Section 8.1 as to which the Purchaser Indemnified Parties are entitled to indemnification are collectively referred to as “Purchaser Losses.” The Sellers’ liability with respect to Purchaser Losses shall be joint and several among the Sellers, other than Purchaser Losses incurred, resulting or arising from any breach or inaccuracy of any representation or warranty made by the Sellers in Article IV of this Agreement, which shall be several for all Sellers.

Section 8.2 Indemnification of the Seller Indemnified Parties. Subject to the other provisions of this Article VIII, from and after the Closing, the Purchaser shall indemnify, reimburse, defend and hold harmless the Seller Indemnified Parties from and against any and all Damages incurred, resulting or arising from the following:

(a) any breach of any representation or warranty made by the Purchaser in this Agreement;

(b) any breach of any covenant, agreement or undertaking made by the Purchaser in this Agreement or any Purchaser Ancillary Document and any breach by the Company of any covenant, agreement or undertaking in this Agreement or any Purchaser Ancillary Document required to be performed by the Company after the Closing;

(c) any Liability or obligation for (i) any Taxes imposed on the Company with respect to any periods after the Closing Date, including the portion of any Straddle Period after the Closing Date, (ii) any Taxes attributable to transactions or occurrences outside the Ordinary Course on the Closing Date and after the Closing, (iii) any Taxes for which Sellers are entitled to be indemnified pursuant to Section 6.3; and

(d) Purchaser’s Transaction Expenses.

The Damages of the Seller Indemnified Parties described in this Section 8.2 as to which the Seller Indemnified Parties are entitled to indemnification are collectively referred to as “Seller Losses.”

Section 8.3 Indemnification Procedure. A party making a claim for indemnification under Section 8.1 or Section 8.2 shall be referred to as an “Indemnified Party” and a party against whom such claim for indemnification is asserted under Section 8.1 or Section 8.2 shall be referred to as an “Indemnifying Party.” All claims by any Indemnified Party under Section 8.1 or Section 8.2 shall be asserted and resolved as follows:

(a) In the event that (i) any action, application, suit, demand, claim or legal, administrative, arbitration or other alternative dispute resolution proceeding, hearing or investigation (each, a “Proceeding”) is asserted or instituted by any Person other than the Parties or their Affiliates which could give rise to Damages for which an Indemnifying Party could be liable to an Indemnified Party under this Agreement (such Proceeding, a

“Third Party Claim”), or (ii) any Indemnified Party shall have a claim to be indemnified by any Indemnifying Party under this Agreement which does not involve a Third Party Claim (such claim, a “Direct Claim” and, together with Third Party Claims, “Indemnification Claims”), the Indemnified Party shall, promptly after it becomes aware of a Third Party Claim (and in any event, within fourteen (14) days) or facts supporting a Direct Claim, send to the Indemnifying Party a written notice specifying the nature of such Indemnification Claim, and, if practicable, the amount or estimated amount thereof (a “Claim Notice”), together with copies of all notices and documents served on or received by the Indemnified Party in the case of a Third Party Claim, provided that a delay in notifying the Indemnifying Party (or delivering copies of the aforementioned notices and documents) shall not relieve the Indemnifying Party of its obligations under Section 8.1, Section 8.2 or Section 8.3 except to the extent that (and only to the extent that) the Indemnifying Party shall have been materially prejudiced by such delay, in which case the Indemnifying Party shall be relieved of its obligations under Section 8.1, Section 8.2 or Section 8.3 only to the extent of such material prejudice.

(b) In the event of a Third Party Claim, the Indemnifying Party shall, at its sole cost and expense, have the right to defend against and direct the defense of such Third Party Claim, provided that the Indemnifying Party shall have acknowledged in writing to the Indemnified Party its obligation to indemnify the Indemnified Party to the extent provided hereunder and the Indemnifying Party shall be entitled to be represented by counsel of the Indemnifying Party’s choice at the expense of the Indemnifying Party in connection with such Proceeding, provided that such counsel is acceptable to the Indemnified Party (which acceptance shall not be unreasonably withheld, delayed or conditioned). If the Indemnifying Party elects to defend against and direct the defense of any Third Party Claim, it shall within fourteen (14) days (or sooner, if the nature of the Third Party Claim so requires) (the “Dispute Period”) notify the Indemnified Party of its intent to do so, provided that the Indemnifying Party must conduct its defense of the Third Party Claim actively and diligently thereafter in order to preserve its rights in this regard. If the Indemnifying Party does not elect within the Dispute Period to defend against and direct the defense of any Third Party Claim or fails to notify the Indemnified Party of its election during the Dispute Period, the Indemnified Party may defend against and direct the defense of such Third Party Claim. If the Indemnifying Party elects to defend against and direct the defense of such Third Party Claim and appoint counsel in connection therewith, (i) the Indemnifying Party shall use its commercially reasonable efforts to defend and protect the interests of the Indemnified Party with respect to such Third Party Claim, (ii) the Indemnified Party may participate, at its own cost and expense, in the defense of such Third Party Claim, and (iii) the Indemnified Party shall have the right to engage separate counsel in connection therewith, and the Indemnifying Party shall bear the reasonable fees, costs and expenses of such separate counsel if, and only if, (x) in the reasonable opinion of counsel to the Indemnifying Party a conflict or potential conflict exists between the Indemnified Party and the Indemnifying Party that would make such separate representation necessary, (y) the Indemnifying Party requests that the Indemnified Party participate in such defense, or (z) the Indemnifying Party shall not have engaged counsel within a reasonable time (but not more than fifteen (15) days) after notice of the institution of such Third Party Claim. Except as provided in the preceding sentence, nothing in this Section 8.3 shall require the Indemnifying Party to be responsible for the

fees and expenses of more than one law firm representing the Indemnified Party in any jurisdiction at any time in connection with the defense against a Third Party Claim. If reasonably requested by the Indemnifying Party, the Indemnified Party shall cooperate with the Indemnifying Party and its counsel in defending any Proceeding which the Indemnifying Party defends. Notwithstanding the foregoing, if a Third Party Claim (1) seeks the imposition of an Order that would materially restrict the future activity or conduct of the Indemnified Party or any of its Affiliates, or (2) seeks a finding or admission of a criminal violation by the Indemnified Party or any of its Affiliates, the Indemnified Party alone shall be entitled to contest and defend such claim in the first instance and, if the Indemnified Party does not contest such Third Party Claim, the Indemnifying Party shall then have the right to contest such Third Party Claim. No Third Party Claim may be settled or compromised, or offered to be settled or compromised, or a default permitted or an entry of any judgment consented to (each, a "Settlement") (A) by the Indemnifying Party without the prior written consent of the Indemnified Party (which consent shall not be unreasonably withheld, delayed or conditioned) if (1) such Settlement provides for injunctive or other nonmonetary relief affecting the Indemnified Party or (2) such Settlement does not include a general release of the Indemnified Party from liability with respect to such Third Party Claim, or (B) by the Indemnified Party without the prior written consent of the Indemnifying Party (which consent shall not be unreasonably withheld, delayed or conditioned). For the avoidance of doubt, this Section 8.3(b) shall not apply to any Tax audit or other Tax proceeding addressed in Section 6.3(c).

(c) In the event of a Direct Claim, the Indemnifying Party shall notify the Indemnified Party within fourteen (14) days after receipt of a Claim Notice whether the Indemnifying Party disputes such Direct Claim.

(d) From and after the delivery of a Claim Notice under this Agreement, at the reasonable request of either Party, each Party shall grant the other and its Representatives reasonable access to the books, records, employees, Representatives and properties of such Party to the extent reasonably related to the matters to which the Claim Notice relates. All such access shall be granted during normal business hours and shall be granted under conditions which will not unreasonably interfere with the business and operations of each Party. The Party requesting access will not, and shall use its reasonable best efforts to cause its Representatives not to, use (except in connection with such Claim Notice) or disclose to any third person other than the Party's Representatives (except as may be required by applicable Law) any information obtained pursuant to this Section 8.3(d) that is designated as confidential by the other Party. Notwithstanding the foregoing, neither Party shall have access to (i) any medical or other employee information that is contained in the personnel records of the other Party or its Affiliates and the disclosure of which would subject that Party or such Affiliate to risk of liability, (ii) any information that is subject of any attorney-client or other privilege in favor of the other Party or its Affiliates, or (iii) any information the disclosure of which would cause the other Party or any of its Affiliates to violate any applicable Law.

(e) After any final decision, judgment or award shall have been rendered by a Governmental Entity of competent jurisdiction and the expiration of the time in which to appeal therefrom, or a Settlement or arbitration shall have been consummated, or the

Indemnified Party and the Indemnifying Party shall have arrived at a mutually binding agreement with respect to an Indemnification Claim hereunder, the Indemnified Party shall forward to the Indemnifying Party notice of any sums determined or agreed to be due and owing by the Indemnifying Party pursuant to this Agreement with respect to such matter and the Indemnifying Party shall make prompt payment thereof by wire transfer within ten (10) Business Days after the date of such notice or, if required earlier, pursuant to the terms of the agreement reached with respect to the Indemnification Claim.

Section 8.4 Claims Period. The Claims Period shall be as follows:

(a) the representations and warranties of each Party shall survive the Closing until the date that is 36 months following the Closing Date; provided, however, that except as set forth in below, (i) the Claims Period for any Indefinite Purchaser Claim or Indefinite Seller Claim shall begin on the date hereof and continue indefinitely, and (ii) the Claims Period for any Statute Of Limitations (“SOL”) Purchaser Claims shall survive the Closing until the date that is six (6) months following the expiration of the longest applicable statute of limitations (including any extension thereof agreed to by the Purchaser and the Seller Representative) applicable thereto;

(b) the Claims Period for any covenants, agreements or undertakings made by the Parties in this Agreement, any Company Ancillary Document or any Purchaser Ancillary Document, other than the indemnity in Section 8.2, shall survive the Closing in accordance with their express terms, except as set forth in subsection (c) immediately below; and

(c) the Claims Period for the covenants, agreements and undertakings set forth in Section 6.3 shall survive the Closing until the date that thirty (30) days following the longest applicable statute of limitations (including any extension thereof agreed to by the Purchaser and the Seller Representative) applicable thereto.

No claim or cause of action for indemnification under this Article VIII may be made following the expiration of the applicable Claims Period; it being understood that in the event notice of any claim for indemnification under this Article VIII shall have been given within the applicable Claims Period, the representations, warranties, covenants or obligations that are the subject of such indemnification claim shall survive with respect to such indemnification claim until such time as such claim is fully and finally resolved, including by final non-appealable Order of a court of competent jurisdiction, even if the date of such full and final resolution occurs after the applicable Claims Period.

Section 8.5 Liability Limits. The Purchaser Indemnified Parties may not make a claim for indemnification under Section 8.1(a) or 8.1(b) for Purchaser Losses unless and until the aggregate amount of Purchaser Losses for which the Purchaser Indemnified Parties are entitled to seek Indemnification under Sections 8.1(a) and 8.1(b) exceeds \$100,000 (the “Deductible”), in which event the Purchaser Indemnified Parties shall be entitled to indemnification for all Purchaser Losses arising under Section 8.1(a) or 8.1(b) in excess of the Deductible; but in no event shall the aggregate amount of indemnification under Section 8.1 owed to the Purchaser Indemnified Parties exceed \$5,000,000 (the “Indemnification Cap”). Notwithstanding the foregoing, in no event shall (i) the Deductible apply to Purchaser Losses under Section 3.9 or (ii) the Deductible or the

Indemnification Cap apply to any Indefinite Purchaser Claim. Damages with respect to all Indefinite Purchaser Claims shall not be counted against the Deductible and shall not be counted towards the Indemnification Cap.

Section 8.6 Set-Off Rights. Subject to the limitations and procedures of this Article VIII, the Sellers agree that any and all Purchaser Losses may be offset against the Earn-Out Payment to be made by Purchaser in accordance with Section 2.5 hereof.

Section 8.7 Limitation on Damages. Notwithstanding anything herein to the contrary, an Indemnified Party shall be deemed to have suffered Damages only to the extent that such party has not received any recovery or benefit (including insurance and net tax benefits) with respect thereto from any other party or Person (which insurance benefits such Person agrees to use its commercially reasonable efforts to obtain) or based on any Initial Purchase Price Adjustment; and if an Indemnified Party receives such a recovery or benefit after receipt of payment from the Indemnifying Party, then the amount of such recovery or benefit (but not exceeding the amount paid by the Indemnifying Party), net of reasonable expenses incurred in obtaining the recovery or benefit, shall be paid to the Indemnifying Party. Each Indemnified Party shall (and shall cause its Affiliates to) use commercially reasonable efforts to pursue all insurance claims available in order to minimize the Damages for which indemnification is provided under this Article VIII. In determining the amount of any recovery or benefit by an Indemnified Party, there shall be taken into account any insurance and tax benefit realized by such Indemnified Party after also giving effect to any indemnification payment and/or any Purchase Price adjustment received by such Indemnified Party. Notwithstanding anything herein to the contrary, no Person shall be entitled to indemnification or reimbursement under any provision of this Agreement for any amount to the extent such Person has been reimbursed for such amount under any other provision of this Agreement, any document executed or delivered in connection with this Agreement or otherwise.

Section 8.8 Treatment of Indemnity Payments. To the extent permitted under IRS guidelines, all payments made pursuant to Section 8.1 and Section 8.2 shall be deemed adjustments to the Purchase Price for tax purposes.

Section 8.9 Exclusive Remedy; Specific Performance. Each Party acknowledges and agrees that the foregoing indemnification provisions in this Article VIII shall be the sole and exclusive remedy after Closing with respect to any and all Damages incurred, resulting or arising under Section 8.1 and Section 8.2; provided, however that this Article VIII shall not prohibit specific performance or other equitable relief as described in this Section 8.9. Each Party hereby acknowledges that the rights of each Party to consummate the transactions contemplated hereby are special, unique and of extraordinary character and that, in the event that any Party violates or fails or refuses to perform any covenant or agreement made by it herein, the non-breaching Party may be without an adequate remedy at law. In the event that any Party violates or fails or refuses to perform any covenant or agreement made by such Party herein, the non-breaching Party may, subject to the terms hereof, institute and prosecute an action in any court of competent jurisdiction to enforce specific performances of such covenant or agreement or seek any other equitable relief.

**ARTICLE IX
MISCELLANEOUS PROVISIONS**

Section 9.1 Notices. All notices and other communications hereunder shall be in writing and shall be deemed to have been duly given when personally delivered, or if sent by United States certified mail, return receipt requested, postage prepaid, shall be deemed duly given on delivery by the United States Postal Service, or if sent by facsimile, electronic mail or receipted overnight courier services shall be deemed duly given on the Business Day received if received prior to 5:00 p.m. local time or on the following Business Day if received after 5:00 p.m. local time or on a non-Business Day, addressed to the respective Parties as follows:

To the Purchaser and after the Closing to the Company:	Willdan Energy Solutions 2401 E. Katella Ave. Suite 300 Anaheim, CA 92806 Attn: Mike Bieber Email: mbieber@willdan.com
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with a copy to (which shall not constitute notice):	Willdan Energy Solutions 2401 E. Katella Ave. Suite 300 Anaheim, CA 92806 Attn: Micah Chen Email: mchen@willdan.com
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To the Seller Representative and the Sellers:	As set forth on the signature pages hereto
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with a copy to (which shall not constitute notice):	Fox Rothschild LLP 345 California Street, Suite 2200 San Francisco, CA 94104 Attn: Bill Mandel Fax: (415) 391-4436 Email: bmandel@foxrothschild.com
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or to such other representative or at such other address as such Person may furnish to the other Party in writing.

Section 9.2 Schedules and Exhibits. The Schedules and Exhibits are hereby incorporated into this Agreement and are hereby made a part hereof as if set out in full herein.

Section 9.3 Assignment; Successors in Interest. No assignment or transfer by any Party of his or its rights and obligations hereunder shall be made except with the prior written consent of the other Party. This Agreement shall be binding upon and shall inure to the benefit of the Parties and their respective successors and permitted assigns, and any reference to a Party shall also be a reference to the successors and permitted assigns thereof.

Section 9.4 Captions. The titles, captions and table of contents contained herein are inserted herein only as a matter of convenience and for reference and in no way define, limit, extend or describe the scope of this Agreement or the intent of any provision hereof.

Section 9.5 Controlling Law; Amendment. This Agreement shall be governed by and construed and enforced in accordance with the internal Laws of the State of California without

reference to choice of law rules. This Agreement may be amended or supplemented in any and all respects only by written agreement of the Parties.

Section 9.6 Submission to Jurisdiction. Each Party agrees that any legal action or other legal proceeding arising out of or relating to this Agreement or the enforcement of any provision of this Agreement or the transactions contemplated hereby shall be brought or otherwise commenced exclusively in any state or federal court located in the City and County of San Francisco, State of California. Each Party agrees to mediate any dispute arising out of or relating to this Agreement or the enforcement of any provision of this Agreement or the transactions contemplated hereby before resorting to litigation. Unless the Parties agree otherwise in writing, the mediation will be conducted through the City and County of San Francisco, California office of JAMS. A demand for mediation shall be served in writing on the other Party or Parties to this Agreement within a reasonable time after the dispute has arisen. A Party may file a legal proceeding in order to preserve the Party's rights with respect to the running of any statutes of limitations without violating the requirement of mediation, provided that mediation is commenced promptly and before the incurrence of significant legal fees or the undertaking of any discovery in connection with the legal proceeding. A dispute not resolved within ninety (90) days after submission to mediation shall be resolved by litigation. Each Party:

(i) expressly and irrevocably consents and submits to the jurisdiction of each state and federal court located in the City and County of San Francisco, State of California (and each appellate court located in the City and County of San Francisco, State of California) in connection with any such legal proceeding, including to enforce any Order or award;

(ii) consents to service of process in any such proceeding in any manner permitted by the laws of the State of California, and agrees that service of process by registered or certified mail, return receipt requested, at its address specified pursuant to Section 9.1 is reasonably calculated to give actual notice;

(iii) agrees that each state and federal court located in the City and County of San Francisco, State of California shall be deemed to be a convenient forum;

(iv) waives and agrees not to assert (by way of motion, as a defense or otherwise), in any such legal proceeding commenced in any state or federal court located in the City and County of San Francisco, State of California, any claim that such Party is not subject personally to the jurisdiction of such court, that such legal proceeding has been brought in an inconvenient forum, that the venue of such proceeding is improper or that this Agreement or the subject matter hereof or thereof may not be enforced in or by such court; and

(v) agrees to the entry of an Order to enforce any Order or award made pursuant to this Section 9.6 by the state and federal courts located in the City and County of San Francisco, State of California and in connection therewith hereby waives, and agrees not to assert by way of motion, as a defense, or otherwise, any claim that such resolution, settlement, Order or award is inconsistent with or

violative of the laws or public policy of the laws of the State of California or any other jurisdiction.

Section 9.7 Severability. Any provision hereof that is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction. To the extent permitted by Law, each Party hereby waives any provision of Law that renders any such provision prohibited or unenforceable in any respect.

Section 9.8 Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, and it shall not be necessary in making proof of this Agreement or the terms hereof to produce or account for more than one of such counterparts. This Agreement may be executed and delivered by facsimile or other electronic transmission.

Section 9.9 Parties in Interest. Nothing expressed or implied herein is intended, or shall be construed, to confer upon or give any Person other than the Parties, and their successors or permitted assigns (and with respect to the indemnification provided for in Article VIII only, the Purchaser Indemnified Parties and the Seller Indemnified Parties) any right, remedy, obligation or liability under or by reason of this Agreement, or result in such Person being deemed a third-party beneficiary hereof.

Section 9.10 Waiver. Any agreement on the part of a Party to any extension or waiver of any provision hereof shall be valid only if set forth in an instrument in writing signed on behalf of such Party. A waiver by a Party of the performance of any covenant, agreement, obligation, condition, representation or warranty shall not be construed as a waiver of any other covenant, agreement, obligation, condition, representation or warranty. A waiver by any Party of the performance of any act shall not constitute a waiver of the performance of any other act or an identical act required to be performed at a later time.

Section 9.11 Integration. This Agreement and the other documents executed pursuant hereto supersede all negotiations, agreements and understandings among the Parties with respect to the subject matter hereof and constitute the entire agreement among the Parties with respect thereto.

Section 9.12 Seller Representative.

(a) By the execution and delivery of this Agreement, including counterparts thereof, each Seller hereby irrevocably constitutes and appoints Ren Orans (the "Seller Representative"), and the Seller Representative hereby accepts such appointment, as the true and lawful agent and attorney-in-fact of such Seller with full powers of substitution to act in the name, place and stead of such Seller with respect to the performance on behalf of such Seller under the terms and provisions hereof and to do or refrain from doing all such further acts and things, and to execute all such documents, as the Seller Representative shall deem necessary or appropriate in connection with any transaction contemplated hereunder, including the power to:

(i) act for such Seller, if applicable, with respect to all indemnification matters referred to herein, including the right to compromise or settle any such claim on behalf of such Seller;

(ii) amend or waive any provision hereof in any manner;

(iii) employ, obtain and rely upon the advice of legal counsel, accountants and other professional advisors as the Seller Representative, in the sole discretion thereof, deems necessary or advisable in the performance of his duties as the Seller Representative;

(iv) act for such Seller with respect to all Initial Purchase Price matters, including any adjustments thereto, and all earn-out matters;

(v) incur any expenses, liquidate and withhold assets received on behalf of such Seller prior to their distribution to such Seller to the extent of any amount that the Seller Representative deems necessary for the payment of or as a reserve against expenses, and pay such expenses or deposit the same in an interest-bearing bank account established for such purpose;

(vi) receive all notices, service of process, communications and deliveries hereunder on behalf of such Seller; and

(vii) do or refrain from doing any further act or deed on behalf of such Seller that the Seller Representative deems necessary or appropriate, in the sole discretion of the Seller Representative, relating to the subject matter hereof as fully and completely as such Seller could do if personally present and acting and as though any reference to such Seller herein was a reference to the Seller Representative.

(b) The appointment of the Seller Representative shall be deemed coupled with an interest and shall be irrevocable, and any other Person may conclusively and absolutely rely, without inquiry, upon any action of the Seller Representative as the act of such Seller in all matters referred to herein.

(c) The Seller Representative shall not have any duties or obligations except those expressly set forth herein. Without limiting the generality of the foregoing, (i) the Seller Representative shall not be subject to any fiduciary or other implied duties with respect to any Seller; (ii) the Seller Representative shall not have any duty to take any discretionary action or exercise any discretionary powers, and (iii) except as expressly set forth herein, the Seller Representative shall not have any duty to disclose, and shall not be liable for the failure to disclose to any Seller, any information relating to Purchaser, this Agreement or the transaction contemplated hereunder except as specifically required herein or in any other agreement, including but not limited to any information obtained by the Seller Representative in his capacity as a Seller. The Seller Representative shall not be liable for any action taken or not taken by him in the absence of his own gross negligence or willful misconduct.

(d) In the event the Seller Representative resigns or ceases to function in such capacity for any reason whatsoever, then the successor Seller Representative shall be the Person that Ren Orans appoints.

(e) The Purchaser acknowledges and agrees that except for his liability as a Seller hereunder, Ren Orans shall have no additional liability under this Agreement due to the appointment of such Seller as the Seller Representative.

[Signature Pages Follow]

IN WITNESS WHEREOF, the Parties have caused this Agreement to be duly executed as of the date first above written.

THE PURCHASER:

WILLDAN ENERGY SOLUTIONS

By: /s/ Thomas Brisbin

Name: Thomas Brisbin

Title: Chairman and Chief Executive Officer

WILLDAN

WILLDAN GROUP, INC.

By: /s/ Thomas Brisbin

Name: Thomas Brisbin

Title: Chief Executive Officer

SIGNATURE PAGE TO STOCK PURCHASE AGREEMENT

SELLER REPRESENTATIVE:

/s/ Ren Orans

Name: Ren Orans

Address:

Email: ren@ethree.com

SELLERS:

/s/ Ren Orans

By: Ren Orans

Address:

Email: ren@ethree.com

SIGNATURE PAGE TO STOCK PURCHASE AGREEMENT

/s/ Arne Olson

By: Arne Olson

Address:

Email: Arne@ethree.com

SIGNATURE PAGE TO STOCK PURCHASE AGREEMENT

/s/ Brian Horii

By: Brian Horii

Address:

Email: brian@ethree.com

SIGNATURE PAGE TO STOCK PURCHASE AGREEMENT

/s/ Snuller Price

By: Snuller Price

Address:

Email: snuller@ethree.com

SIGNATURE PAGE TO STOCK PURCHASE AGREEMENT

/s/ Kush Patel

By: Kush Patel

Address:

Email: kushal.patel@ethree.com

SIGNATURE PAGE TO STOCK PURCHASE AGREEMENT

/s/ Amber Mahone

By: Amber Mahone

Address:

Email: amber@ethree.com

SIGNATURE PAGE TO STOCK PURCHASE AGREEMENT

The following schedules and exhibits have been omitted pursuant to Item 601(a)(5) of Regulation S-K promulgated by the SEC.

Schedule 3.1	Organization; Good Standing
Schedule 3.3	Shares
Schedule 3.4(a)	Conflicts
Schedule 3.4(b)	Government Filings
Schedule 3.5(a)	Leased Real Property
Schedule 3.5(c)	Liens on Real Property
Schedule 3.6	Title to Assets
Schedule 3.7	Financial Statements
Schedule 3.8	Receivables
Schedule 3.9(d)	Withholding of Taxes
Schedule 3.9 (e)	Matters Relating to Tax Periods
Schedule 3.9(i)	Tax Deficiency
Schedule 3.9(l)	Affiliated Group Tax Returns
Schedule 3.10	Liabilities
Schedule 3.11	Absence of Changes
Schedule 3.12	Legal Proceedings
Schedule 3.13	Compliance with Laws
Schedule 3.14(a)	Contracts
Schedule 3.14(c)	Contract Exceptions
Schedule 3.14(c)(vi)	Contract Overruns
Schedule 3.14(d)	Government Contracts
Schedule 3.15(a)	Employee Benefit Plans
Schedule 3.15(b)	Amendments to Employee Benefit Plans
Schedule 3.15(c)	Employee Benefit Plan subject to Title IV or the Code
Schedule 3.15(d)	Multi-Employer Plans
Schedule 3.15(g)	Employee Benefit Plan Compliance with Law
Schedule 3.15(i)	Prohibited Transactions
Schedule 3.15(n)	Change of Control Payments
Schedule 3.15(t)	Employees Absent from Active Employment
Schedule 3.15(u)	COBRA Elections
Schedule 3.16(a)	Labor Relations
Schedule 3.16(b)	Terminating Employees
Schedule 3.17	Employees and Contractors
Schedule 3.18(b)	Insurance Policies
Schedule 3.18(c)	Bonds
Schedule 3.19(a)	Compliance with Environmental Laws
Schedule 3.19(d)	Health and Safety and Environmental Events
Schedule 3.20	Transactions with Affiliates
Schedule 3.21(a)	Customers and Vendors
Schedule 3.22	Product and Service Warranties
Schedule 3.23(a)	Company Registered Intellectual Property
Schedule 3.23(e)	Works of Original Authorship
Schedule 3.24(a)	Company Proprietary Software and Company Licensed Software

Schedule 3.24(d) Source Code for Company Proprietary Software
Schedule 3.25 Licenses
Schedule 3.26 Bank Accounts and Powers of Attorney
Schedule 3.27 Accounting Records
Schedule 3.28 Brokers, Finders and Investment Bankers

Exhibit A – Credit As Adjustment To Earn-Out Agreement

Exhibit 7.2(d)(2) - Form of Non-Competition Agreement for Ren Orans and Brian Horii

Exhibit 7.2(d)(3) – Form of Non-Competition Agreement for Arne Olsen and Snuller Price

Exhibit 7.2(d)(4) – Form of Non-Competition Agreement for Kush Patel and Amber Mahone

**AMENDMENT NO. 1 TO THE
STOCK PURCHASE AGREEMENT**

This Amendment No. 1 to the Stock Purchase Agreement (“Amendment”) dated as of August 1, 2019 is entered into by and between INTEGRAL ANALYTICS, INC., an Ohio corporation (the “Seller”) and WILLDAN ENERGY SOLUTIONS, a California corporation (the “Buyer”). Each of the Seller and the Buyer are referred to herein as a “Party” and collectively, as the “Parties.” All capitalized terms not otherwise defined herein shall have the meaning assigned to such term in the Original Agreement (as defined below).

RECITALS

WHEREAS, the Seller and the Buyer are parties to that certain Stock Purchase Agreement dated July 28, 2017 (the “Original Agreement”).

WHEREAS, Parties desire to amend the definition of “Earn-Out Period” to the Original Agreement pursuant to this Amendment.

AGREEMENT

NOW THEREFORE, in consideration of the mutual covenants, representations, warranties and agreements contained herein, and of other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and intending to be bound hereby, the Parties agree as follows:

1. Article I Definitions.

(a) “Earn-Out Period” of Section 1.1 of the Original Agreement are hereby amended to (i) delete “shall mean the period from the Closing Date until the earlier of (a) that period of time pursuant to this Agreement in which Seller has qualified for the Maximum Payout, or (b) the third anniversary of the Closing Date”, and (ii) to replace such deletion with “shall mean the period from the Closing Date until the earlier of (a) that period of time pursuant to this Agreement in which Seller has qualified for the Maximum Payout, or (b) the fourth anniversary of the Closing Date.”

2. Entire Agreement. This Amendment, together with the Original Agreement, contain the entire agreement and understanding between the Parties hereto with respect to the subject matter hereof and supersede all prior agreements and understandings relating to such subject matter.

3. Good Faith. Each of the signatories to this Amendment agrees to cooperate in good faith with each other to facilitate the performance by the Parties of their respective obligations hereunder and the purposes of this Amendment.

4. Surviving Terms, Inconsistencies. Except for those terms and conditions modified in this Amendment, all terms and conditions of the Original Agreement shall continue unchanged and in full force and effect, and shall govern the Parties’ rights and obligations thereunder. In the event of any conflict between the terms and conditions of the Original Agreement and those of this Amendment, the terms and conditions of this Amendment shall govern.

SIGNATURE PAGE

IN WITNESS WHEREOF, the Parties have caused this Amendment to be executed and delivered by their respective authorized representatives as of the date set forth above, to be effective as of August 1, 2019.

INTEGRAL ANALYTICS, INC.
an Ohio corporation

By: /s/ Thomas Osterhus
Thomas Osterhus
President and CEO

WILLDAN ENERGY SOLUTIONS
a California corporation

By: /s/ Mike Bieber
Mike Bieber, President

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statements on Forms S-3 and S-8 (Nos. 333-217356, 333-232438, 333-219133, 333-219129, 333-168787, 333-212907, 333-184823, 333-152951 and 333-139127) of Willdan Group, Inc. of our report dated October 12, 2019 on our audit of the financial statements of Energy and Environmental Economics, Inc. as of and for the year ended December 31, 2018 and 2017 and the related notes thereto, included in this Quarterly Report on Form 10-Q of Willdan Group Inc. for the quarter ended September 27, 2019, filed with the Securities and Exchange Commission on October 31, 2019. We also consent to the reference to our firm under the caption “Experts” in the prospectus.

/s/ Farber Hass Hurley LLP

Chatsworth, CA
October 31, 2019

SECTION 302 CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Thomas D. Brisbin, certify that:

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

Date: October 31, 2019

By: /s/ Thomas D. Brisbin
Thomas D. Brisbin
Chief Executive Officer
(Principal Executive Officer)

SECTION 302 CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Stacy B. McLaughlin, certify that:

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

Date: October 31, 2019

By: /s/ Stacy B. McLaughlin
Stacy B. McLaughlin
Chief Financial Officer and Vice President
(Principal Financial Officer)

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

In connection with the Quarterly Report on Form 10-Q of Willdan Group, Inc. (the "Company") for the quarterly period ended September 27, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Thomas D. Brisbin, as Chief Executive Officer of the Company, and Stacy B. McLaughlin, as Chief Financial Officer of the Company, each hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his or her knowledge:

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

By: /s/ Thomas D. Brisbin
Thomas D. Brisbin
Chief Executive Officer
(Principal Executive Officer)
October 31, 2019

By: /s/ Stacy B. McLaughlin
Stacy B. McLaughlin
Chief Financial Officer and Vice President
(Principal Financial Officer)
October 31, 2019

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.

**ENERGY AND ENVIRONMENTAL
ECONOMICS, INC.**

FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

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ENERGY AND ENVIRONMENTAL ECONOMICS, INC.

BALANCE SHEETS

ASSETS
(Unaudited)

	June 30,	
	2019	2018
CURRENT ASSETS		
Cash	\$ 1,048,892	\$ 2,409,078
Receivables -		
Contracts and accounts, including retainage	3,745,393	2,897,629
Related party	-	298,040
State taxes	7,267	-
Others	335	-
Prepaid expenses -		
Cash balance plan	-	4,716
Insurance	65,700	55,286
Rent	-	74,750
Others	4,281	3,345
Total current assets	<u>4,871,868</u>	<u>5,742,844</u>
PROPERTY AND EQUIPMENT		
Furniture and fixtures	351,243	192,304
Computer and office equipment	278,383	313,948
Leasehold improvements	72,652	96,980
	<u>702,278</u>	<u>603,232</u>
Less - accumulated depreciation	<u>282,487</u>	<u>453,375</u>
	<u>419,791</u>	<u>149,857</u>
RIGHT-OF-USE ASSET	<u>7,012,563</u>	<u>-</u>
OTHER ASSETS, Security deposits	<u>340,903</u>	<u>368,443</u>
Total assets	<u>\$ 12,645,125</u>	<u>\$ 6,261,144</u>

See accompanying notes.

ENERGY AND ENVIRONMENTAL ECONOMICS, INC.

BALANCE SHEETS

LIABILITIES AND EQUITY
(Unaudited)

	June 30,	
	2019	2018
CURRENT LIABILITIES		
Payables -		
Trade	\$ 306,574	\$ 349,659
Other	5,793	5,397
Accrued Liabilities -		
Profit sharing	129,626	100,389
Paid time off	188,310	123,357
Other	1,714	7,962
Cash balance plan obligation	8,489	285,419
Deferred revenue	22,092	133,911
Deferred rent	-	2,707
Lease liability	577,958	-
Total current liabilities	<u>1,240,556</u>	<u>1,008,801</u>
LONG-TERM LIABILITIES		
Lease liability, less current portion	<u>6,868,423</u>	-
TOTAL LIABILITIES	<u>8,108,979</u>	<u>1,008,801</u>
STOCKHOLDERS' EQUITY		
Common stock, no par value, 1,000,000 authorized, 97.20 and 102.60 shares issued and outstanding at June 30, 2019 and 2018, respectively	243,929	257,472
Accumulated other comprehensive income	127,970	22,723
Retained earnings	<u>4,164,247</u>	<u>4,972,148</u>
Total stockholders' equity	<u>4,536,146</u>	<u>5,252,343</u>
Total liabilities and stockholders' equity	<u>\$ 12,645,125</u>	<u>\$ 6,261,144</u>

See accompanying notes.

ENERGY AND ENVIRONMENTAL ECONOMICS, INC.

STATEMENTS OF INCOME

(Unaudited)

	Six Months Ended June 30,	
	2019	2018
REVENUES, net	\$ 8,171,051	\$ 7,810,534
COST OF REVENUES		
Labor	2,313,227	1,740,240
Subconsultants	179,531	264,547
Other direct costs	216,071	162,078
	<u>2,708,829</u>	<u>2,166,865</u>
Gross Profit	<u>5,462,222</u>	<u>5,643,669</u>
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES		
Payroll and payroll taxes	1,642,126	1,111,367
Employee benefits	311,766	672,671
Rent	599,093	260,676
Professional fees	153,750	109,275
Travel and entertainment	111,532	100,352
Licenses and permits	87,058	65,686
Insurance	40,183	62,415
Other taxes	28,463	42,099
Depreciation	50,455	31,642
Marketing	10,550	10,992
Dues and subscriptions	3,744	4,084
Telephone and communication	14,571	11,161
Supplies	52,419	25,868
Other	23,648	18,412
	<u>3,129,358</u>	<u>2,526,700</u>
INCOME FROM OPERATIONS	<u>2,332,864</u>	<u>3,116,969</u>
OTHER INCOME AND (EXPENSES)		
Interest income	64	49
Foreign exchange gain (loss)	<u>(877)</u>	<u>120</u>
	<u>(813)</u>	<u>169</u>
INCOME BEFORE PROVISION FOR INCOME TAXES	<u>2,332,051</u>	<u>3,117,138</u>
PROVISION FOR INCOME TAXES		
State income taxes	<u>4,455</u>	<u>10,763</u>
NET INCOME	<u>\$ 2,327,596</u>	<u>\$ 3,106,375</u>

See accompanying notes.

ENERGY AND ENVIRONMENTAL ECONOMICS, INC.

STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

	<u>Six Months Ended June 30,</u>	
	<u>2019</u>	<u>2018</u>
NET INCOME	\$ 2,327,596	\$ 3,106,375
OTHER COMPREHENSIVE INCOME (LOSS)		
Net change in unrealized gain (losses) on cash balance plan	240,868	(147,616)
Foreign currency translation	(4,093)	(1,204)
	<u>\$ 2,564,371</u>	<u>\$ 2,957,555</u>

See accompanying notes.

ENERGY AND ENVIRONMENTAL ECONOMICS, INC.

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(Unaudited)

	<u>Common Stock</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Retained Earnings</u>	<u>Total Stockholders' Equity</u>
Balance - December 31, 2017	\$ 257,472	\$ 171,543	\$ 3,243,317	\$ 3,672,332
Distributions	-	-	(1,377,544)	(1,377,544)
Unrealized loss on cash balance plan	-	(147,616)	-	(147,616)
Foreign currency translation	-	(1,204)	-	(1,204)
Net income	-	-	3,106,375	3,106,375
Balance - June 30, 2018	<u>\$ 257,472</u>	<u>\$ 22,723</u>	<u>\$ 4,972,148</u>	<u>\$ 5,252,343</u>

	<u>Common Stock</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Retained Earnings</u>	<u>Total Stockholders' Equity</u>
Balance - December 31, 2018	\$ 243,929	\$ (108,805)	\$ 4,546,215	\$ 4,681,339
Distributions	-	-	(2,709,564)	(2,709,564)
Unrealized gain on cash balance plan	-	240,868	-	240,868
Foreign currency translation	-	(4,093)	-	(4,093)
Net income	-	-	2,327,596	2,327,596
Balance - June 30, 2019	<u>\$ 243,929</u>	<u>\$ 127,970</u>	<u>\$ 4,164,247</u>	<u>\$ 4,536,146</u>

See accompanying notes.

ENERGY AND ENVIRONMENTAL ECONOMICS, INC.**STATEMENTS OF CASH FLOWS****(Unaudited)**

	Six Months Ended June 30,	
	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	\$ 2,327,596	\$ 3,106,375
Adjustments to reconcile net income to net cash provided by operating activities -		
Depreciation	50,455	31,642
Unrealized gain (loss) on cash balance plan	240,868	(147,616)
Changes in assets and liabilities		
Contracts, accounts and other receivables	(228,528)	83,134
Prepaid expenses	46,643	258,303
Security deposits	(3,402)	(337,501)
Accounts and other payables	104,122	225,899
Accrued liabilities	(868,624)	(343,413)
Deferred rent	(94,010)	(7,263)
Deferred revenue	(168,525)	(180,302)
Right-of-use asset	433,818	-
Cash balance plan obligation	(435,565)	(248,978)
Total adjustments	(922,748)	(666,095)
Net cash provided by operating activities	1,404,848	2,440,280
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(86,836)	(63,264)
Net cash used in investing activities	(86,836)	(63,264)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Stock redemption	(845,000)	-
Distributions	(2,709,564)	(1,377,544)
Net cash used in financing activities	(3,554,564)	(1,377,544)
Effect of foreign currency translation on cash	(4,093)	(1,204)
NET INCREASE (DECREASE) IN CASH	(2,240,645)	998,268
CASH - BEGINNING OF PERIOD	3,289,537	1,410,810
CASH - END OF PERIOD	\$ 1,048,892	\$ 2,409,078
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for income taxes	\$ 6,300	\$ 1,800
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Right-of-use asset obtained in exchange for operating lease liability	\$ 7,473,282	\$ -

See accompanying notes.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

(Unaudited)

1. General and Summary of Significant Accounting Policies

General -- Energy and Environmental Economics, Inc. (the “Company”), a California S-corporation, is an energy consulting firm that provides consulting services to utilities, regulators, policy makers, developers, and investors. The Company is headquartered in San Francisco, and it operates offices in New York and Boston. The Company formerly operated an office in Canada and maintained a bank account to support its operations. In 2015, the Company decided to close its office in Canada. However, in 2019, the Company decided to hire an employee in Canada to continue its operations.

Basis of Presentation -- The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”).

Cash -- Cash consists of interest and non-interest-bearing accounts with an U.S. and a foreign financial institution and cash on hand at year end. Cash deposited with the foreign financial institution was \$11,742 and \$26,671 as of June 30, 2019 and 2018, respectively.

Contracts and Accounts Receivable -- Contracts and accounts receivable are uncollateralized customer obligations and are stated at the amount billed. Contracts and accounts receivable are recorded when invoices are issued. The Company extends credits to customers in the normal course of business. The Company evaluates the credit worthiness of these customers at the time a contract is signed and monitors the customers’ credit worthiness on an ongoing basis. An allowance is provided for potential credit losses based on management’s ongoing review of collections and historical experience. As of June 30, 2019 and 2018, no allowance was provided as management believes that all receivables are collectible.

Retainage receivable is an agreed upon portion of the contract price that is deliberately withheld until the project is substantially complete to assure that the Company and its subconsultants will satisfy and complete its obligations. Retainage receivable was \$177,900 and \$152,196 at June 30, 2019 and 2018, respectively.

Property and Equipment -- Property and equipment are recorded at cost. Expenditures for major additions and improvements are capitalized and minor replacements, maintenance, and repairs are charged to expense as incurred. Leasehold improvements are depreciated utilizing the straight-line method over the shorter of estimated useful lives or the term of the related lease. Other property and equipment is depreciated utilizing the straight-line method over the estimated useful lives of the respective assets as follow:

Type of Property and Equipment	Life
Furniture and fixtures	7 years
Computer and office equipment	3 to 5 years
Leasehold improvements	10 years

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

(Unaudited)

Depreciation expense amounted to \$50,455 and \$31,642 for the six months ended June 30, 2019 and 2018 respectively.

Impairment of Long-lived Assets -- The Company periodically evaluates whether changes have occurred that would require revision of the remaining estimated useful life of the property, improvements, and other long-lived assets or render them not recoverable. An impairment loss would be recognized when estimated undiscounted future cash flows expected to result from the use of the asset and its eventual disposition are less than its carrying amount. Through June 30, 2019, there have been no such losses.

Revenue and Cost Recognition -- The Company enters into contracts with its customers that contain primarily time-and-materials pricing provisions. The Company recognizes revenues in accordance with Accounting Standards Update (“ASU”) 2014-09, Revenue from Contracts with Customer, codified as Accounting Standards Codification (“ASC”) Topic 606 and the related amendments (“ASC 606”). Pursuant to ASC 606, revenues are recognized upon applying the following steps:

- Identification of the contract(s) with a customer;
- Identification of the performance obligations in the contract;
- Determination of the transaction price;
- Allocation of the transaction price to performance obligations in the contract;
- Recognition of revenues when, or as, the contractual obligations are satisfied.

Revenue from customer contracts will still be recognized over time because of the continuous transfer of control to the customer. Revenue on time-and-materials is recognized as the work is performed in accordance with the specific rates and terms of the contract. Generally, the Company does not recognize any amount exceeding the maximum contract value. However, certain time-and-materials contracts require that markdowns be reflected, thus, revenue is recorded net of any markdowns. 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 contracts may include separate phases or elements. The Company evaluates if the contracts should be segmented based on the technical resources required and/or the supply and demand for the services being provided. Segmented contract 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. The Company did not have any segmented contracts for the six months ended June 30, 2019 and 2018.

The Company considers variable consideration when determining the transaction price in accordance with ASC 606 and estimates the variable consideration component of the transaction price, as well as assessing if 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

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018
(Unaudited)

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.

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 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 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 services included in the modification, the Company accounts for such contract modifications as a separate contract.

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 subcontractor services and other expenses that are incurred in connection with revenue producing projects.

Direct costs of contract revenue exclude that portion of technical salaries and wages related to marketing efforts, vacations, holidays and other time not spent directly generating revenue under existing contracts. Such

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018
(Unaudited)

costs are included in selling, general and administrative expenses. Additionally, payroll taxes, bonuses, and employee benefit costs for all Company personnel are included in selling, general and administrative expenses in the accompanying statements of 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.

Billings and/or payments for contracts for which services are not yet performed are recognized as deferred revenue.

Income Taxes -- The Company, with the consent of its shareholders, elected to be taxed under the provisions of Sub-chapter S of the Internal Revenue Code. Under these provisions, the Company will not pay corporate income taxes on its taxable income. Instead, the shareholders will be liable for income taxes on the Company's taxable income as it affects the shareholders' individual tax returns. The Company recognizes interest and penalties related to income tax matters, if any, in income tax expense.

The Company recognizes and measures its unrecognized tax benefits in accordance with ASC 740, *Income Taxes*. Under that guidance the Company assesses the likelihood, based on their technical merit, that tax positions will be sustained upon examination based on the facts, circumstances and information available at the end of each period. The measurement of unrecognized tax benefits is adjusted when new information is available, or when an event occurs that requires a change.

The Company did not recognize any change in its asset or liability for unrecognized tax benefits as the Company currently has no open examination by an applicable taxing authority or any event that occurred that may require such adjustments.

Concentration of Credit Risk -- Financial instruments, which potentially subject the Company to concentration of credit risk, consist principally of deposits greater than \$250,000 with each financial institution. During the six months ended June 30, 2019 and 2018, the Company had cash balances on deposit that exceeded the balance insured by the Federal Deposit Insurance Corporation ("FDIC"). As of June 30, 2019 and 2018, cash balances on deposit that exceeded the balance insured by the FDIC was \$806,642 and \$2,163,588, respectively. Management periodically reviews its cash policies and believes any potential accounting loss is minimal.

Estimates Included in the Unaudited Financial Statements -- The preparation of the unaudited financial statements in conformity with accounting principles generally accepted in the United States of America 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018
(Unaudited)

New Accounting Pronouncement Adopted -- The Company early adopted ASU 2016-02, Leases (Topic 842), effective January 1, 2019 using the modified retrospective approach and took advantage of the transition package of practical expedients permitted under the new standard, which among other things, allows the Company to carryforward the historical lease classifications. For leases with a term of 12 months or less, the Company elected the short-term lease exemption, which allowed the Company to not recognize right-of-use assets or lease liabilities for qualifying leases existing at transition and new leases the Company may enter into in the future.

As of January 1, 2019, the Company recorded both an operating lease asset and operating lease liability of approximately \$7.4 million. The Company reclassified the preexisting deferred rent liability balances from the historical straight-line treatment of operating lease as a reduction of the lease asset upon adoption. The adoption of the standard did not materially affect the Unaudited Statements of Income or Statements of Cash Flows as operating lease payments will still be an operating cash outflow. The new standard did not have a material impact on our liquidity.

2. Risks and Uncertainties

The Company had two major customers (revenues in excess of 10% of the total revenues) that accounted for 26% of the total revenues totaling \$2,155,000 for the six months ended June 30, 2019. The Company had one major customer that accounted for 15% of the total revenues totaling \$1,184,000 for the six months ended June 30, 2018. The Company also had receivables totaling \$692,000 and \$50,000 as of June 30, 2019 and 2018, respectively, from these major customers.

The Company's business is subject to the risks generally associated with changes in economic condition in which the Company's business is concentrated.

3. Common Stock

The Company has 1,000,000 authorized shares for common stock with no par value. As of June 30, 2019 and 2018, the Company had 97.2 and 102.6 shares of common stock issued and outstanding, respectively.

4. Related Party Transactions

The Company has receivables amounting to \$298,040 from its shareholders at June 30, 2018, and all balances were reclassified as distributions in December 2018.

5. Lease Commitments

The Company leases office space in San Francisco, California under operating lease, which expires in March 2027.

Operating lease right-of-use ("ROU") assets and operating lease liabilities are recognized based on the present value of the future minimum lease payments over the lease term at the commencement date. As the implicit rate for the lease is not readily determinable, the Company uses the incremental borrowing rate based on

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018
(Unaudited)

the information available at commencement date in determining the present value of future payments. Upon adoption of the new lease standard, the Company utilized the published Wall Street Journal Prime Rate closest to the commencement date.

The amounts recorded in the unaudited balance sheet as of June 30, 2019 related to the operating lease agreement are as follows:

	<u>June 30, 2019</u>
Operating Lease	
Right-of-use asset	\$ 7,012,562
Lease liability, current portion	\$ 577,958
Lease liability, long-term	6,868,423
	<u>\$ 7,446,381</u>

During the six months ended June 30, 2019, total lease expense recorded was approximately \$599,000.

The following is a summary of other information and supplemental cash flow information related to operating lease as of and for the six months ended June 30, 2019:

	<u>June 30, 2019</u>
Operating Lease	
Weighted average remaining lease term (in years)	7.75
Weighted average discount rate	5.25 %
Cash paid for amounts Included in the measurment of lease liabilities	
Operating cash flow from operating lease	\$ 224,250

NOTES TO FINANCIAL STATEMENTS**JUNE 30, 2019 AND 2018**
(Unaudited)

The future minimum lease commitments under the operating lease at June 30, 2019 are as follows:

Year Ending	Amount
Reminder of 2019	\$ 450,742
December 31, 2020	1,056,976
December 31, 2021	1,133,406
December 31, 2022	1,167,462
December 31, 2023	1,202,458
December 31, 2024	1,238,534
Thereafter	2,927,149
Total minimum lease payments	9,176,727
Less: interest	1,730,346
	7,446,381
Less: current portion	577,958
Noncurrent lease liability	<u>\$ 6,868,423</u>

6. Retirement Plans

The Company has a defined contribution plan that covers substantially all eligible employees after three months of service. The Company may make discretionary matching or profit sharing contributions. The Company accrued approximately \$130,000 and \$100,400 of employer profit sharing contributions to the plan as of June 30, 2019 and 2018, respectively.

The Company also has a cash balance plan that covers substantially all eligible employees after one year of service, and a notional balance for each of the plan's participants is maintained. The Company terminated the plan effective April 15, 2019 and will make a final distribution of benefits to all participants upon completion of a 60-day wait period as required by the Pension Benefit Guaranty Corporation ("PBGC") (see Note 7). As of June 30, 2019 and 2018, estimated funded status of the cash balance plan was a liability of approximately \$34,000 and \$310,000, respectively.

During the six months ended June 30, 2019 and 2018, pension expense for the cash balance plan was \$49,931 and \$451,781, respectively. Management contributions to the cash balance plan made during the six months ended June 30, 2019 and 2018 was \$244,628 and \$534,397, respectively.

7. Subsequent Events

On September 24, 2019, the Company received a letter from PBGC relating to the cash balance plan's termination notice. There is a 60-day wait period before any distributions to the participants can take place to ascertain that there is no non-compliance. On September 25, 2019, the Company also received the Internal Revenue Service determination letter stating that the termination does not affect its qualification for federal tax purposes. The Company intends to cover any obligation required at time of distribution.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018
(Unaudited)

The Company has evaluated subsequent events through October 25, 2019, the date on which the unaudited financial statements was available to be issued and except as discussed above, noted no other subsequent events that would require recognition in the unaudited financial statements or the notes thereto as of October 25, 2019.

**ENERGY AND ENVIRONMENTAL
ECONOMICS, INC.**
FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017



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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and
Stockholders of Energy and Environmental Economics, Inc.

Opinion on the Financial Statements

We have audited the accompanying balance sheets of Energy and Environmental Economics, Inc. (the “Company”) as of December 31, 2018 and 2017, and the related statements of income, comprehensive loss, stockholders’ equity, and cash flows for the years then ended, and the related notes (collectively referred to as the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of their operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Farber Hass Hurley LLP

Farber Hass Hurley LLP

We have served as the Company’s auditor since 2019.

Chatsworth, California

October 12, 2019

ENERGY AND ENVIRONMENTAL ECONOMICS, INC.BALANCE SHEETS -- DECEMBER 31, 2018 AND 2017ASSETS

	<u>2018</u>	<u>2017</u>
CURRENT ASSETS		
Cash	\$ 3,289,537	\$ 1,410,810
Receivables -		
Contracts and accounts, including retainage	3,518,401	2,976,659
Related party	—	298,040
State taxes	5,782	—
Others	284	4,104
Prepaid expenses -		
Cash balance plan	—	313,978
Insurance	38,225	35,476
Rent	—	43,912
Others	3,649	3,034
Total current assets	<u>6,855,878</u>	<u>5,086,013</u>
PROPERTY AND EQUIPMENT		
Furniture and Fixtures	325,605	182,812
Computer and office equipment	251,701	260,176
Leasehold improvements	38,136	96,980
	<u>615,442</u>	<u>539,968</u>
Less - accumulated depreciation	<u>232,032</u>	<u>421,733</u>
	<u>383,410</u>	<u>118,235</u>
OTHER ASSETS , security deposits	<u>412,251</u>	<u>30,942</u>
Total assets	<u>\$ 7,651,539</u>	<u>\$ 5,235,190</u>

See accompanying notes.

ENERGY AND ENVIRONMENTAL ECONOMICS, INC.BALANCE SHEETS -- DECEMBER 31, 2018 AND 2017LIABILITIES AND STOCKHOLDERS' EQUITY

	<u>2018</u>	<u>2017</u>
CURRENT LIABILITIES		
Payables -		
Trade	\$ 197,487	\$ 123,760
Stock redemption	845,000	—
Other	10,758	5,397
Accrued Liabilities -		
Bonus	934,000	254,320
Profit sharing	181,547	145,034
Other	72,727	175,767
Cash balance plan obligation	444,054	534,397
Deferred revenue	190,617	314,213
Deferred rent	94,010	9,970
Total current liabilities	<u>2,970,200</u>	<u>1,562,858</u>
TOTAL LIABILITIES	<u>2,970,200</u>	<u>1,562,858</u>
STOCKHOLDERS' EQUITY		
Common stock, no par value, 1,000,000 authorized, 97.20 and 102.60 shares issued and outstanding at December 31, 2018 and 2017, respectively	243,929	257,472
Accumulated other comprehensive income (loss)	(108,805)	171,543
Retained earnings	4,546,215	3,243,317
Total stockholders' equity	<u>4,681,339</u>	<u>3,672,332</u>
Total liabilities and stockholders' equity	<u>\$ 7,651,539</u>	<u>\$ 5,235,190</u>

No assurance is provided on this financial statement.

ENERGY AND ENVIRONMENTAL ECONOMICS, INC.STATEMENTS OF INCOMEFOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
REVENUES, net	\$ 16,128,564	\$ 11,892,499
COST OF REVENUES		
Labor	4,547,787	3,607,439
Subconsultants	443,167	637,032
Other direct costs	372,948	279,621
	<u>5,363,902</u>	<u>4,524,092</u>
Gross Profit	<u>10,764,662</u>	<u>7,368,407</u>
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES		
Payroll and payroll taxes	4,285,609	3,389,146
Employee benefits	883,239	770,655
Rent	645,162	514,246
Professional fees	324,165	206,197
Travel and entertainment	191,547	133,158
Licenses and permits	137,838	60,682
Insurance	62,093	49,722
Other taxes	90,993	48,822
Depreciation	67,646	66,124
Marketing	27,621	32,662
Dues and subscriptions	21,883	18,440
Bad debts	—	25,149
Telephone and communication	22,035	42,344
Supplies	53,972	44,744
Other	33,786	36,074
	<u>6,847,589</u>	<u>5,438,165</u>
INCOME FROM OPERATIONS	3,917,073	1,930,242
OTHER INCOME AND (EXPENSES)		
Interest income	113	75
Foreign exchange gain (loss)	120	(180)
Loss on disposal of property and equipment	(9,084)	—
	<u>(8,851)</u>	<u>(105)</u>
INCOME BEFORE PROVISION FOR INCOME TAXES	3,908,222	1,930,137
PROVISION FOR INCOME TAXES		
State income taxes	18,283	16,875
NET INCOME	\$ 3,889,939	\$ 1,913,262

See accompanying notes.

ENERGY AND ENVIRONMENTAL ECONOMICS, INC.

STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
NET INCOME	\$ 3,889,939	\$ 1,913,262
OTHER COMPREHENSIVE INCOME (LOSS)		
Net change in unrealized gain (losses) on cash balance plan	(278,744)	159,726
Foreign currency translation	(1,604)	1,836
	<u>\$ 3,609,591</u>	<u>\$ 2,074,824</u>

See accompanying notes.

ENERGY AND ENVIRONMENTAL ECONOMICS, INC.STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITYFOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	Common Stock	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Stockholders' Equity
Balance - December 31, 2016	\$ 257,472	\$ 9,981	\$ 2,332,947	\$ 2,600,400
Distributions	—	—	(1,002,892)	(1,002,892)
Unrealized gain on cash balance plan	—	159,726	—	159,726
Foreign currency translation	—	1,836	—	1,836
Net income	—	—	1,913,262	1,913,262
Balance - December 31, 2017	257,472	171,543	3,243,317	3,672,332
Stock redemption	(13,543)	—	(911,457)	(925,000)
Distributions	—	—	(1,675,584)	(1,675,584)
Unrealized loss on cash balance plan	—	(278,744)	—	(278,744)
Foreign currency translation	—	(1,604)	—	(1,604)
Net income	—	—	3,889,939	3,889,939
Balance - December 31, 2018	<u>\$ 243,929</u>	<u>\$ (108,805)</u>	<u>\$ 4,546,215</u>	<u>\$ 4,681,339</u>

See accompanying notes.

ENERGY AND ENVIRONMENTAL ECONOMICS, INC.STATEMENTS OF CASH FLOWSFOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	\$ 3,889,939	\$ 1,913,262
Adjustments to reconcile net income to net cash provided by operating activities -		
Depreciation	67,646	66,124
Unrealized gain (loss) on cash balance plan	(278,744)	159,726
Loss on disposal of fixed assets	9,084	—
Changes in assets and liabilities		
Contracts, accounts and other receivables	(543,704)	(885,270)
Prepaid expenses	354,526	(242,455)
Security deposits	(381,309)	—
Accounts and other payables	79,088	(35,115)
Accrued liabilities	613,153	377,415
Deferred rent	84,040	(5,077)
Deferred revenue	(123,596)	105,790
Cash balance plan obligation	(90,343)	40,871
Total adjustments	(210,159)	(417,991)
Net cash provided by operating activities	3,679,780	1,495,271
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(341,905)	(5,594)
Net cash used in investing activities	(341,905)	(5,594)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Stock redemption	(80,000)	—
Distributions	(1,377,544)	(1,002,892)
Net cash used in financing activities	(1,457,544)	(1,002,892)
Effect of foreign currency translation on cash	(1,604)	1,836
NET INCREASE IN CASH	1,878,727	488,621
CASH - BEGINNING OF PERIOD	1,410,810	922,189
CASH - END OF PERIOD	\$ 3,289,537	\$ 1,410,810
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for income taxes	\$ 1,800	\$ 707
NON CASH FINANCING ACTIVITIES:		
Payable to stockholder for stock redemption	\$ 845,000	\$ —
Receivables from stockholders reclassified as distributions	\$ 298,040	\$ —

See accompanying notes.

ENERGY AND ENVIRONMENTAL ECONOMICS, INC**NOTES TO FINANCIAL STATEMENTS****DECEMBER 31, 2018 AND 2017****1. General and Summary of Significant Accounting Policies**

General -- Energy and Environmental Economics, Inc. (the "Company"), a California S-corporation, is an energy consulting firm that provides consulting services to utilities, regulators, policy makers, developers, and investors. The Company is headquartered in San Francisco, and it operates offices in New York and Boston. The Company formerly operated an office in Canada and maintained a bank account to support its operations. In 2015, the Company decided to close its office in Canada. However, in 2019, the Company decided to hire an employee in Canada to continue its operations.

Basis of Presentation -- The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

Cash -- Cash consists of interest and non-interest-bearing accounts with an U.S. and a foreign financial institution and cash on hand at year end. Cash deposited with the foreign financial institution was \$14,468 and \$27,903 as of December 31, 2018 and 2017, respectively.

Contracts and Accounts Receivable -- Contracts and accounts receivable are uncollateralized customer obligations and are stated at the amount billed. Contracts and accounts receivable are recorded when invoices are issued. The Company extends credits to customers in the normal course of business. The Company evaluates the credit worthiness of these customers at the time a contract is signed and monitors the customers' credit worthiness on an ongoing basis. An allowance is provided for potential credit losses based on management's ongoing review of collections and historical experience. As of December 31, 2018 and 2017, no allowance was provided as management believes that all receivables are collectible.

Retainage receivable is an agreed upon portion of the contract price that is deliberately withheld until the project is substantially complete to assure that the Company and its subconsultants will satisfy and complete its obligations. Retainage receivable was \$191,742 and \$202,765 at December 31, 2018 and 2017, respectively.

Property and Equipment -- Property and equipment are recorded at cost. Expenditures for major additions and improvements are capitalized and minor replacements, maintenance, and repairs are charged to expense as incurred. Leasehold improvements are depreciated utilizing the straight-line method over the shorter of estimated useful lives or the term of the related lease. Other property and equipment is depreciated utilizing the straight-line method over the estimated useful lives of the respective assets as follow:

<u>Type of Property and Equipment</u>	<u>Life</u>
Furniture and fixtures	7 years
Computer and office equipment	3 to 5 years
Leasehold improvements	10 years

Depreciation expense amounted to \$67,646 and \$66,124 for the years ended December 31, 2018 and 2017, respectively.

Impairment of Long-lived Assets -- The Company periodically evaluates whether changes have occurred that would require revision of the remaining estimated useful life of the property, improvements, and other long-lived assets or render them not recoverable. An impairment loss would be recognized when estimated undiscounted future cash flows expected to result from the use of the asset and its eventual disposition are less than its carrying amount. Through December 31, 2018, there have been no such losses.

Revenue and Cost Recognition -- The Company enters into contracts with its customers that contain primarily time-and-materials pricing provisions. The Company recognizes revenues in accordance with Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customer, codified as Accounting Standards Codification ("ASC")

ENERGY AND ENVIRONMENTAL ECONOMICS, INC

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

Topic 606 and the related amendments (“ASC 606”). Pursuant to ASC 606, revenues are recognized upon applying the following steps:

- Identification of the contract(s) with a customer;
- Identification of the performance obligations in the contract;
- Determination of the transaction price;
- Allocation of the transaction price to performance obligations in the contract;
- Recognition of revenues when, or as, the contractual obligations are satisfied.

Revenue from customer contracts will still be recognized over time because of the continuous transfer of control to the customer. Revenue on time-and-materials is recognized as the work is performed in accordance with the specific rates and terms of the contract. Generally, the Company does not recognize any amount exceeding the maximum contract value. However, certain time-and-materials contracts require that markdowns be reflected, thus, revenue is recorded net of any markdowns. 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 contracts may include separate phases or elements. The Company evaluates if the contracts should be segmented based on the technical resources required and/or the supply and demand for the services being provided. Segmented contract 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. The Company did not have any segmented contracts for the years ended December 31, 2018 and 2017.

The Company considers variable consideration when determining the transaction price in accordance with ASC 606 and estimates the variable consideration component of the transaction price, as well as assessing if 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.

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.

ENERGY AND ENVIRONMENTAL ECONOMICS, INC

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

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 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 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 services included in the modification, the Company accounts for such contract modifications as a separate contract.

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 subcontractor services and other expenses that are incurred in connection with revenue producing projects.

Direct costs of contract revenue exclude that portion of technical 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 selling, general and administrative expenses. Additionally, payroll taxes, bonuses, and employee benefit costs for all Company personnel are included in selling, general and administrative expenses in the accompanying statements of 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.

Billings and/or payments for contracts for which services are not yet performed are recognized as deferred revenue.

Income Taxes – The Company, with the consent of its shareholders, elected to be taxed under the provisions of Subchapter S of the Internal Revenue Code. Under these provisions, the Company will not pay corporate income taxes on its taxable income. Instead, the shareholders will be liable for income taxes on the Company's taxable income as it affects the shareholders' individual tax returns.

The Company recognizes interest and penalties related to income tax matters, if any, in income tax expense.

The Company recognizes and measures its unrecognized tax benefits in accordance with ASC 740, *Income Taxes*. Under that guidance the Company assesses the likelihood, based on their technical merit, that tax positions will be sustained upon examination based on the facts, circumstances and information available at the end of each period. The measurement of unrecognized tax benefits is adjusted when new information is available, or when an event occurs that requires a change.

The Company did not recognize any change in its asset or liability for unrecognized tax benefits as the Company currently has no open examination by an applicable taxing authority or any event that occurred that may require such adjustments.

ENERGY AND ENVIRONMENTAL ECONOMICS, INC

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

Concentration of Credit Risk -- Financial instruments, which potentially subject the Company to concentration of credit risk, consist principally of deposits greater than \$250,000 with each financial institution. During the years ended December 31, 2018 and 2017, the Company had cash balances on deposit that exceeded the balance insured by the Federal Deposit Insurance Corporation ("FDIC"). As of December 31, 2018 and 2017, cash balances on deposit that exceeded the balance insured by the FDIC was \$3,039,537 and \$1,170,453, respectively. Management periodically reviews its cash policies and believes any potential accounting loss is minimal.

Estimates Included in the Financial Statements -- The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

New Accounting Pronouncement Adopted -- The Company early adopted Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers, and the subsequent amendments to the initial guidance, effective January 1, 2018. Under the new standard, revenue is recognized when a customer obtains control of promised goods or services in an amount that reflects the consideration the entity expects to receive in exchange for those goods or services (see Note 1). In addition, the standard requires disclosure of the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

New Accounting Pronouncement Not Yet Adopted -- In February 2016, FASB issued ASU 2016-02, Leases (Topic 842), which requires lessees to recognize lease liabilities and corresponding right-of-use assets for those leases classified as operating leases under previous U.S. GAAP to increase transparency and comparability. Under the new standard, enhanced disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from the leases. The new standard requires to use a modified retrospective approach including a number of optional practical expedients and will be effective for fiscal years beginning after December 15, 2019. The Company will early adopt the new standard in its annual reporting period beginning January 1, 2019. The Company is evaluating the impact of adopting this guidance to the financial statements.

2. **Risks and Uncertainties**

The Company had one major customer (revenues in excess of 10% of the total revenues) that accounted for 12% and 14% of the total revenues totaling \$1,880,000 and \$1,688,000 for the years ended December 31, 2018 and 2017, respectively. The Company also had receivables totaling \$212,000 and \$139,000 as of December 31, 2018, and 2017, respectively, from this major customer.

The Company's business is subject to the risks generally associated with changes in economic condition in which the Company's business is concentrated.

3. **Common Stock**

The Company has 1,000,000 authorized shares for common stock with no par value. During the year ended December 31, 2018, the Company redeemed 5.4 shares of common stock from one of its shareholders for \$925,000. \$80,000 of the redemption price was paid in December 2018, and \$845,000 will be paid in 2019. As of December 31, 2018 and 2017, the Company had 97.2 and 102.6 shares of common stock issued and outstanding, respectively.

4. **Related Party Transactions**

The Company has receivables amounting to \$298,040 from its shareholders at December 31, 2017, and all balances were reclassified as distributions during 2018.

ENERGY AND ENVIRONMENTAL ECONOMICS, INC**NOTES TO FINANCIAL STATEMENTS****DECEMBER 31, 2018 AND 2017****5. Lease Commitments**

In 2018, the Company entered into a new operating lease agreement in San Francisco, California, which expires in March 2027. The following is a schedule of the future minimum lease payments:

<u>Year Ending</u>	<u>Amount</u>
December 31, 2019	\$ 674,993
December 31, 2020	1,056,976
December 31, 2021	1,133,406
December 31, 2022	1,167,462
December 31, 2023	1,202,458
Thereafter	4,165,684
	<u>\$ 9,400,979</u>

Total rent expense for the operating lease was \$645,162 and \$514,246 during the years ended December 31, 2018 and 2017, respectively.

6. Retirement Plans

The Company has a defined contribution plan that covers substantially all eligible employees after three months of service. The Company may make discretionary matching or profit sharing contributions. The Company accrued approximately \$183,000 and \$145,000 of employer profit sharing contributions to the plan as of December 31, 2018 and 2017, respectively.

The Company also has a cash balance plan that covers substantially all eligible employees after one year of service, and a notional balance for each of the plan's participants is maintained. The Company annually adds to the notional balance a contribution and an interest credit. Contribution credits are based on a pre-determined formula for different eligible employee groups as defined in the plan document. Interest credits are based on the yield of 30-year Treasury securities. At termination of employment, participants may elect a lump sum distribution equal to their vested notional balances. The Company accrued approximately \$245,000 and \$534,000 of employer contributions to the plan as of December 31, 2018 and 2017, respectively. Effective April 15, 2019, the cash balance plan is frozen, and no additional benefits will be accrued and no contributions credits will be provided (see Note 7)

ENERGY AND ENVIRONMENTAL ECONOMICS, INC**NOTES TO FINANCIAL STATEMENTS****DECEMBER 31, 2018 AND 2017**

The following table sets forth the Plan's funded status and benefit obligations at December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
(1) Change in Benefit Obligation		
(a) Benefit Obligation at the Beginning of the Year	\$ 2,456,067	\$ 1,869,083
(b) Service Cost	534,398	491,677
(c) Interest Cost	68,770	53,456
(d) Benefits Paid	—	—
(e) Change in Plan Provisions	—	—
(f) Actual (Gain) or Loss	31,804	41,851
(g) Assumption change(Gain) or Loss	—	—
(h) Benefit Obligation at the End of the Year	<u>\$ 3,091,039</u>	<u>\$ 2,456,067</u>
(2) Change in Plan Assets		
(a) Fair Value of Plan Assets at the Beginning of the Year	\$ 2,210,375	\$ 1,431,410
(b) Actual Return on Plan Assets	(123,061)	285,439
(c) Benefits Paid	—	—
(d) Employer Contributions	534,397	493,526
(e) Fair Value of Assets at the End of the Year	<u>\$ 2,621,711</u>	<u>\$ 2,210,375</u>
(3) Net Amount Recognized		
(a) Funded Status	<u>\$ (469,328)</u>	<u>\$ (245,692)</u>
(4) Amounts Recognized in the Statement of Financial Position		
(a) Noncurrent Assets	\$ —	\$ —
(b) Current Liabilities	(469,328)	—
(c) Noncurrent Liabilities	—	(245,692)
(d) Net Amount Recognized	<u>\$ (469,328)</u>	<u>\$ (245,692)</u>
(5) Amounts Recognized in Accumulated Other Comprehensive Income		
(a) Prior Service Cost	\$ —	\$ —
(b) Net (Gain) or Loss	151,422	(127,322)
(c) Effect of Curtailment	—	—
(d) Accumulated Other Comprehensive Income (Loss)	<u>\$ 151,422</u>	<u>\$ (127,322)</u>
(6) Weighted Average Assumptions at the End of the Year		
(a) Interest Crediting Rate	3.36 %	2.80 %
(b) Mortality	NA	NA

ENERGY AND ENVIRONMENTAL ECONOMICS, INC**NOTES TO FINANCIAL STATEMENTS****DECEMBER 31, 2018 AND 2017**

The following table provides the components of net periodic benefit cost and other changes in plan assets and benefit obligations recognized in other comprehensive income for the years ended December 31, 2018 and 2017:

	2018	2017
(1) Net Periodic Benefit Cost		
(a) Service Cost	\$ 534,398	\$ 491,677
(b) Interest Cost	68,770	53,456
(c) Expected Return on Plan Assets	(123,879)	(83,862)
(d) Amortization of Prior Service Cost	—	—
(e) Amortization of Net (Gain) or Loss	—	—
(f) Total Net Periodic Benefit Cost	<u>479,289</u>	<u>461,271</u>
(g) Recognition of Gain upon Settlement	—	—
(h) Immediate Recognition of Prior Service Cost in AOCI	—	—
(i) Net Expense under ASC 715	—	—
Total Pension Expense	<u>\$ 479,289</u>	<u>\$ 461,271</u>
(2) Other Changes in Plan Assets and Benefit Obligations Recognized in Other Comprehensive Income		
(a) Prior Service Cost for period	\$ —	\$ —
(b) Net (Gain) or Loss for period	278,744	(159,726)
(c) Amortization of Prior Service Cost	—	—
(d) Amortization of Net (Gain) or Loss	—	—
(e) Effect of Curtailment and Settlement	—	—
(f) Total Recognized in Other Comprehensive Income (Loss)	<u>\$ 278,744</u>	<u>\$ (159,726)</u>
(3) Total Recognized in Net Periodic Benefit Cost and OCI	<u>\$ 758,033</u>	<u>\$ 301,545</u>
(4) Weighted Average Assumptions to determine Net Periodic Benefit Cost		
(a) Interest Crediting Rate	2.8 %	2.86 %
(b) Expected Return on Plan Assets	5 %	5 %
(c) Rate of Compensation Increase	NA	NA
Plan Assets		
Mutual Funds	43 %	37 %
Exchange Traded Funds	57 %	63 %

Fair Value of Plan Assets - Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The three levels of the fair value hierarchy under *FASB ASC 820* are described as follows:

- Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.
- Level 2 - Inputs to the valuation methodology include: quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; and other inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- Level 3 - Inputs to the valuation methodology are unobservable.

ENERGY AND ENVIRONMENTAL ECONOMICS, INC

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

The cash balance plan assets consist of all publicly traded mutual funds and exchange traded funds and are categorized as Level 1.

During the years ended December 31, 2018 and 2017, pension expense for the cash balance plan was \$479,289 and \$461,271. Management contributions to the cash balance plan made in 2019 for 2018 was \$244,628.

7. **Subsequent Events**

On April 15, 2019, the Company has restated the cash balance plan to freeze and terminate all plan benefits. The cash balance plan obligations presented on the financial statements as of December 31, 2018 may not be fully indicative of its actual obligation at the time of distribution of benefits to all participants due to factors such as market value of assets and interest credits. Management believes its obligations may be lower than stated at December 31, 2018. Projected distributions based on the Pension Benefit Guaranty Corporation ("PBGC") timetable approximate \$3.188 million. At August 31, 2019, fair value of plan assets approximate \$3.125 million inclusive of \$244,628 contributions received in March 2019. On September 24, 2019, the Company received a letter from PBGC relating to the plan's termination notice. There is a 60-day wait period before any distributions to the participants can take place to ascertain that there is no non-compliance. On September 25, 2019, the Company also received the Internal Revenue Service determination letter stating that the termination does not affect its qualification for federal tax purposes. The Company intends to cover any obligation required at time of distribution.

The Company has evaluated subsequent events through October 12, 2019, the date on which the financial statements was available to be issued and except as discussed above and in Note 6, noted no subsequent events that would require recognition in the financial statements or the notes thereto as of October 12, 2019.

WILLDAN GROUP, INC. AND E3, INC.
UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

Willdan Group, Inc., together with its direct and indirect subsidiaries, is referred to herein collectively as “we,” “our,” “Willdan,” or the “Company.”

Acquisition of E3, Inc.

On October 28, 2019 (the “E3, Inc. Closing Date”), the Company, through its wholly owned subsidiary WES, acquired (“the Acquisition”) all of the capital stock of Energy and Environmental Economics, Inc. (“E3, Inc.”) pursuant to the terms of a stock purchase agreement (the “Stock Purchase Agreement”) by and among the Company, WES, E3, Inc., each of the stockholders of E3, Inc. (the “E3, Inc. Stockholders”) and Ren Orans, as seller representative of the E3, Inc. Stockholders. E3, Inc. is an energy consulting firm that helps utilities, regulators, policy makers, developers, and investors make strategic decisions as they implement new public policies, respond to technological advances, and address customers’ shifting expectations in clean energy. The Company agreed to pay up to \$44.0 million for the purchase of all of the capital stock of E3, Inc., which purchase price consists of (i) \$27.0 million in cash paid on the E3, Inc. Closing Date (subject to holdbacks and adjustments), (ii) \$5.0 million in shares of the Company’s common stock, based on the volume-weighted average price per share of the Company’s common stock for the ten trading days immediately following, but not including, the E3, Inc. Closing Date and (iii) up to \$12.0 million in cash if E3, Inc. exceeds certain financial targets during the three years after the E3, Inc. Closing Date, as more fully described below (such potential payments of up to \$12.0 million, being referred to as “Earn-Out Payments” and \$12.0 million in respect thereof, being referred to as the “Maximum Payout”).

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

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

The Company borrowed \$27.0 million under its Delayed Draw Term Loan on October 28, 2019 to fund the \$27.0 million cash payment paid on the E3, Inc. Closing Date, which reduced the future borrowing capacity under the Delayed Draw Term Loan to \$23.0 million. See Note 7 “—Debt Obligations” of the notes to the Company’s condensed consolidated financial statements included in its report on Form 10-Q for the quarter ended September 27, 2019 for a description of the Delayed Draw Term Loan.

E3, Inc.’s financial information will be included within the Energy segment beginning in the fourth quarter of fiscal year 2019. The Company expects to finalize the purchase price allocation with respect to this transaction during the fourth quarter of fiscal 2020.

Unaudited Pro Forma Condensed Combined Financial Information

The following unaudited pro forma condensed combined financial information is based on the historical consolidated financial statements of the Company and the historical financial statements of E3, Inc. and is intended to provide information about how the Acquisition and the related borrowings under the Delayed Draw Term Loan may affect the Company’s historical consolidated financial statements. The unaudited pro forma condensed combined statements of operations and comprehensive income information for the fiscal year ended December 28, 2018 and for the six months ended June 28, 2019 are presented as if the Acquisition and the related borrowings under the Delayed Draw Term Loan occurred on December 30, 2017. The unaudited pro forma condensed combined balance sheet as of June 28, 2019 is presented as if the Acquisition and the related borrowings under the Delayed Draw Term Loan occurred on June 28, 2019. The pro forma adjustments are described in the accompanying notes and are based upon available information and assumptions that we believe are reasonable at the time of the filing of this Quarterly Report on Form 10-Q.

The unaudited pro forma condensed combined financial information presented herein should be read in conjunction with:

- the Company’s unaudited historical financial statements and related notes thereto contained in its Quarterly Reports on Form 10-Q for the three months ended March 29, 2019 and six months ended June 28, 2019, filed with the Securities and Exchange Commission (“SEC”) on May 6, 2019 and August 2, 2019, respectively;
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- the Company's audited historical consolidated financial statements and related notes, contained in its Annual Report on Form 10-K for the fiscal year ended December 28, 2018, filed with the SEC on March 8, 2019;
- E3 Inc.'s unaudited historical financial statements and related notes thereto as of and for the six months ended June 30, 2019 and 2018, attached to this Quarterly Report on Form 10-Q as Exhibit 99.1; and
- E3, Inc.'s audited historical financial statements and related notes thereto as of and for the fiscal years ended December 31, 2018 and 2017, attached to this Current Report on Form 10-Q as Exhibit 99.2.

We present the unaudited pro forma condensed combined financial information for informational purposes only. The unaudited pro forma condensed combined financial information is not necessarily indicative of what our financial position or results of operations would have been had we completed the Acquisition and the related borrowings under the Delayed Draw Term Loan as of the dates indicated above. In addition, the unaudited pro forma condensed combined financial information does not purport to project the future financial position or operating results of the combined company.

E3, Inc.'s assets and liabilities are recorded at their estimated fair values. Pro forma purchase price allocation adjustments have been made for the purpose of providing unaudited pro forma condensed combined financial information based on current estimates and currently available information, and are subject to revision based on final, independent determinations of fair value and final allocation of purchase price to the assets and liabilities of the business acquired. Differences between the estimates reflected in the unaudited pro forma condensed combined financial information and the final acquisition accounting will likely occur, and these differences could have a material impact on the accompanying unaudited pro forma condensed combined financial information and the combined company's future consolidated financial condition or results of operations.

Further, the unaudited pro forma condensed combined statements of operations and comprehensive income do not reflect the realization of any expected cost savings and other synergies resulting from the Acquisition as a result of any cost saving initiatives nor do they reflect any nonrecurring costs directly attributable to the Acquisition. The accounting policies used in the presentation of the following unaudited pro forma condensed combined financial information are those set out in the Company's audited consolidated financial statements for the fiscal year ended December 28, 2018.

WILLDAN GROUP, INC. AND SUBSIDIARIES
Pro Forma Condensed Combined Statements of Operations
(in thousands, except per share amounts)
(Unaudited)

	Willdan Group, Inc. Historical Six Months Ended June 28, 2019	E3, Inc. Historical Six Months Ended June 30, 2019	Pro Forma Adjustments	Willdan Group, Inc. Pro Forma Combined
Contract revenue	\$ 196,189	\$ 8,171	\$ —	\$ 204,360
Direct costs of contract revenue (inclusive of directly related depreciation and amortization):				
Salaries and wages	30,534	2,313	—	32,847
Subcontractor services and other direct costs	108,571	396	—	108,967
Total direct costs of contract revenue	139,105	2,709	—	141,814
General and administrative expenses:				
Salaries and wages, payroll taxes and employee benefits	30,406	1,954	—	32,360
Facilities and facility related	3,819	599	—	4,418
Stock-based compensation	4,041	—	—	4,041
Depreciation and amortization	5,520	50	950 (a)	6,520
Other	10,759	526	—	11,285
Total general and administrative expenses	54,545	3,129	950	58,624
Income from operations	2,539	2,333	(950)	3,922
Other income (expense):				
Interest expense, net	(2,342)	—	(514)(b)	(2,856)
Other, net	29	(1)	—	28
Total other expense, net	(2,313)	(1)	(514)	(2,828)
Income before income taxes	226	2,332	(1,464)	1,094
Income tax (benefit) expense	(997)	4	243 (c)	(750)
Net income	\$ 1,223	\$ 2,328	\$ (1,707)	\$ 1,844
Other comprehensive income:				
Net unrealized gain (loss) on derivative contracts and foreign currency translation	\$ (438)	\$ 236	\$ —	\$ (202)
Comprehensive income	\$ 785	\$ 2,564	\$ (1,707)	\$ 1,642
Earnings per share:				
Basic	\$ 0.11			\$ 0.17
Diluted	\$ 0.10			\$ 0.16
Weighted-average shares outstanding:				
Basic	11,037		127 (d)	11,164 (d)
Diluted	11,670		127 (d)	11,797 (d)

(a) Reflects \$0.95 million of amortization expenses attributable to intangible assets assumed to be acquired as part of the acquisition.

(b) Reflects estimated incremental interest expense after \$27.0 million in new term loan borrowings under the Company's Delayed Draw Term Loan to finance the Acquisition. The interest expense for borrowings under the Delayed Draw Term Loan is based on an interest rate of 3.80%, which assumes one-month LIBOR as of October 28, 2019 plus an applicable margin of 2.00% based on the Company's consolidated leverage ratio after the Acquisition. The Delayed Draw Term Loan bears interest at a rate equal to either, at the Company's option, (i) the highest of the prime rate, the Federal Funds Rate plus 0.50% or one-month LIBOR plus 1.00% ("Base Rate") or (ii) LIBOR, in each case plus an applicable margin ranging from 0.125% to 1.00% with respect to Base Rate borrowings and 1.125% to 2.00% with respect to LIBOR borrowings. The applicable margin is based upon the Company's consolidated total leverage ratio. A change of 12.5 basis points in the interest rate would change interest expense for the period shown by \$16,900.

(c) Represents the income tax impact of the pro forma adjustments based on the federal statutory rate of 28.0%.

(d) Represents estimated issuance of 127,000 shares of the Company's common stock as part of the purchase price for the Acquisition. The Company agreed to issue a number of shares of Company common stock having a value equal to \$5,000,000 based upon the volume weighted average price for the ten (10) trading days immediately following the closing date of the Acquisition, excluding the closing date. For purposes of these unaudited pro forma condensed combined financial statements, the Company has assumed shares were issued at \$39.37 per share, which was the Company's closing price as of October 28, 2019.

WILLDAN GROUP, INC. AND SUBSIDIARIES
Pro Forma Condensed Combined Statements of Operations
(in thousands, except per share amounts)
(Unaudited)

	Willdan Group, Inc. Historical Year Ended December 28, 2018	E3, Inc. Historical Year Ended December 31, 2018	Pro Forma Adjustments	Willdan Group, Inc. Pro Forma Combined
Contract revenue	\$ 272,252	\$ 16,129	\$ —	\$ 288,381
Direct costs of contract revenue (inclusive of directly related depreciation and amortization):				
Salaries and wages	46,588	4,548	—	51,136
Subcontractor services and other direct costs	132,693	816	—	133,509
Total direct costs of contract revenue	<u>179,281</u>	<u>5,364</u>	<u>—</u>	<u>184,645</u>
General and administrative expenses:				
Salaries and wages, payroll taxes and employee benefits	45,248	5,169	—	50,417
Facilities and facility related	5,600	645	—	6,245
Stock-based compensation	6,262	—	—	6,262
Depreciation and amortization	6,060	68	1,600 (a)	7,728
Other	17,030	966	—	17,996
Total general and administrative expenses	<u>80,200</u>	<u>6,848</u>	<u>1,600</u>	<u>88,648</u>
Income from operations	<u>12,771</u>	<u>3,917</u>	<u>(1,600)</u>	<u>15,088</u>
Other income (expense):				
Interest expense, net	(700)	—	(1,027)(b)	(1,727)
Other, net	90	(9)	—	81
Total other expense, net	<u>(610)</u>	<u>(9)</u>	<u>(1,027)</u>	<u>(1,646)</u>
Income before income taxes	12,161	3,908	(2,627)	13,442
Income tax (benefit) expense	2,131	18	359 (c)	2,508
Net income	<u>\$ 10,030</u>	<u>\$ 3,890</u>	<u>\$ (2,986)</u>	<u>\$ 10,934</u>
Other comprehensive income:				
Net unrealized loss on foreign currency translation	\$ —	\$ (280)	\$ —	\$ (280)
Comprehensive income	<u>\$ 10,030</u>	<u>\$ 3,610</u>	<u>\$ (2,986)</u>	<u>\$ 10,654</u>
Earnings per share:				
Basic	<u>\$ 1.08</u>			<u>\$ 1.16</u>
Diluted	<u>\$ 1.03</u>			<u>\$ 1.10</u>
Weighted-average shares outstanding:				
Basic	9,264		127 (d)	9,391 (d)
Diluted	9,763		127 (d)	9,890 (d)

(a) Reflects \$1.6 million of amortization expenses attributable to intangible assets assumed to be acquired as part of the Acquisition.

(b) Reflects estimated incremental interest expense after \$27.0 million in new term loan borrowings under the Company's Delayed Draw Term Loan to finance the Acquisition. The interest expense for borrowings under the Delayed Draw Term Loan is based on an interest rate of 3.80%, which assumes one-month LIBOR as of October 28, 2019 plus an applicable margin of 2.00% based on the Company's consolidated leverage ratio after the Acquisition. The Delayed Draw Term Loan bears interest at a rate equal to either, at the Company's option, (i) the highest of the prime rate, the Federal Funds Rate plus 0.50% or one-month LIBOR plus 1.00% ("Base Rate") or (ii) LIBOR, in each case plus an applicable margin ranging from 0.125% to 1.00% with respect to Base Rate borrowings and 1.125% to 2.00% with respect to LIBOR borrowings. The applicable margin is based upon the Company's consolidated total leverage ratio. A change of 12.5 basis points in the interest rate would change interest expense for the period shown by \$33,800.

(c) Represents the income tax impact of the pro forma adjustments based on the federal statutory rate of 28.0%.

(d) Represents estimated issuance of 127,000 shares of the Company's common stock as part of the purchase price for the Acquisition. The Company agreed to issue a number of shares of Company common stock having a value equal to \$5,000,000 based upon the volume weighted average price for the ten (10) trading days immediately following the closing date of the Acquisition, excluding the closing date. For purposes of these unaudited pro forma condensed combined financial statements, the Company has assumed shares were issued at \$39.37 per share, which was the Company's closing price as of October 28, 2019.

WILLDAN GROUP, INC. AND SUBSIDIARIES
Pro Forma Condensed Combined Balance Sheet
(in thousands, except par value)

	Willdan Group, Inc. Historical As of June 28, 2019	E3, Inc Historical As of June 30, 2019	Pro Forma Adjustments	Willdan Group, Inc. Pro Forma Combined
Assets				
Current assets:				
Cash and cash equivalents	\$ 27,602	\$ 1,049	\$ —	\$ 28,651
Accounts receivable, net of allowance for doubtful accounts of \$501 at June 28, 2019	46,828	3,745	—	50,573
Contract assets	60,433	—	—	60,433
Other receivables	3,649	—	—	3,649
Prepaid expenses and other current assets	5,143	78	—	5,221
Total current assets	143,655	4,872	—	148,527
Equipment and leasehold improvements, net	10,556	420	—	10,976
Goodwill	110,204	—	20,164 (a)	130,368
Right-of-use assets	12,036	7,012	—	19,048
Other intangible assets, net	48,087	—	13,300 (b)	61,387
Other assets	4,366	341	—	4,707
Deferred income taxes, net	12,488	—	—	12,488
Total assets	\$ 341,392	\$ 12,645	\$ 33,464	\$ 387,501
Liabilities and Stockholders' Equity				
Current liabilities:				
Accounts payable	\$ 30,261	\$ 312	\$ —	\$ 30,573
Accrued liabilities	40,174	351	—	40,525
Contingent consideration payable	1,681	—	—	1,681
Contract liabilities	5,291	—	—	5,291
Notes payable	10,643	—	2,700 (c)	13,343
Finance lease obligations	396	—	—	396
Lease liability	4,056	578	—	4,634
Total current liabilities	92,502	1,241	2,700	96,443
Contingent consideration payable	1,040	—	6,000 (f)	7,040
Notes payable	90,139	—	24,300 (c)	114,439
Finance lease obligations, less current portion	261	—	—	261
Lease liability, less current portion	8,944	6,868	—	15,812
Other noncurrent liabilities	981	—	—	981
Total liabilities	193,867	8,109	33,000	234,976
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; 11,317 and 10,968 shares issued and outstanding at September 27, 2019 and December 28, 2018, respectively	112	244	(243)(d)	113
Additional paid-in capital	116,457	—	4,999 (d)	121,456
Accumulated other comprehensive loss	(438)	128	(128)(e)	(438)
Retained earnings	31,394	4,164	(4,164)(e)	31,394
Total stockholders' equity	147,525	4,536	464	152,525
Total liabilities and stockholders' equity	\$ 341,392	\$ 12,645	\$ 33,464	\$ 387,501

(a) Reflects the estimated amount of goodwill to be acquired at the date of the Acquisition. Goodwill represents the total excess of the total purchase price over the fair value of the net assets acquired. This allocation is based on preliminary estimates; the final acquisition cost allocation may differ materially from the preliminary assessment outlined above. Any changes to the initial estimates of the fair value of the assets and liabilities will be allocated to goodwill. Residual goodwill at the date of Acquisition will vary from goodwill presented in the unaudited pro forma condensed combined balance sheet due to changes in the net book value of intangible assets during the period from June 30, 2019 through the date of the Acquisition as well as results of an independent valuation, which has not been completed at the time of this report.

(b) Reflects the preliminary estimate of the fair value of the acquired intangible assets. The purchase price allocated to these intangible assets is based on management's estimate of the fair value of assets purchased, and has not been subject to an independent valuation at the time of this report.

(c) Reflects borrowings of \$27.0 million under the Company's Delayed Draw Term Loan to finance the Acquisition.

(d) Represents the estimated issuance of 127,000 shares of the Company's common stock as part of the purchase price for the Acquisition and the elimination of the historical owners' equity interests in E3, Inc. The Company agreed to issue a number of shares of Company common stock having a value equal to \$5,000,000 based upon the volume weighted average price for the ten (10) trading days immediately following the closing date of the Acquisition, excluding the closing date. For purposes of these unaudited pro forma condensed combined financial statements, the Company has assumed shares were issued at \$39.37 per share, which was the Company's closing price as of October 28, 2019.

(e) Represents the elimination of the historical owners' equity interest in E3.

(f) Represents the estimated net present value of the maximum \$12 million earn out potential over the three year period subsequent to the closing.
